



Chinatrust Financial Holding Co., Ltd.

A n n u a l R e p o r t 2 0 0 2



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Financial Highlights

ANNUAL REPORT 2002

| Items | 2002(Consolidated pro-forma)* | |
|---|--|--------------------|
| | NT\$ in millions, except per share data | US\$ in millions** |
| For the Year | | |
| Income before Income Tax | 15,622 | 450 |
| Net Income | 11,763 | 338 |
| At the Year End | | |
| Total assets | 936,600 | 26,950 |
| Stockholders' equity | 79,146 | 2,277 |
| Per Share | | |
| Earnings per share(before income tax) | 3.41 | |
| Earnings per share(after income tax) | 2.53 | |
| Stockholders' equity per share(common stock) | 15.65 | |
| Group capital adequacy ratio | 150.84% | |
| Return on average stockholders' equity(common stock/after income tax) | 16.76% | |
| Return on average assets | 1.29% | |

* CFHC was established on the May 17, 2002. The pro-forma consolidated financials of 2002 is based on the assumption that CFHC was established on the Jan. 1, 2002.

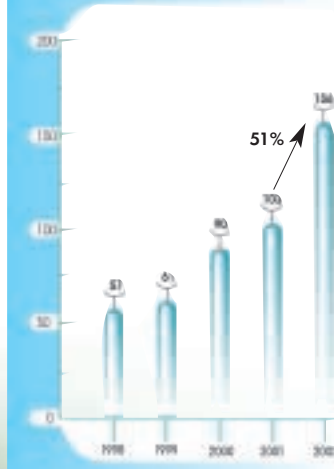
** U.S. Dollar amounts are converted at the prevailing exchange rate on Dec. 31, 2002 of NT\$34.753=US\$1



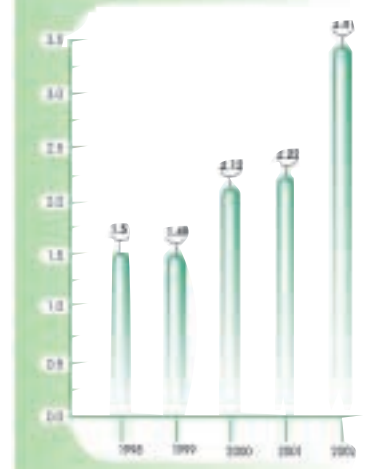
Letter to Our Shareholders

In 2002 the consolidated income before tax of Chinatrust Financial Holding Company amounted to NT\$15.6 billion, an unprecedented record for Chinatrust in 37 years. It represented a growth of 51% over NT\$10.3 billion in 2001. The earning per share before tax in 2002 was NT\$3.41, making Chinatrust Commercial Bank and Chinatrust Financial Holding Company the most profitable financial institutions in the country.

Graph 1. Income before Income tax
(NT\$ Hundred Million)*



Graph 2. EPS before Income tax
(NT\$ Dollar/Share)*



* 1998-2000 figures are quoted from financial reports of Chinatrust Commercial Bank; 2000-2001 figures are quoted from financial reports of Chinatrust Financial Holding Company

Chinatrust Financial Holding Company was founded on May 17, 2002. Its stocks were listed in the Taiwan Stock Exchange on the same day.

The company comprises Chinatrust Commercial Bank as the flagship company and two of the bank's affiliated companies – the Chinatrust Securities Company and the Chinatrust Insurance Brokers Company. The integrated operation of the three component companies marked a new era for Chinatrust after China Trust Company was converted into a commercial bank in 1992.

Jeffrey L. S. Koo
Chairman






Internet

In its first year of operation, Chinatrust Financial Holding Company achieved remarkable performances. Chinatrust Commercial Bank reached 101 % of which profit goal before tax is NT\$15 billions in 2002 and Chinatrust Financial Holding Company as a whole reached 96 % of which the profit goal before tax is NT\$16.2 billions in 2002. The combined revenue of the three component companies was NT\$65.2 billion; the combined expenditure was NT\$49.6 billion. The income before taxes was NT\$15.6 billion(Graph 1), an unprecedented record for Chinatrust in 37 years. It represented a growth of 51% over NT\$10.3 billion in 2001. The earning per share before tax was NT\$3.41(Graph 2). The return of average common stockholders' equity and return of average assets after tax were 16.76% and 1.29%, respectively. These figures make the Chinatrust Commercial Bank and Chinatrust Financial Holding Company the most profitable institutions in the country.

With the global economy in stagnation, the success of Chinatrust cannot be just a matter of fortuity. Rather, it is nothing but the result of sustained hard work of the management and staff who dedicate themselves unremittingly to creating the greatest returns for shareholders.

Pioneering in new financial products is a special feature of Chinatrust. It is also one of the main reasons for our sustained high profitability.

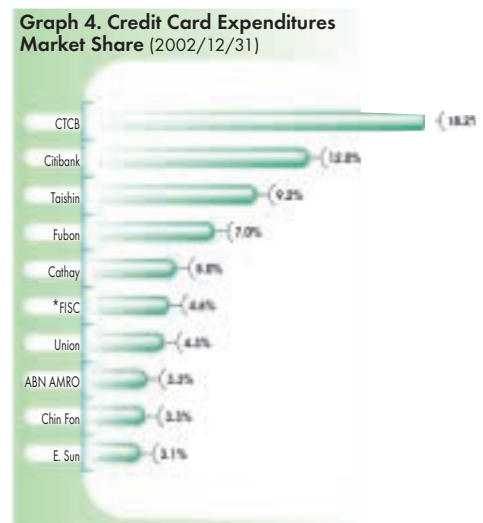
Chinatrust has always been a pioneer in many business activities.



Charles L. F. Lo
President



Before the concept of plastic money was popularly accepted in the country, Chinatrust issued the first credit card in Taiwan. Our credit cards in circulation (with a market share of 15.8%) (Graph 3) and the total credit card expenditures (with a market share of 18.2%) (Graph 4) far outstrip our competitors. In January 2003, our credit cards in circulation exceeded 5 million. Our close relationship with the general public is our most valuable assets. Through scientific analysis of our database and a good understanding of the needs of our clients, Chinatrust is able to assume a leadership position in credit card business among all financial institutions.



Data Source: Statistical report of Bureau of Monetary Affairs and National Credit Card Center of R. O. C.
 *:Total amount of other banks' credit card issued by Financial Information Service Center

In March 2002 Chinatrust, ahead of all other banks, offered Adjusted Rate Mortgages (ARMs) by adjusting monthly interest rate for mortgages to the going rate in the market. As the market interest rate has been consistently in a downslide, the ARMs are widely welcomed by housing loan borrowers. In 2001, Chinatrust ranked No. 8 in the housing loan market. In 2002, in a matter of 9 months, it moved up to No. 3, the highest ranking for a private bank.

Aggregate mortgage loans in the country total about NT\$3 trillion. Our aim is to use ARMs to attract important loan borrowers in the hope of making them our clients for wealth management. We believe they will eventually become the mainstay for our business in wealth management.

Chinatrust always emphasizes on fee income, which constitute an important source of our earnings.

Fee income is an important source of our riskless revenue. In 2002 they amounted to NT\$10.5 billion, an increase of 24% over NT\$8.5 billion in 2001. Our factoring business has enjoyed high growth in 2002, with a market share of 30%, topping all other banks in Taiwan.

After its establishment, Chinatrust Financial Holding Company has been endeavoring to promote Bancassurance. In 2002, the total value of new insurance policies amounted to as much as NT\$8.8 billion.

Under the New Basel Accord, the requirement for setting aside reserve for risk assets has been increasingly demanding. Low-capital required fee income will contribute greatly to the returns for shareholders. Chinatrust will make every effort to increase the ratio of fee income in our income structure.

Good quality of assets and strict risk control ensure steady growth of our income.

Chinatrust also emphasizes on the quality of our assets. Despite the recessionary pressure in the past year, the ratio of our non-performing loans was reduced from 2.93% at year-end 2001 to 2.48% at year-end 2002, which was way below the average rate of 6.84% for the banking industry, as announced by the Ministry of Finance. This is also an important factor for our high profitability. In addition, we increased the coverage ratio from 52% at year-end 2001 to 66.25% at year-end 2002 to ensure steady growth of our earnings.

For risk management, Chinatrust has an independent Risk and Capital Committee to formulate policies and supervise the implementation of risk control measures. It convenes periodic meetings to review market risks, credit risks, and asset / liability management and take necessary actions to ensure the budgeted income target may be successfully attained.

The outstanding performance of Chinatrust has received recognition from leading economic journals.

In January 2003, *The Asset* magazine named Chinatrust the "2002 Best Domestic Investment Bank in Taiwan." Chinatrust is a major player in the financial market in Taiwan.

It provides clients with a great variety of financial services. It is one of the largest underwriters for Euro Convertible Bonds and corporate bonds. It has also registered substantial growths in financial derivative transactions and syndicated loans.

In 2002 *The Banker*, *Global Finance*, and *Financial Asia* named Chinatrust the "Best Local Bank in Taiwan." The outstanding performance of Chinatrust has received wide recognition. We shall continue to do our best to live up to our reputation.

In the future, Chinatrust Financial Holding Company, as a bellwether in the financial market, shall follow our established business strategies to strengthen our competitive capabilities and shall consolidate our resources through integrated business operations to keep creating the greatest possible returns for our shareholders.

Conceivably, competition among financial holding companies will be increasingly intensive. We need to diversify our products and make our management more professionalized and internationalized, so that we may continue to achieve great profitability for our shareholders.

Human resources are a company's most important assets. They are the motive forces for creating high profitability. One of our important tasks is to recruit more talents and professionals for our organization and create a working environment conducive to close team work. Our objective is to move toward professionalism, making ourselves more internationalized, and our products more diversified.

Since 1993, Chinatrust has begun a series of re-engineering processes. They include the re-engineering of consumer banking in 1994, corporate banking in 1996, information technology in 1999, human resources and financial management in 2000, and the creation of a financial holding company in 2002. In the past ten years, we built up our strengths in corporate planning, operating procedures, database, financial management, consumer banking, and corporate banking. Our recorded profitability in 2002 testifies to the correctness of our past endeavors, which will also be the guidelines for our future operations.

In 2003 our objectives and strategies will be to integrate the business activities of all component companies under the banner of Chinatrust Financial Holding Company. We will not only make Chinatrust the leading financial holding company in the country, but also create the highest value for our shareholders.



I. Introduction

A. Chinatrust Financial Holding Co., Ltd.

After Taiwan joined the World Trade Organization, to provide multi-faceted financial services to customers and to catch the trend of internationalization and diversification, Chinatrust Commercial Bank (CTCB) aggrandized itself into Chinatrust Financial Holding Co., Ltd. (CFHC) on May 17, 2002.

With CTCB as the flagship in the group, the CFHC immediately amalgamated two of CTCB's affiliated companies – the Chinatrust Securities Co., Ltd. (CTSC) and the Chinatrust Insurance Brokers Co., Ltd. (CIBC) – into the group with the registered capital of NT\$ 100 billion and acquired capital of NT\$ 48,554,267,880 to enable it integrating all business activities in consumer banking, corporate banking. Backed by a network of CFHC's domestic subsidiaries, CFHC enhances the resource sharing and cross selling among group. Also, the new organizational structure provides multi-faceted financial services to customers.

To be one of the top 100 banks in the world and the top financial holding company for overseas Chinese communities, CFHC set up goals as following:

1. To make CFHC an upright and trustworthy financial institution.
2. To provide one stop, all-inclusive, satisfactory financial services for customers.
3. To make CFHC the best global Chinese financial institution.

B. Introduction of Subsidiaries

1. Chinatrust Commercial Bank

The predecessor of the CTCB was China Securities Investment Corporation (CSIC), a dealer in securities and underwriting. Founded in 1966 the CSIC was reorganized into China Trust Company in 1971. Upon the approval of the Ministry of Finance, the latter was transformed into Chinatrust Commercial Bank in 1992. These transformations occurred in parallel to the economic development of the country; they aimed to meet the evolving needs of the industries.

The CSIC helped the country develop a money market. It contributed greatly to Taiwan's incipient securities market and helped promote capital formation in the country. For acceleration of economic development, China Trust Company, with increased capitalization, came into being. It accepted trust funds, engaged in equity investment, and extended middle/long-term loans to enterprises. Its business scope covered trust banking, development banking and investment banking.

To promote financial liberalization and internationalization, the government granted permission in 1990 for the establishment of new commercial banks. In 1991 it proclaimed criteria for trust companies to be converted into commercial banks. China Trust Company was the first to meet the criteria. In 1992 it was licensed to be a commercial bank under the name Chinatrust Commercial Bank.



In the past 30 years, the CTCB and its predecessors have always dedicated themselves to the pursuit of innovation. They have played the role of a pioneer or forerunner in the following banking activities in Taiwan:

- 1966 Securities trading and underwriting.
- 1972 Securities transfer agency and leasing financing
Employees Pension and Savings Trust Funds and
in actuarial advice.
- 1974 Issuance of the first credit card in Taiwan
- 1989 First trust company with trust funds exceeding
NT\$100 billion.
- 1994 First bank to provide automatic banking services.
- 1996 First bank to initiate e-banking.
- 1999 First bank extending business hours to 7 p.m.
- 2000 Establishment of the first mini-bank to provide
specific services to customers in a designated
area.

2001 Special business hours on holidays.

2002 First bank licensed to deal in trust banking and securities brokerage and investment.

2002 First bank to initiate adjustable interest rates for housing loans.

With the growth of tel-communication and Internet, CTCB continues promoting Mobile Banking and Internet Banking. Meanwhile, with the strategic alliance and e-commerce, CTCB provide the financial services of intercompany (B2B) account payables management and online payment services of e-pay, e-lending, and e-collecting. Those services help customer to enhance the efficiency of fund management and usage.

In addition to the innovation and professional services provided by CTCB, for what is received from society CTCB never forgets to repay in the form of public service in such areas as charities, cultural activities, medical care, and promotion of sports, education, and environmental protection. For example, it founded the Taiwan Institute of Economic Research and the Sun Yat-Sen Cancer Center. It also built the Novel Hall for artistic performances, sponsored "the Light Up a Life" campaign, sponsored Chiang Kai-Shek Memorial Hall's garden, and sponsored Disney on Ice-Happy 100th Anniversary by inviting international famous dancers.

2. Chinatrust Securities Co., Ltd.

In 2000 Chinatrust Commercial Bank obtained government permission to acquire ownership of "Bao-Chen Securities Company" with a total shareholding of 99.44%. In the same year, the acquired company was renamed Chinatrust Securities Co., Ltd. (CTSC). It plays a market maker role to stimulate the securities market and helps promote Taiwan's economy.

CTSC has five business offices in Taiwan and has plans to increase its presence in all major cities across the island. In 2003 the company plans to introduce electronic services to provide greater facilities for clients. Since the company became a component member of the CFHC in May 2002, it has been able to provide value added services to customers and to increase its competitiveness through sharing of the resources and database of the CFHC. Customers can now enjoy an integrated financial package in deposits, consumer loans, housing loans, credit cards, mutual funds, securities, futures, insurance, and other related services.

3. Chinatrust Insurance Brokers Co., Ltd.

Chinatrust Insurance Brokers Co., Ltd. (CIBC) was established in February 1996 as a subsidiary of the CTCB. Its business scope includes tailor-made "Personal Insurance" and "Property Insurance." It upholds CTCB's management motto "to do business in an upright way and provide best cordial services to customers." After May 2003, it became one of the CFHC and focuses on meeting corporate clients' insurance needs by offering a complete risk management package on property insurance and overall financial planning. Furthermore, it expanded its services to cover "Life insurance," using various selling methods to achieve the aim of "Bancassurance."

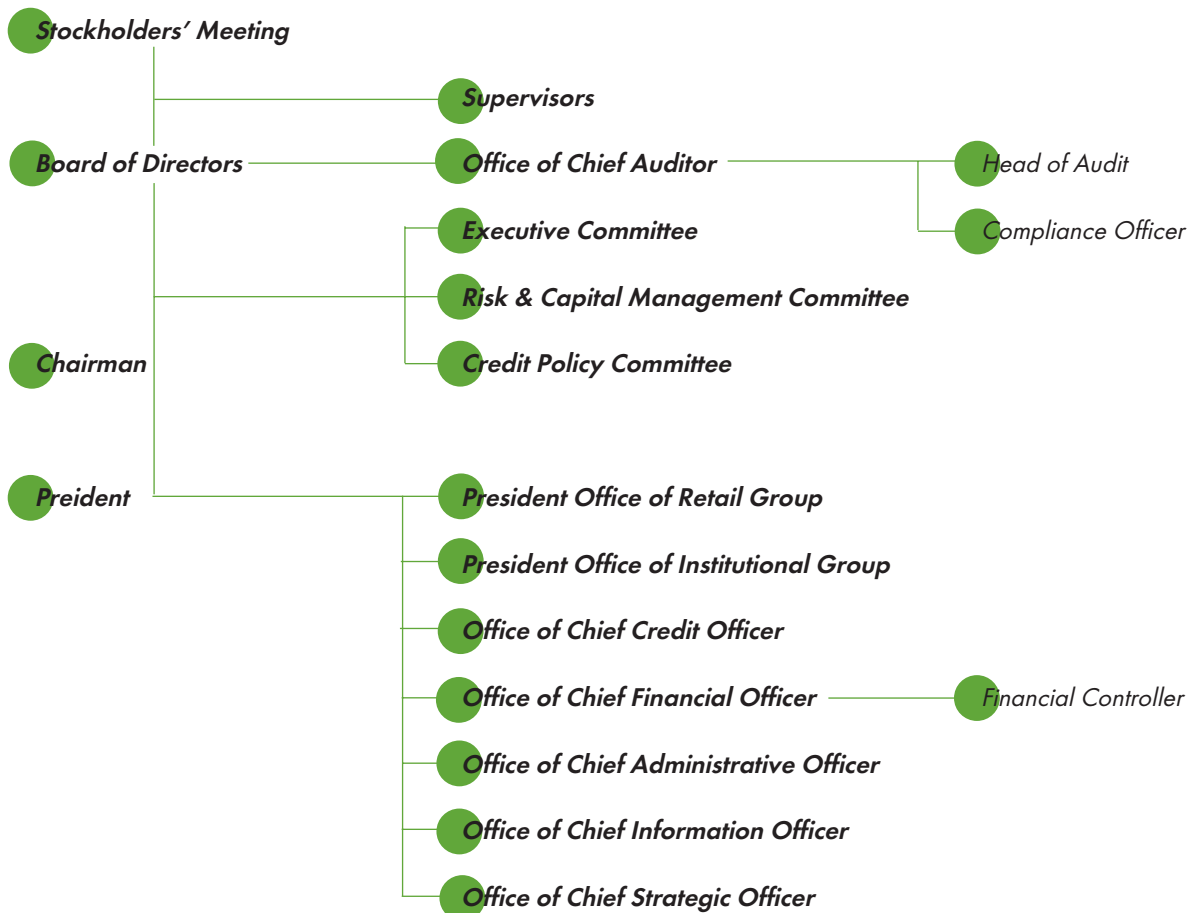
To match the trend of liberalization and internationalization, it focuses on the strategic alliance/business integration and aims at upgrading professional abilities. Furthermore, with its full scope risk management and platform of insurance products, it provides banking, securities, and bills products or services for customers, which in turn help managing customer's wealth.



II. Organization

A. Organization Chart

April 7, 2003



B. Directors, Supervisors and the Management

1. Directors and Supervisors

| Title | Name | Date of Assignment | Office Term | Owned Shares upon Assignment | | Presently Owned Shares | |
|------------|--|--------------------|-------------|------------------------------|--------------|------------------------|--------------|
| | | | | No. of Shares | Percentage % | No. of Shares | Percentage % |
| Chairman | Jeffrey L. S. Koo | 90.06.29 | 3 | 360,387,440 | 8.14 | 374,968,355 | 8.14 |
| Director | Jeffrey J. L. Koo, Jr. Representative of Kuan Ho Construction & Development Co., Ltd. | 90.06.29 | 3 | 54,590,260 | 1.23 | 37,856,927 | 0.82 |
| Director | James J. Sheu Representative of HI Investment Ltd. | 90.06.29 | 3 | 104,079,296 | 2.35 | 91,361,067 | 1.98 |
| Director | Michael L.C. Jong Representative of Chung Cheng Investment Ltd. | 90.06.29 | 3 | 4,575,040 | 0.10 | 4,760,141 | 0.10 |
| Director | Charles L. F. Lo Representative of Asia Livestock Co., Ltd. | 90.06.29 | 3 | 672,800 | 0.02 | 700,020 | 0.02 |
| Director | Wen-Long Yen | 90.06.29 | 3 | 51,670,563 | 1.17 | 53,761,102 | 1.17 |
| Director | Gwo-Yeu Tsai | 90.06.29 | 3 | 67,773 | 0.00 | 105,515 | 0.00 |
| Supervisor | Shih-Chuan Lin Representative of HI Investment Ltd. | 90.06.29 | 3 | 104,079,296 | 2.35 | 91,361,067 | 1.98 |
| Supervisor | Ming-Shan Shaw Representative of HI Investment Ltd. | 90.06.29 | 3 | 104,079,296 | 2.35 | 91,361,067 | 1.98 |
| Supervisor | T. C. Tsai Representative of Kuan Ho Construction & Development Co., Ltd. | 90.06.29 | 3 | 54,590,260 | 1.23 | 37,856,927 | 0.82 |



April 7, 2003

| Shares Owned by the Shareholder, Spouse and Children under the Legal Ages | | Significant Experience | Education |
|---|-----------------|---|--|
| No. of Shares | Percentage % | | |
| 374,968,355 | 8.14 | Chairman of CTCB | Honorary Ph.D., De La Salle University, Philippines MBA, New York University, USA |
| 884,141 | 0.02 | President of CTCB | MBA, Wharton Graduate Division of the University of Pennsylvania, USA |
| 271,269 | 0.01 | Deputy President of CTCB | MBA, Wharton Graduate Division of the University of Pennsylvania, USA |
| 1,941,887 | 0.04 | Chairman of Chinatrust Securities Co., Ltd. | Department of Business Administration, Tamkang University |
| 232,859 | 0.01 | Deputy President of CTCB | Department of Economics, National Chung Hsing University |
| 53,772,224 | 1.17 | Chairman of United Real Estate Management Corp. | Department of Economics, Soochow University |
| 157,449 | 0.00 | Chief, Secretariat, Board of Directors Taiwan Cement Corp. | Department of Law, Soochow University |
| 269,033 | 0.01 | Chairman of Ho-Yeh Investment Co., Ltd. | Department of Economics, National Taiwan University |
| 0 | 0.00 | Chairman of Ta-Ho Maritime Corp. | Special Commerce Program, College of Law, National Taiwan University |
| 1,060,981 | 0.02 | Vice President of Taiwan Fuji Xerox Corp. | Department of Finance and Tax, National Chengchi University |



2.The Management

| Title | Name | Date of Assignment | Presently Owned Shares | |
|--------------------------------------|--------------------|--------------------|------------------------|--------------|
| | | | No. of Shares | Percentage % |
| President | Charles L. F. Lo | 92.04.07 | 149,490 | 0.00 |
| Deputy President | Michael L. C. Jong | 91.05.17 | 1,321,579 | 0.03 |
| President, Institutional Group | Eric Chen | 92.04.07 | 0 | 0.00 |
| Chief Credit Officer | James J. Sheu | 91.05.17 | 271,267 | 0.01 |
| Chief Financial Officer | Steven Cheng | 91.05.17 | 0 | 0.00 |
| President, Retail Group | Steve R. S. Chou | 92.04.07 | 470,078 | 0.01 |
| Chief Information Officer | Ruu-Tian Chang | 91.05.17 | 46,007 | 0.00 |
| Chief Auditor | Thomas F. S. Chen | 91.05.17 | 727,250 | 0.02 |
| Chief Administrative Officer | Oliver Shang | 91.05.17 | 31,393 | 0.00 |
| Chief Strategic Officer & Speaker | Shiaw-Pin Lin | 91.05.17 | 0 | 0.00 |
| Compliance Officer | Daniel C. K. Chen | 91.05.17 | 37,456 | 0.00 |
| Head of Audit | Julie Li-Chu Chang | 91.06.17 | 0 | 0.00 |
| Financial Controller | Perry M.T. Chang | 91.05.17 | 77,630 | 0.00 |

April 7, 2003

| Shares Owned by the Shareholder, Spouse and Children under the Legal Ages | | Significant Experience | Education |
|---|--------------|---|---|
| No. of Shares | Percentage % | | |
| 232,859 | 0.01 | Deputy President of CTCB | Department of Economics, National Chung Hsing University |
| 1,941,887 | 0.04 | Chairman, Chinatrust Securities | Department of Business Administration Tamkang University |
| 0 | 0.00 | Citigroup Country Officer (Citigroup Taiwan) | MBA, University of Missouri, USA |
| 271,269 | 0.01 | Deputy President of CTCB | MBA, Wharton Graduate Division of the University of Pennsylvania, USA |
| 44,524 | 0.00 | President, Chinatrust Securities | MBA, Wharton Graduate Division of the University of Pennsylvania, USA |
| 512,079 | 0.01 | Senior Executive Vice President of CTCB | Department of Business Administration, Tamkang University |
| 46,007 | 0.00 | Senior Executive Vice President of CTCB | MBA, University of Minnesota, USA |
| 729,787 | 0.02 | Senior Executive Vice President of CTCB | Department of Business Administration, National Taipei College of Business |
| 31,393 | 0.00 | Executive Vice President of CTCB | MBA, University of Delaware, USA |
| 0 | 0.00 | Principle, Monitor Group Hong Kong | MBA, University of Columbia, USA |
| 37,456 | 0.00 | Assistant Executive Vice President of CTCB | Department of Law, National Chengchi University |
| 0 | 0.00 | Assistant Executive Vice President of CTCB | MBA, The City University of N.Y. Baruch College, USA |
| 77,630 | 0.00 | Assistant Executive Vice President of CTCB | MBA, Tunghai University |

3. Significant Shareholders of Legal Entities

April 7, 2003

| Name of legal entity | Main legal person |
|---|--|
| 1. HI Investment Ltd. | Robert Simon Fraser |
| 2. Kuan Ho Construction & Development Co., Ltd. | 1. Wen-Long Yen (30%) 2. Mizue Hayashi (30%) 3. Wen-Shi Yen (10%) 4. Wen-Tse Yen (10%) 5. Wen-Hui Yen (10%) |
| 3. Chung Cheng Investment Ltd. | 1. Jeffrey L. S. Koo (44%) 2. Chung Kwan Investment Co., Ltd. (49%) |
| 4. Asia Livestock Co., Ltd. | 1. Wen-Shi Yen (15%) 2. Wen-Tse Yen (12.5%) 3. Chung Kwan Investment Co., Ltd. (15%) 4. Tsai Ming Jih (15%) 5. Shou-Shih Chen (15%) 6. Wen-Long Yen (15%) 7. Mizue Hayashi (12.5%) |

Note: A main legal person refers to any shareholder whose equity is over 10% or who is one of the top ten shareholders.



III. The Issuance of Capital and Shares (including Preferred Shares), Corporate Bonds and Overseas Depository Receipts

A. Category of Shares

December 31, 2002

| Category of Shares | Authorized capital (in thousand shares) | | | | |
|--------------------|---|----------|-----------|-----------------|------------|
| | Issued Shares | | | Unissued Shares | Total |
| | Listed | Unlisted | Total | | |
| Common Shares | 4,378,051 | 227,377 | 4,605,428 | | |
| Preferred Shares | 250,000 | 0 | 250,000 | | |
| Total | 4,628,051 | 227,377 | 4,855,428 | 5,144,572 | 10,000,000 |

Note: A main legal person refers to any shareholder whose equity is over 10% or who is one of the top ten shareholders.

B. Issuance of Corporate Bonds

In 2002, Chinatrust Financial Holding Co., Ltd. issued overseas-unsecured convertible bonds

December 31, 2002

| | | | |
|----------------------------------|---|------------------------------|---------------------------|
| Issuing Date | 2002/07/08 | Secured Bond (Yes/No) | No |
| Maturity Date | 2007/07/08 | Duration (Year) | 5 |
| Interest Rate (%) | 0.000 | Par Value | USD 1,000 or more |
| Currency | US Dollar | Issue Size (US\$) | 400,000,000 |
| Issue Size (NT\$) | 13,452,400,000 | Issue Price | 100% |
| Issue Place | Luxembourg Stock Exchange | Exchange Place | Luxembourg Stock Exchange |
| Beginning of Conversion | 2002/08/07 | End of Conversion | 2007/07/01 |
| Category of Converted Stocks | Common Stock or Overseas Depository Receipts | Conversion Price at Issuance | 37.16 |
| Resale rights of the bondholders | The bondholder can request the Company to repurchase the bonds at face value plus 4.17% (compounded semi-annually). | | |

C. Issuance of Overseas Depository Receipts: N/A



33378.6
8520 · 40† = M / X · %
2740090 · M / X · %
2740090 · 73 · %
2000266 · *

000266
73. %

261457

I. Business Scope

A. Chinatrust Financial Holding Co., Ltd.

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

- Banking
- Promissory financing
- Credit Cards
- Trusts
- Insurance
- Securities
- Futures
- Venture Capital
- Investments in overseas financial institutions as approved by the Ministry of Finance
- Other related financing as approved by the Ministry of Finance
- Other related investments

2. Subsidiaries: Chinatrust Commercial Bank, Chinatrust Securities Co., Ltd., and Chinatrust Insurance Brokers Co., Ltd.

B. Chinatrust Commercial Bank

1. Chinatrust Commercial Bank is approved to conduct businesses in the following areas.

- Checking accounts
- Savings accounts
- Time deposits
- Short- and medium-term loans
- Note discounting
- Investment in government and corporate bonds, short-term bills, and financial debentures
- Domestic foreign exchange business

- Banker's acceptances
- Issuance of domestic standby letters of credit
- Domestic endorsement guarantee business
- Agency collection and payment
- Agency transactions of government and corporate bonds, Treasury bills, and securities
- Agency transactions and proprietary trading of short-term bills
- Credit card-related products
- Agency sale of gold nuggets, bars, coins and silver coins
- Financial derivative businesses as approved by the Ministry of Finance
- Custody and warehouse services
- Rent of safe-deposit boxes
- Financial advisory services for corporate banking
- Foreign exchange business in connection with exports and imports, fund remittance and repatriation, foreign currency deposits and loans, guarantee for secured repayment, and attestation of exports and imports
- Investment of specified trust funds in foreign and domestic marketable securities
- Account receivable factoring business as approved by the Ministry of Finance
- Endorsement and issuance of corporate bonds
- Issuance of financial debentures
- Underwriting, agency transactions, and proprietary trading of marketable securities
- Proprietary trading of government bonds
- All businesses and other agency services related thereto as specified in the license
- Trust and fiduciary services
- Other related financing as approved by the Ministry of Finance

2 Distribution of Business

Unit:NT\$ in millions

| Items | 2002 | | 2001 | |
|--|-----------|-----|-----------|-----|
| | Amount | % | Amount | % |
| Interest Income-Net | \$ 30,172 | 68 | \$ 25,130 | 62 |
| Interest Income | 44,830 | | 52,008 | |
| Interest Expense | [14,658] | | [26,878] | |
| Commissions and handling fees | 8,773 | 20 | 7,544 | 19 |
| Gain on Marketable Securities, Net | 1,657 | 4 | 3,501 | 9 |
| Gain on Long-term Equity Investment, Net | 2,384 | 5 | 2,057 | 5 |
| Others | 1,325 | 3 | 2,237 | 5 |
| Total | \$ 44,311 | 100 | \$ 40,469 | 100 |

C. Chinatrust Securities Co., Ltd.

1. Chinatrust Securities Co., Ltd. is approved to conduct businesses in the following areas.

- Securities Brokerage Businesses
- Securities Underwriting Businesses
- Securities Dealing Businesses
- Financial Derivative Businesses
- Bonds Businesses
- Futures Businesses

2 Distribution of Business

Unit:NT\$ in millions

| Items | 2002 | | 2001 | |
|--|----------|-----|--------|-----|
| | Amount | % | Amount | % |
| Securities Brokerage | \$ 327 | 32 | \$ 238 | 24 |
| Securities Underwriting | 260 | 25 | 155 | 16 |
| Gain on Sale of Securities- Dealing | - | - | 187 | 19 |
| Gain on Sale of Securities- Underwriting | 300 | 29 | 136 | 14 |
| Interest Revenue | 109 | 11 | 86 | 9 |
| Others | 37 | 3 | 178 | 18 |
| Total | \$ 1,033 | 100 | \$ 980 | 100 |

D. Chinatrust Insurance Brokers Co., Ltd.

1 Chinatrust Insurance Brokers Co., Ltd. is approved to conduct businesses in the following areas.

- Property Insurance Brokerage
- Life Insurance Brokerage

2 Distribution of Business

NT\$ in millions

| Items | 2002 | |
|--------------------|--------|-----|
| | Amount | % |
| Commissions: | | |
| Property Insurance | \$ 65 | 10 |
| Life Insurance | 557 | 90 |
| Total | \$ 622 | 100 |

II. General Introduction of Business and Market Analysis

A. Business Introduction

1. Chinatrust Financial Holding Co., Ltd.

Chinatrust Financial Holding Co., Ltd. (CFHC), with Chinatrust Commercial Bank (CTCB) as the main body, was established on May 17, 2002. In July and August the same year, CFHC acquired Chinatrust Securities Co., Ltd. (CTSC) and Chinatrust Insurance Brokers Co., Ltd. (CIBC). Taking advantage of the sales platform, CFHC aggressively engaged in cross selling under the structure of a financial holding company, and the integrated synergy has been gradually taking effect.

In addition, the CFHC successfully issued convertible bonds worth of US\$ 400 million in July 2002. The proceeds are used not only to acquire shares of subsidiaries engaging in businesses of securities, insurance brokerage and bills but also to prepare for future plans of acquisition.

2. Chinatrust Commercial Bank

(1). Corporate Banking Business

a. Corporate Deposit Business

In 2002, we acquired deposits from the government coffers and moved up to the sixth place in terms of market share in the deposit market of public sector, which used to be dominated by government-owned banks. We also became one of the top five banks in foreign exchange business. At the end of 2002, our NTD deposit in corporate banking business totaled NT\$ 379.8 billion, up NT\$ 49.2 billion, or 14.88%, over a year ago.



b. Corporate Loan Business

The economic slowdown in 2001 extended to 2002. Compared to the bank industry's performance in corporate loan business, which declined about 5%, CTCB only showed slight decline because CTCB fitted the demands of clients and emphasized transactional based lending for economic slowdown. At the end of 2002, our corporate loans totaled NT\$ 289.1 billion, down NT\$ 3.7 billion, or 1.26%, over a year ago.

General Corporate Loan Product

- i. To enhance credit service to medium and small companies as well as to cope with lack of financing sources for small credit card contract stores, we launched the "Contract store financial " project in April 2002, meeting the needs of funding of credit card contract stores in fastest and on-time fashion.
- ii. To improve stiffness of traditional loans based on prime rate as well as to fairly reflect reasonable cost of capital, in October 2002, we, CTCB, beat competitors by launching loans with rates floating according to a market index rate. In doing so, we removed the defect of the traditional system in which pricing was not transparent enough to let our clients receive fair treatment.
- iii. In 2002, there were 23 syndicated loans led by CTCB, with the No. 1 market share of 29.4%. Total amount was about NT\$42 billion with the market share of 11.26%, making us one of the top five banks leading syndicated loans.
- iv. CTCB launched the factoring business in 2000 by providing the capital financing to transactional deals between clients. Eventually CTCB can get the better control of clients' capital flow, ensure the self-compensation and risk, and widen the fee income base. As of the end of 2002, the amount processed by our factoring business totaled NT\$130.8 billion, up 70% over a year ago, with a leading market share of about 30%.
- v. Trade finance: As of the end of 2002, our OBU business of bills purchased and import L/C totaled US\$1.08 billion, up 60% over a year ago. For CTCB as a whole, our business of L/C issuance and bills purchased totaled US\$3.07 billion, up 13% over a year ago.

- vi. E-Banking service: "Full-scope corporate network electronic platform" is a complete service solution aiming at satisfying companies' needs of cash management, foreign exchange transaction, and financial management. The functions of this platform include: corporate Internet banking, corporate e-payment, corporate e-loans, corporate easy collection, network purchase card, and others.

As of the end of 2002, the number of clients using this platform was over 2,000, the amount of transactions totaled NT\$200 billion, and the number of transactions was as many as 510,000.

Many domestic and overseas prizes have honored the various services contained in this "Full-scope corporate network electronic platform." In 2002, "Full-scope corporate network electronic platform" won the prize of "the best Electronic Banking" in the first year of "Award of Outstanding Elite in Financial Business" held by Taiwan Academy of Banking and Finance.



c. Capital Market Business

Our major businesses cover financial derivatives, fixed income products, and overseas capital market along with our syndicated loan business and underwriting business of Chinatrust Securities.

i. Financial Derivatives

At present our major products are FX Forward, Money Market Swap, Interest Rate Swap, Cross Currency Swap, Currency Option, Interest Rate Option, Index Option, Forward Rate Agreement, Bond Futures, Asset Swap, various kinds of Structured Deposits, and so on. In 2002, total transaction amount of our financial derivatives and foreign exchange was US\$142.3 billion, 29% more than the amount of US\$110.3 billion in 2001. Spot foreign exchange transactions totaled US\$ 76.7 billion; money market swaps, USD 28.3 billion, foreign exchange options, US\$27.3 billion, interest rate swaps, US\$3.6 billion.

ii. Fixed Income Products

In 2002, CTCB was one of the top five in terms of amount of local currency bond transactions and ranked No.1 among all of the banks in Taiwan. Total amount of such transactions in 2002 was NT\$221.3 billion with the market share of 5.11%. As for foreign currency bond transactions, our amount was US\$2.5 billion.

In the local currency corporate bond market and foreign currency bond market, CTCB has successfully structured distribution channels in the secondary market as well as developed bond underwriting business in the primary market by playing a leading or assisting role.

iii. ECB

The companies whose ECB underwriting cases were led and sold solely by us included Pihong Enterprise Co. Ltd., Cradle Technology, and Ultima Electronics. These ECBs were highly welcomed by a vast number of investors and received over-subscription for each case. In 2002, our market share was 7.69% in terms of number of cases taken and 2% in terms of underwriting amount.

d. Securities Service Business

i. Securities Underwriting

As of the end of 2002, there were totally 1,016 companies, which engaged us to conduct securities underwriting for them, with the total underwriting amount of NT\$262.7 billion. However, as the securities underwriting market as a whole continued to shrink and the law was revised to prohibit security issuance below a fixed amount of value, our income from securities underwriting was less than that in 2001. Our income of securities underwriting fees in 2002 totaled NT\$26 million.

ii. Security Transfer Agency Service

As of the end of 2002, there were totally 302 companies, which engaged us for this service, 166 of them are listed companies and the other 136 are privately owned companies. The number of shareholders we served was 5.1 million (the market share was 24%), 0.16 million more than that in 2001. However, in 2002, because of establishment of several financial holding companies, some of the listed companies using our service terminated the agency contract with us, resulting in negative impact to our business expansion. In 2002, our fee income from this service totaled NT\$0.4 billion, NT\$10 million less than the previous year.

e. International Business

As for expansion of overseas business, in addition to providing what clients need and actively serving overseas Taiwanese businessmen, we strove to build our overseas service network. In July 2002, we opened a branch in Ho Chi Minh City in Vietnam and a loan representative office in Houston as part of Chinatrust Bank (USA). In the fourth quarter, we set up two subsidiaries, Karawaci and Kelapa Gading in Indonesia. Moreover, we set up our representative office in Beijing in March 2003. As of the end of 2002, we have 6 overseas branches and 4 subsidiaries in total plus branches of those subsidiaries and 6 representative offices. As now, there are 60 overseas service locations in total, and 1,530 banks in 96 countries and areas doing money transfer business with us.

(2) Consumer Banking Business

a. Consumer Deposit Business

As of the end of 2002, our balance of deposit in personal accounts totaled NT\$261.5 billion, up NT\$ 11.7 billion, or 4.3%, over a year ago.

i. Innovation of products

(i). Equity All-in-one Account

To integrate individual customer's accounts into one for convenience of capital allocation, in the middle of July 2002, we launched "Equity All-In-One" deposit account that is linked to more than 300 securities brokerage companies and is the first of the same kind in Taiwan. This account provides an on-demand savings platform with features of cross-brokers, without money transfer and difference compensating in the balance of the accounts.

(ii). USD Money Management Project

Facing slowdown of global economy and low return in the environment of low interest rate, we have actively developed financial products in order to provide clients diverse investment channels. In the middle of August 2002, we cooperated with JP Morgan to launch a "USD Money Management Project of 7-year period." This project was highly welcome by people who are used to make term deposit as well as by other investors, and total sales reached US\$150 million within just one month.

(iii) Value-added Term Deposit

As far as our term deposit business is concerned, in addition to continuous launch of retention projects for existing deposit clients by offering better rates, we even took non-traditional approach in rate setting for term deposit. In the middle of December we launched "value-added term deposit," which combined features of both "withdrawing interest while keeping capital" and "floating interest rate," to satisfy customers' needs for asset allocation and successfully maintain our customer relationship.

ii. Distribution Channels:

(i) Branch

To satisfy customers' needs for wealth management and to enhance quality of financial service, in 2002 we opened 2 branches, Ta An Branch and North Kaohsiung Branch. Ta An Branch was the first in all of the financial holding companies to be equipped with a cross-industry (including securities and insurance products) sale counter. Moreover, we remodeled 6 existing branches in the second half of 2002; they are

branches of Tunpei, Tunnan, Hsinchung, Chungli, Chungkang, and Tainan West. We expect to provide clients with more comfortable and complete money management service after the modeling.

(ii). Automation Channel

In respect to automation channel business, we continue to deepen strategic alliance between banking business and chain retail stores. As of the end of 2002, we had put 306 ATM machines in 7-11 convenience stores located in Taiwan, making our services even more seamless. As of the end of 2002, we had 766 ATM machines in total, 313 more than that in 2001, or a growth rate of 69.1%, topping all other commercial banks. The components of our automation channels include: ATM machines, automatic loan machines, deposit machines, account book recording machines, and so on. At the end of 2002, the number of those machines was 1,293 in total, 357 more than that in 2001, or a growth rate of 38.14%.

(iii). Mobile Banking

To enhance our channels, we grabbed the market opportunity and offered the first mobile banking service available on both emome system of Chung Hua Telecom and i-mode system of KG Telecommunications. As of the end of 2002, we had the highest market rate, in terms of the number of mobile banking clients.

(iv). Internet Banking

Winning the silver prize in the "e-21 Gold Net Award" held by Department of Commerce of Ministry of Economy Affairs in 2002 shows that our internet banking services are more considerate and assuring than most of other websites in terms of design of personalized website, differentiated service through grouping and safety of internet transactions.



b. Consumer Loan Business

As of the end of 2002, our outstanding personal loans totaled NT\$243.4 billion, up NT\$37.5 billion, or 18.21%, over a year ago.

The main consumer loan business are as following,

i. Mortgage Loans— ARMs

In the beginning of March, we initiated ARMs, the index-linked mortgage loan, making mortgage loan rate transparent and opening a new era for mortgage loans. The business helped swiftly enlarge our market share in the mortgage loan market, and our market ranking advanced to No.3 at the end of 2002 from No.8 at the end of 2001. As of the end of 2002, our outstanding ARMs totaled NT\$180.9 billion, up NT\$39.3 billion, or 27.75%, over a year ago.

ii. ALM Service

To provide customers with more convenient and faster loan service, we initiated the ALM service in January 2002, emphasizing fast approval within just 30 minutes. At the end of 2002, the number of those machines was 46 in total.



c. Credit Card Business

As of the end of 2002, the amount of credit cards in circulation totaled 4.97 million, up 1 million, or 25%, over a year ago. Meanwhile, in the early 2003, the amount reached 5 million. As of the end of 2002, the consuming amount totaled NT\$186.2 billion, up NT\$4.9 billion, or up 2.7%, over a year ago.

As of the end of 2002, the contracted collection stores totaled 28,900, up 4,800, or 19.9% growth, which bring in collection amount of NT\$174.6 billion, up NT\$36 billion, or up 26%, over a year ago.

The Main Credit Card Business are as Following,

i. Enhancement of Contents and Quality of Service

In September 2002, we launched the promotional campaign of "Card Festival," which allowed upgrade for both gold cardholders and classic cardholders as well as provided free parking in the international

airports in Taiwan. Platinum Cardholders can also enjoy the customerized services as well as VIP services of the international airports in Taiwan.

ii. Product Innovation and Techniques Implementation

In May 2002, we initiated the service of "tax payment through credit cards" and achieved top performance among banks. Our market share in terms of total number of payment transactions was as high as 25% and 28% in terms of amount of payment. In July 2002, we launched public service (such as water, electricity) fee payment through credit cards. In August, we issued Blockbuster chip card, the first of the kind that fits EMV (Euro pay-MasterCard-Visa) standard. After we successfully issued co-branding cards with Chung Hua Telecom, CPC and other state-owned companies, we acquired the right of issuance of Citizen Travel Card in October 2002 and signed contracts of card issuance with over forty public institutions (including Ministry of Transportations and Communications, Ministry of Finance, Ministry of Justice, Council of Agriculture, Taipei County Government, and so on). Within just two months, we issued more than 260,000 of those cards, much more than our goal.

d. Trust Banking

i. Employees' Pension and Savings Trust

In April 2002, we launched the business of "Pension and Savings Trust for Corporate Employees," which is of seven functions: system planning and design, actuaries, investment advisory, asset arrangement, asset management, customer service, and asset security. As of the end of 2002, we had successfully transferred to our bank, 52 accounts with the accumulated amount of trust fund NT\$1.637 billion, while the number of cases of actuaries business totaled 470.

ii. Employee Stock Ownership Trust

As of the end of 2002, there were totally 38 employee stock ownership trust accounts managed by us and the number of employees included in these accounts totaled 32,730. The balance of accumulated trust fund amounted to NT\$7.658 billion, down NT\$117 million, or 1.5%, from the previous year. However, both the number of accounts and the trust amount managed by us still topped the others.

iii. Appointed Trust Funds for Investment in Foreign and Domestic Securities

In 2002, global stock markets fell for the third year due to impact of accounting scandals in U.S., unclear signs of economic recovery, and the possible war between U.S. and Iraq. Investors' confidence was again hard hit and their will to invest was further affected. As a result, domestic investment products of conservative features and bonds became highly welcome in 2002. We also performed outstandingly as we launched new investment products. As of the end of 2002, the amount of specialized trust funds entrusted to us reached NT\$82.632 billion, up NT\$25.988 billion, or 45.88% over a year ago.

iv. Custodian Bank and Securities Custody Business

As of the end of 2002, the total assets under our custody, including trust funds of domestic securities investment, accounts of commissioned investment with full rights, QFII, foreign institutions, and foreign individuals, amounted to NT\$299.619 billion, up NT\$84.678 billion, or 39.4% over 2001. The amount of assets under our custody in other securities custody business totaled NT\$158.28 billion, up NT\$27.44 billion, or 20.97% over 2001. In sum, total amount of assets under our custody was NT\$457.899 billion, up NT\$112.118 billion, or 32.42% over 2001.

e. Other New Types of Trust Service

As far as innovation for new types of trust business is concerned, in addition to accepting clients' trust of funds, securities and real estate to provide asset allocation and management in order to meet clients' needs for asset transfer and security, we worked very hard on establishing peripheral service functions in 2002 and initiated services one after another such as "Will executor and legacy manager," "Intermediary for real estate leasing and transactions," and "Real estate development consulting." As for the types of clients' trusted assets, we enlarged business scope to include "Rights of monetary debt and rights of collateral concerned" as well as we launched 3 standardized trust products at the end of 2002: insurance trust, Wan Dai Fu descendants life guarantee trust, and Jin In Bao retirement trust. Those are our initiatives first seen in the banking industry.

3. Chinatrust Securities Co., Ltd.

After Chinatrust Securities became part of the CFHC, we provide more security services, including brokerage, underwriting, futures, derivatives, and bond to the public investors.

Despite the slight growth of the economy in 2002 compared to 2001, the domestic demand is still weak. Furthermore, the slow recovery of global stock market and deliberalization of derivative tools in securities industry hinder the profit growth of securities industry.

4. Chinatrust Insurance Brokers Co., Ltd.

For the past two years, most banks have set up insurance agent business due to the booming insurance business. As of December 2002, the first year premium received by the insurance agent companies of banks was over 5% of total premium.

As single premium policies generated tremendous sales, CISC's commissions revenue in 2002 reached NT\$622 million, five times as much as the amount of NT\$126 million earned in 2001, providing high quality source of income.

B. Analysis of Main Financial Products (Services) in Major Divisions

| Main Financial Products (Services) | Major Divisions |
|--|--|
| Banking (including Deposit, Loans, Credit Card, Foreign Exchange, Equity Transfer Agency, Trust and Bills) | Taiwan, Hong Kong, Japan, India, Indonesia, Philippine, Vietnam, Canada, U.S.A. and Paraguay |
| Securities (including Brokerage, Dealing, Underwriting, Bonds and Security Investment Consulting) | Taiwan |
| Insurance Brokerage | Taiwan |

C. Market Introduction

There are 14 financial holding companies in Taiwan, and they can be classified into three types in terms of their main body:

1. Bank-centric FHC: They have better corporate images and customer relationship. They can also take advantage of their large customer database to conduct cross selling, making banks the best delivery platform. Financial holding companies that are transformed from commercial banks are expected to see growth after large-scale write-off of bad debts in 2002. They will be more aggressive and faster in promoting cross selling in order to lower cost and enhance performance.
2. Securities and Bills-centric FHC: They are now taking initiatives to form strategic alliance with banks, insurance companies, or investment trust companies, in an attempt to transform themselves into financial holding companies focused on investment or wealth management business. Such financial holding companies have developed and launched various new products in the fields of securities, futures and options, and derivatives.

3. Insurance-centric FHC: In 2002, they all aggressively sought for new members to enhance their business model of utilizing insurance agents as the major channel. Banking channel is still their top choice for integrating sales platforms.

In 2003, these financial holding companies have to look for their niche and core competence. Each will continue to strengthen its asset quality and expand through acquisition. We also expect to see a new round of competition in cross selling and resources integration, as many of them have declared to focus on developing wealth management business.



D. Operating Objectives

On consolidation basis, CFHC projects to have pre-tax net income of NT\$19.019 billion and NT\$15.03 billion after-tax in 2003, growing by 21.7% and 27.8% respectively over a year ago. EPS is projected to be NT\$3.31, up 30.3%, compared to NT\$2.54 last year.

On consolidation basis, total assets of CFHC are expected to reach NT\$1.02 trillion, up 9.2%. Net value of shareholders equity will be NT\$83.4 billion, up 5.4%. Benefits of integration should be seen gradually this year, helping estimated ROE and ROA in 2003 increase to 20.4% and 1.53% respectively.

E. Advantages and Disadvantages for Development:

1. Advantages:

- (1) We expect to see moderate growth of global economy this year and increasingly better corporate profits: Although performance of the major economies as a whole is not encouraging, yet from various sources of economic data, the US economy seems to stay away from "double dip." At the same time, with the interaction of both monetary policy and fiscal policy, we expect that US GDP should be able to show growth of 3%~4% next year and lead the global economic recovery.
- (2) The Asian economy is better than the rest of the world: Major Asian economies continue to improve

and internal demand of China is quite strong as well. Therefore, we expect that performance of the Asian economy should be better than the rest of the world, and flexible interest rate policy will help both economy and stock markets.

- (3) The bank-centric strategy is clear and competitive: According to a survey, consumers consider bank the most trust-worthy financial institution for their "one stop shopping" needs. Therefore, a financial holding company with the banking business as its main body is of the greatest potential in cross selling.

2. Disadvantages:

- (1) Slow recovery of economy: The slow recovery of the global economy in 2002 affected Taiwan to a large extent. The growth rate of real GDP in 2002 only increased to 3.54% from -2.18% in 2001. In addition, consumer spending hardly showed significant growth due to high unemployment rate and other factors. The government is also under pressure from budget deficit and failing to meet planned progress in major constructions. It is still hard to predict when the economy can revive.
- (2) Severe competition: The fourteen financial holding companies in Taiwan have their individual strength, and their fast growth brings additional pressure.
- (3) Complex integration process within the financial holding structure: The challenge of a financial holding company will come from coordination and integration of complex operations of each unit.

III. Employees

A. Information about the employees for the past two years

| Year | 12/31/2002 | | 04/07/2003 | |
|--------------------------|---------------------|------------|---------------------|------------|
| Number of employees | 17 | | 18 | |
| Average age | 44.5 | | 44.2 | |
| Average years of service | 6.32 Months | | 8.6 Months | |
| Level of education | Number of employees | Percentage | Number of employees | Percentage |
| Graduate School or above | 10 | 58.82% | 10 | 55.56% |
| College | 7 | 41.18% | 8 | 44.44% |

Note: CFHC was established on May 17, 2002.

B. Relation Between the Employer and Employees

CFHC has well-founded employee benefits and retirement systems, the relation between the employer and employees are harmonious.

IV. Subsidiaries

December 31, 2002; NT\$ in thousands

| Subsidiary Companies | Primary Business Scope | Amount of Original Investment | Shares | Ratio | Book Value | Net Value of Subsidiary Companies' Equities | Net Income or Loss of Subsidiary Companies | Account Basis | Shares Held by the Subsidiary Companies | Dividend |
|--|------------------------|-------------------------------|---|------------------------|------------|---|--|---------------|---|----------|
| Chinatrust Commercial Bank | Banking | 72,912,357 | Common Shares 4,605,427 Preferred Shares 250,000 | 100.00% 100.00% | 69,893,999 | 89,894,000 | 6,233,665 | Equity-Basis | 217,707 thousand shares (Note) | - |
| Chinatrust Securities Co., Ltd. | Securities | 3,816,924 | 348,049 | 99.44% | 3,430,531 | 3,428,126 | (386,393) | Equity-Basis | - | - |
| Chinatrust Insurance Brokers Co., Ltd. | Brokerage of Insurance | 186,278 | 200 | 100.00% | 432,985 | 432,985 | 323,733 | Equity-Basis | - | 77,026 |

Note: Before the shares of Chinatrust Commercial Bank were converted to establish Chinatrust Financial Holding Co., Ltd. Chinatrust Commercial Bank purchased their own stock shares to be treasury stock for transfer to employees or issuance of employees' stock options. As of May 17, 2002, treasury shares were not yet transferred. All 217,707 thousand treasury shares were converted to be the treasury shares of Chinatrust Financial Holding Co., Ltd. and were held by Chinatrust Commercial Bank.

V. Risk management

A. Chinatrust Financial Holding Co., Ltd.

1. Objective

CFHC and its subsidiaries aim to develop effective management approaches to create values. The ultimate objective is to make use of resources effectively so as to maximize the economic profit by taking a minimum level of risk.

2. Scope and Organization

The risk management covers credit risk, market risk and liquidity risk, etc. resulted from on-balance sheet and off-balance sheet activities of CFHC and its subsidiaries. CTCB plays the key role of CFHC's risk management function and works on integrating the

various risks of other subsidiaries under CFHC gradually.

The "Risk and Capital Committee" chaired by President, formulates risk management strategies and monitors the implementation of related risk management policies. The "Risk Management Meeting" and "Asset & Liability Meeting" are set under the "Risk and Capital Committee" and hold meetings regularly. Strategies and issues related to Market Risk and Credit Risk will be discussed in the "Risk Management Meeting" while Asset/Liability Management issues are the responsibility of the "Asset & Liability Meeting."

3. Policies

The risk management principles are set for different types of risks. Each subsidiary will follow such principles, establish its own risk management policies according to its business strategies, and implement the policies after the approval of the board of directors.

4. Risk Assessment and Control

CFHC has established adequate measurement approaches for each risk type. Risk limits have been set in consideration of both annual budget and capital level. In addition, CFHC has set up procedures for limit approval and delegation, and it has risk monitoring and control mechanism in place.

5. Exposures of risks

Please see Page 75~76 of Financial Reports.

B. Chinatrust Commercial Bank

1. Policies and Standards

The risk management policies of credit risk, market risk, and liquidity risk are set up following the main ideas of risk management principles of CFHC. The policies state the standards of risk identification, measurement, monitoring, and reporting. CTCB will periodically revise the policies to ensure the applicability and soundness.

2. Infrastructure

The risk management of CTCB is centralized and the authorization process is hierarchical. As far as authorization of risk management is concerned, the board of directors is the highest level of risk authorization. Independent management units take the responsibility of managing various types of risk; The "Risk Management Department" is the main supporting unit of "Risk and Capital Committee" and responsible for coordinating other related Risk Management Units.

3. Risk Assessment and Control

CTCB adopts the most appropriate approaches to measure different types of risk. In general, quantitative methods are adopted. The appropriate risk limits and provision standards are established. The results of risk assessment and sensitivity analysis are reported to related executives or "Risk and Capital Committee" on a regular basis.

4. Exposures of Risks

Please see Page 77~79 of Financial Reports.

C. Chinatrust Securities Co., Ltd.

1. Policies and Standards

The policy for risk management in Chinatrust Securities follows that of Chinatrust Financial Holding Co.. Each business has to abide by internal related measures and detailed rules of operation as well as external regulations set by the Authorities.

2. Infrastructure

CTSC has independent risk managers in charge of position monitoring and the latest status of profit/loss in the businesses including securities and futures brokerage, underwriting, proprietary trading of securities, derivatives trading and bond purchase/selling, in order to control changes of the markets and resulting impact at any time. On the other hand, CTSC adopts matrix type of risk management approach in respect of risk reporting procedure in order to achieve central control.

3. Risk Assessment and Control

The purpose of risk evaluation lies in immediate and effective disclosure of status of exposure so as to assist supervisors in controlling risk on time and deciding the best asset allocation. As far as businesses of underwriting, proprietary trading, and bond purchase/selling are concerned, we need to consider change of position, change of profit/loss, and change of markets at the same time. For positions taken, we need to consider both trading positions and hedge positions in order to reflect the market value of real positions. Moreover, the size of positions and liquidity of such positions also need to be watched at any time, in order not to make the company suffer from loss due to the lack of liquidity.

4. Exposures of Risks

The position of marketable securities as of Dec 31,2002 is shown in the following table.

Unit: NT\$ in millions

| Position | Proprietary | |
|---------------------------|-------------|--------------|
| | Trading | Underwriting |
| Stocks | \$ 566 | \$ 1,660 |
| Bonds(CB is not included) | 1,645 | - |
| Convertible Bond | 630 | 442 |
| Emerging Stocks | 78 | - |
| Others | - | 78 |
| Total | \$ 2,919 | \$ 2,180 |

D. Chinatrust Insurance Brokers Co., Ltd.

As the company serves as an agent of insurance business, there is no concern of credit risk and market risk.

VI.Litigation

A. Chinatrust Financial Holding Co., Ltd.: None

B. Chinatrust Commercial Bank

- 1.Except necessary legal procedures take by CTCB to filed bond-interest withheld tax for administrative appeal and reclaim overdue loans, there is no other litigation or non-contentious.
- 2.Income tax returns of CTCB have been approved by the Tax Authority through 2000. It was assessed that the Bank should pay additional tax of NT\$584,670 thousand for the years 1994 to 2000 has filed for administrative appeal and made accounting treatment accordingly.

C. Chinatrust Securities Co., Ltd.

- 1.Except necessary legal procedures take by CTSC to filed bond-interest withheld tax for administrative appeal, there is no other litigation or non-contentious.
- 2.Income tax returns of CTSC have been approved by the Tax Authority through 2000. It was assessed the subsidiary should pay additional tax of NT\$5,369 thousand due to excessive tax refund collected from bond-interest withheld in 1997 and 2000. The subsidiary has filed for administrative relief.

D. Chinatrust Insurance Brokers Co., Ltd.: None



Chinatrust, the Best Internet Bank in Taiwan
In its 2001 Survey of World's best Internet Banks, Global Finance named ... (More)

Chinatrust, the Best Bank in Taiwan
In "Euromoney Awards for Excellence 2001," Chinatrust Commercial Bank was named by Euromoney ... (More)

Chinatrust provides year-round banking services

Chinatrust Commercial Bank is the first bank in Taiwan to be approved by the Ministry of Finance ...



Plans for Business Operation and Capital Usage

I. Business plan of Year 2003

A. Chinatrust Financial Holding Co., Ltd.

Our competitive strategy centers on the banking business and utilizes resources of each subsidiary to provide integrated financial services for retail and corporate clients. Our business plans are as follows:

1. Realizing full potential of cross selling synergy: We try to enhance cross selling through use of Customer Relationship Management (CRM) system. According to a survey, consumers consider bank the most trustworthy financial institution. In the future, CFHC will integrate the subsidiaries, and combine with the integrated selling channels and the developed Client Relationship Management System to realize full potential of cross selling synergy.
2. Enhancing wealth management business: We provide tailor-made wealth management plans based on customer needs. We aggressively pursue strategic alliance with capable international partners and adopt an open platform to provide versatile financial products and packages to customers.
3. Reorganizing business lines: To strengthen our competitive edges and further enhance professionalism of each business, we will focus on operating efficiency, enhance joint marketing and operation platform, centralize control of each business unit and subsidiary by function to realize synergy.
4. Expanding into China market: Chinatrust Commercial Bank received approval from People's Bank of China in December 2002 to set up a representative office in Beijing. In the early stage, the representative office in Beijing will by rules focus on providing non-operating services with regard to cross-strait financial business,

including consultation, liaison, market research, and so on. In the future, we strive to build good relationship with local financial institutions and expect to be upgraded to a branch, followed by additional branches in places where Taiwanese companies congregate to provide more comprehensive cross-strait financial services.

5. Grasping opportunities of acquisition: Our strategic consideration is to create shareholders' value by seeking opportunities of acquisition that can extend core competence of our banking business and enhance operating efficiency, scope and economic scale.

B. Chinatrust Commercial Bank

1. Corporate Banking

- (1) Classify the distribution channels into large and mid size corporate sales units to serve different customers.
- (2) Enhance cross sales between relationship managers and product managers to escalate product acquisition per customer.
- (3) Reinforce the customer referrals amongst Taiwan and Hong Kong branches to serve the customers in greater China area.
- (4) Expand the market share of public sector and government institutions to enlarge the core deposit base.
- (5) Enhance industry research ability of credit officers to fortify the control of credit risk.
- (6) Develop the automatic system for credit measuring and analyzing as well as credit approval to make the process more cost efficient.

- (7) Establish full functions of e-banking platform with e-payment and e-lending services to meet the supply chain financing needs.
 - (8) Develop EIPP (electronic invoice presentment and payment) system to provide an e-business solutions for corporate value chain.
 - (9) Diversify our product portfolio, enlarge the sales volume and market share by integrating financial holding company's resources in securities, fixed income and trust fund services.
 - (10) Expedite cooperation with international insurance companies as well as invoice management and recovery companies to create product differentiation, and dedicate efforts to international factoring to maintain our reigning position in market.
- (4) Continuing to use our NBS system to develop products fit for market needs and to increase our market share in mortgage loan market.
 - (5) Launching asset securitization products, including evaluating feasibility of securitizing products such as mortgage loans, accounts payable of credit card business, consumer loans, commercial loans, or other debt rights, in order to strengthen flow and efficient use of funds.
 - (6) Launching second-generation cash cards with emphasis on transparency in price, efficient billing service, simple and fast loan application process, and year round service.
 - (7) Using our advantage of being both acquirer and issuer to enhance the differentiation of Chinatrust credit cards being used in acquiring merchants and enhancing cardholders' value.
 - (8) Developing more financial card products to meet cardholder's need.

2. Consumer Banking

- (1) Integrating resources and equipment of Chinatrust Financial Holding Co. and actively expanding wealth management business to provide clients with full-scope financial products and services, and to meet clients' needs for diversification through customized and standardized packaging.
- (2) Actively searching for proper partner and continuing to evaluate possible acquisition of other financial institutions under the system of a financial holding company in order to enhance penetration of our channels as well as to provide clients with fast and convenient financial services.
- (3) Training employees so as to acquire necessary certified licenses to provide professional financial advisory service to meet clients' needs for wealth management.



- (9) Issuing “Automatic Fare Collection” to obviate the need for cardholders to buy tickets for travelling on buses and rapid transit system.

C. Chinatrust Securities Co., Ltd.

1. Brokerage

For extending the brokerage business, CTSC provides clients with customized financial products and services that combine with banking products, and integrates and accesses the resources of CFHC and the e-trading platform such as orders by Internet or telephone.

2. Underwriting

CTSC, which combines the Relationship Manager of CTCB to realize the capital needs of clients, helps clients raise cheap and adequate funds in the capital market with experienced underwriting and professional consulting.

3. Proprietary Trading

We use fundamentals as major points to make investment decisions with reference to current market status and technical analysis, then pick stocks of potential and include them in our portfolio. We buy and sell securities in the securities market for proprietary trading purpose and emphasize on stable profit and risk control.

4. Financial Derivatives

According to the new financial products issuance plan edited and planned by Authorities, CTSC develops and issues new financial products, such as Warrants, Equity-Link Notes, Principal Guarantee Notes and Equity Swaps, based on market needs.

5. Fixed Income

Bonds department of CTSC will co-operate with the related departments of CFHC’s other subsidiaries to extend the bond business. To meet market needs for diversification, we aggressively develop bonds derivatives and related services.

6. Futures

For providing futures services to clients, CTSC cooperates with the Taiwan Futures Exchange to develop new products. Each employee will receive continued professional training. For extending the trading, CTSC plans to develop the Internet orders and brokerage business of futures.

D. Chinatrust Insurance Brokers Co., Ltd.

1. Developing diverse insurance products and designing specific products for bancassurance.
2. Dealing with property insurance companies about needs of reinsurance.
3. Promoting the product packages combined with banking, securities and trusts.
4. Integrating the channels of CFHC’s other subsidiaries to extend selling.
5. Promoting the products by advertisements.

II. Long-term Investment Plan in Year 2003

A. Acquisition or Disposal of Long-term Real Estates: N/A

B. Acquisition or Disposal of Long-term Investments:

- Information of long-term investments expected to be sold within one year: Chinatrust Financial Holding Co., Ltd.'s long-term investment is based on long-term consideration, no short-term disposal plan exists.
- Information of long-term investments expected to be acquired within one year:

December 31, 2002

| Long-term Investment | Business | Number of Shares (in thousand shares) | Expected Date of Acquisition | Expected Purchase Price (NT\$ in thousands) | Expected Source of Fund | Purpose of Acquisition |
|---------------------------------|----------------------|--|---------------------------------|--|---|--|
| Taipei Financial Center Corp. | Building Development | 45,000 | 2003/05 | 450,000 | Issuance of Corporate Bonds | To effectively utilize capital to enhance return and to support Government Policy to develop the Asia Pacific Financial Center |
| Chinatrust Securities Co., Ltd. | Securities | 150,000 | 2003/03 | 1,800,000 | Issuance of Corporate Bonds | To develop the financial service business and to effectively utilize capital to enhance return |
| Chinatrust Venture Capital Co. | Venture Capital | 200,000 | 2003/02 | 2,000,000 | Issuance of Corporate Bonds | To realize the potential of cross selling and to enhance return |
| Chinatrust Asset Management Co. | Asset Management | 500,000 | 2003/05 | 5,000,000 | Issuance of Corporate Bonds | To enhance return and to set up a platform of Non- Performing Asset Management |
| Chinatrust Bills Finance Co. | Bills Finance | 3,725,000 | Before the End of Dec. 31, 2003 | 5,360,636 (Net value in the end of 2002) | Issuance of Corporate Bonds or Bank Loans | To realize the potential of cross selling and to enhance return |

III. Research and Development

A. Chinatrust Commercial Bank

CTCB has been leading the banking industry in R&D and innovation. Our planning departments have been shown their professionalism in sound strategic planning, precise market analysis, innovative product

design, and unique marketing approaches. At present, the departments in charge of R&D include: the Office of CSO is in charge of planning of corporate strategies and business guidelines; the investment consulting department is in charge of analysis in domestic and overseas economic trends; the planning departments of corporate banking business, consumer banking



business, and credit card business design financial products and services fit for customers' needs for each business respectively. As of December 31, 2001 and 2002, the research expenses that included information analysis expenses and investigation expenses amounted to NT\$42,622 thousand and 38,382 thousand.

As far as R&D and application of information technology is concerned, we keep leading visions. In 2002, we became the first in the banking information units to receive certification of ISO9001 2000. Our personalized and customer-oriented website, which integrates information, account management, transactions and other services with multiple security designs, received the silver prize in the second "e-21 Gold Net Award" held by Department of Commerce, Ministry of Economic Affairs. We set up as many ATMs as we could in 7-11 convenience stores located all over Taiwan and increased the number of auto loan machines in each branch to provide more convenient service. In March 2002, we led the industry to launch index-linked mortgage loan product as well as took the initiative in lowering new and existing customers' loan premium. This has helped us won customers' approbation. In the future, we will continue to make the

most of technological applications to build mutually dependent relationship with our customers and employees in order to create more benefits.

B. Chinatrust Securities Co., Ltd.:

To cooperate with the government's financial renovation policies, which aim to achieve healthy development of the securities market, promote financial assets securitization, bond lending transaction, pre-issuance bond transaction, and easing of conditions of warrant issuance, and launch new products such as stock options, equity-linked bond, capital guarantee bond, and equity swap, we also aggressively develop new products and study trading approaches to meet customers' needs through quality-oriented service system.

C. Chinatrust Insurance Brokers Co., Ltd.:

In 2003, we set our sales goal with growth of nearly 100%. Our study on customers' need for insurance products centers on wealth management. In addition, aggressive expansion in property insurance market is also indispensable. For channels that are not showing synergy, we make every effort to assist them in order to achieve the greatest result from cross selling. In the future, we will focus on "study on characteristics of channels," "improvement of operation flows," "continuous development of real time information system," "search for cooperative insurance companies," "maintaining and serving corporations and consumers" and "improvement of operation speed of insurance platform."

IV. Capital Usage Plan

In 2003, planned acquisitions of other financial institutions, reinvestment in other companies, expansion or newly built fixed assets, capital source, estimated usage, and possible benefits:

| Long-term Investment | Expected Source of Fund | Estimated Usage | | Possible Benefits |
|---------------------------------|---|---------------------------------|---|--|
| | | Expected Date of Acquisition | Expected Purchase Price (NT\$ in thousands) | |
| Taipei Financial Center Corp. | Issuance of Corporate Bonds | 2003/05 | 450,000 | <ol style="list-style-type: none"> 1. To effectively utilize capital to enhance return 2. To support government policy of developing the Asia Pacific Financial Center 3. To satisfy the office demand of CFHC's subsidiaries |
| Chinatrust Securities Co., Ltd. | Issuance of Corporate Bonds | 2003/03 | 1,800,000 | <ol style="list-style-type: none"> 1. To effectively utilize capital to enhance return 2. To set up cross selling service network of CFHC's securities business 3. To strengthen the capital adequacy of securities subsidiary for business expansion |
| Chinatrust Venture Capital Co. | Issuance of Corporate Bonds | 2003/02 | 2,000,000 | <ol style="list-style-type: none"> 1. To effectively utilize capital to enhance return 2. To set up cross selling service network of CFHC's joint venture business 3. To develop the high-return joint venture business |
| Chinatrust Asset Management Co. | Issuance of Corporate Bonds | 2003/05 | 5,000,000 | <ol style="list-style-type: none"> 1. To effectively utilize capital to enhance return 2. To integrate the platform of Non- Performing Asset (NPA) Management 3. To create the merger opportunities for bank subsidiary by processing the NPA of the bank to be merged 4. To initiate the securitization products or financing products 5. To learn the NPA processing techniques and evaluation model of foreign companies |
| Chinatrust Bills Finance Co. | Issuance of Corporate Bonds or Bank Loans | Before the End of Dec. 31, 2003 | 5,360,636 (Net value in the end of 2002) | <ol style="list-style-type: none"> 1. To enhance return 2. To set up cross selling service network of CFHC's joint bills business 3. To integrate the CFHC's business |

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Concise Balance Sheets

Unit: NT\$ in thousands

| Items | From May 17, 2002 to Dec.31, 2002(Note) | 2002(Pro-forma Consolidated) (Note) |
|--|--|--|
| Cash | 9,150,724 | 11,191,069 |
| Due from and call loans to banks | - | 21,169,427 |
| Central bank deposits | - | 24,992,643 |
| Marketable securities (net) | - | 149,186,096 |
| Receivables (net) | 73,013 | 85,605,980 |
| Loans (net) | - | 593,197,766 |
| Other current assets | 2,069 | - |
| Long-term equity investments and real estate investments (net) | 83,757,515 | 3,644,019 |
| Fixed assets | - | 28,080,086 |
| Other assets | 383,171 | 19,532,778 |
| Call loans from and due to banks | - | 53,031,617 |
| Payables | | |
| Before income appropriation | 37,001 | 21,848,411 |
| After income appropriation | 5,042,907 | 26,854,317 |
| Other current liabilities | 31 | - |
| Deposits | - | 728,203,566 |
| Borrowings and other financing | 14,183,042 | 47,815,766 |
| Other liabilities | - | 6,490,843 |
| Minority interests | - | 63,243 |
| Capital | 48,554,268 | 48,554,268 |
| Capital surplus | 30,902,024 | 27,014,646 |
| Retained earnings | | |
| Before income appropriation | 6,577,241 | 10,464,619 |
| After income appropriation | 1,571,335 | 5,458,713 |
| Unrealized loss of long-term equity investment | (1,270,188) | (1,270,188) |
| Cumulative translation adjustments | (604,964) | (604,964) |
| Treasury stock | (5,011,963) | (5,011,963) |
| Total assets | 93,366,492 | 936,599,864 |
| Total liabilities | | |
| Before income appropriation | 14,220,074 | 857,390,203 |
| After income appropriation | 19,225,980 | 862,396,109 |
| Total stockholders' equity | | |
| Before income appropriation | 79,146,418 | 79,146,418 |
| After income appropriation | 74,149,512 | 74,140,512 |

Note: CFHC was established on May 17, 2002. The pro-forma consolidated financials of 2002 is based on the assumption that CFHC was established on Jan.1, 2002.

Concise Income Statements

Unit: NT\$ in thousands

| Items | From May 17, 2002 to Dec.31, 2002(Note) | 2002(Pro-forma Consolidated)(Note) |
|--|--|---------------------------------------|
| Operating revenues | 6,783,005 | 64,897,354 |
| Operating costs | - | (28,602,076) |
| Gross Margin | 6,783,005 | 36,295,278 |
| Operating expenses | (81,422) | (20,868,942) |
| Operating income | 6,701,583 | 15,426,336 |
| Non-operating revenues | 137,167 | 340,668 |
| Non-operating expenses | (330,110) | (145,326) |
| Net income | 6,508,640 | 15,621,678 |
| Income tax benefit (expense) | 68,601 | (3,842,954) |
| Combined Net Income | - | 11,778,724 |
| Minority interest income and income before merger and acquisition | - | (15,268) |
| Net income | 6,577,241 | 11,763,456 |

Note:CFHC was established on May 17, 2002. The pro-forma consolidated financials of 2002 is based on the assumption that CFHC was established on Jan.1, 2002.

Independent Auditors' Names and Audit Opinions

| Year | Name of independent auditors | Audit opinions |
|------|-------------------------------|---------------------|
| 2002 | Lin, Shen Lang / Lin, Wan Wan | Unqualified opinion |

Financial Analysis

| Items | From May 17, 2002 to Dec.31, 2002(Note 1) | 2002 (Pro-forma Consolidated)(Note 1) |
|--|--|--|
| Financial structure | | |
| Liability/assets | 15.23% | 91.54% |
| Fixed assets/net asset value | - | 35.48% |
| Debt repayment capability | | |
| Current ratio | 24,913.06% | - |
| Operating capability | | |
| Total-asset turnover (times) | 0.07 | 0.07 |
| Operation revenues per employee (NT\$ in thousands) | 1, 136.37 | 10,872.40 |
| Profit per employee (before income tax)(NT\$ in thousands) | 1, 090.41 | 2, 614.58 |
| Profit per employee (after income tax)(NT\$ in thousands) | 1, 101.90 | 1, 970.76 |
| Profitability | | |
| Return on assets | 8.20% | 1.29% |
| Return on equity (common stock) | 9.03% | 16.76% |
| Net income return | 96.97% | 18.13% |
| Earnings per share(common stock) (before income tax) | 1.35% | 3.41% |
| Earnings per share (common stock)(after income tax) | 1.36% | 2.53% |
| Cash Flow | | |
| Cash flow ratio | - (Note 2) | - |
| Cash flow adequacy ratio | - (Note 2) | - |
| Cash reinvestment ratio | - (Note 2) | - |
| Leverage | | |
| Operation leverage | 1.00 | 1.00 |
| Finance leverage | 1.05 | 1.03 |
| FHC Capital Adequacy | 150.84% | 150.84% |

Note 1: CFHC was established on May 17, 2002. The pro-forma consolidated financials of 2002 is based on the assumption that CFHC was established on Jan.1, 2002.

Note 2: Due to the net cash used by operating activities, the ratios of Cash Flow are not calculated.

Note 3: Formula used for calculation:

1. Financial structure:

(1) Liability / assets = liabilities divided by assets

(2) Fixed assets / net asset value = fixed assets divided by net asset value

2. Debt repayment capability: Current ratio = Current assets divided by current Liabilities

3. Operating capability:

(1) Total-asset turnover = total operating income divided by total assets

(2) Operating income per employee = total operating income divided by total number of employees

(3) Profit per employee = net profit after (before) tax divided by total number of employees

4. Profitability:

(1) Return on assets = [profit (loss) after tax + interest expense * (1-tax rate)] divided by total assets on average

(2) Return on equity (common stock) = [profit (loss) after tax - dividend paid on preferred shares] divided by net shareholders' equity in average (common stock)

(3) Net income return = net income / operating income

(4) Earnings per share (common stock) = (profit (loss) after (before) tax - dividend paid on preferred shares) divided by weighted average number of shares (common stock) issued

5. Cash flow:

(1) Cash flow ratio = net cash flow from operation divided by current liabilities

(2) Cash flow adequacy ratio = net cash flow from operation for the past five years divided by (capital expenditure + cash dividend) for the past five years

(3) Cash reinvestment ratio = (net cash flow from operation - cash dividend) divided by (gross fixed assets + long-term investment + other assets + operating capital)

6. Leverage:

(1) Operation leverage = (operating income - variable operating expenses and cost) divided by operating income

(2) Finance leverage = operating income divided by (operating income - interest expense)

7. FHC Capital Adequacy = FHC net qualified capital divided by FHC required capital

According to Clause 46 of Financial Holding Company Law, financial holding companies should disclose their all subsidiaries' total amount of Guarantees, Loans and other transactions with same person, entity, related party, or business group.

December 31, 2002 NT\$ in millions

| Name | Total Amount of Guarantees, Loans and Other Transactions | Percentage of Net Value of CFHC |
|---------------------------------|--|---------------------------------|
| Entity | | |
| Central Ban | 61,800 | 78.08% |
| Department of National Treasury | 20,371 | 25.74% |
| Central Government | 11,820 | 14.93% |
| Taiwan Railway Administration | 7,750 | 9.79% |
| Republic of Paraguay | 6,951 | 8.78% |
| Nanya Technology Corp | 5,700 | 7.20% |
| Taiwan Cement Corp | 5,680 | 7.18% |
| Taiwan Motor Transpot | 4,354 | 5.50% |
| Taiwan High Speed Rail Corp | 4,105 | 5.19% |
| Formosa Petrochemical Co., | 3,397 | 4.29% |
| Shin Kong Mitsukoshi Dept.Store | 3,268 | 4.13% |
| Business group | | |
| Taiwan Cement Gp | 16,595 | 20.97% |
| Formosa Plastics Gp | 14,471 | 18.29% |
| Far Eastern Gp | 10,907 | 13.78% |
| KMT Gp | 10,192 | 12.88% |
| Continenetal Gp | 7,720 | 9.76% |
| Shin Kong Gp | 7,062 | 8.91% |
| Uni-President Gp | 7,017 | 8.88% |
| Chailease Gp | 6,392 | 8.09% |
| Grance Gp | 5,034 | 6.36% |
| Tatung Gp | 5,030 | 6.35% |
| UMC Gp | 4,880 | 6.17% |
| Acer Gp | 3,929 | 4.96% |
| Ritek Gp | 3,867 | 4.88% |
| Walsin Lihaw Gp | 3,829 | 4.85% |
| Sunrise Golf Gp | 3,463 | 4.38% |
| Union Bank Gp | 3,275 | 4.13% |
| ASE Gp | 3,075 | 3.89% |

Net Value, and Market Price Per Share for the Past Two Years

Expressed in New Taiwan Dollar

| Items | From May 17, 2002 to Dec.31, 2002 (Note 1) | 2002 (Pro-forma Consolidated) (Note 1) |
|---|---|---|
| Net value per share | | |
| Before income appropriation | 15.65 | 15.65 |
| After income appropriation | 14.51 | 14.51 |
| Earnings per share | | |
| Weighted average number of shares (in thousand shares) | 4,383,642 | 4,402,726 |
| EPS (before income tax) | 1.35 | 3.41 |
| EPS (after income tax) | 1.36 | 2.53 |
| Dividend per share | | |
| Cash dividend | | 1.00 |
| Voluntary dividend from contributed surplus | | 1.10 |
| Voluntary dividend from earnings | | 1.00 |
| Market price per share (Note 2) | | |
| High | | 33.00 |
| Low | | 20.90 |

Note 1: CFHC was established on May 17, 2002. The pro-forma consolidated financials of 2002 is based on the assumption that CFHC was established on Jan.1, 2002.

2: Before the date of transfer, the market price is the market price of CTCB's stock; after the date of transfer, the market price is the market price of CFHC's stock.

Independent Supervisors' Report

To: Chinatrust Financial Holding Co., Ltd.

In accordance with Article 219 of the Company Law, the undersigned, have duly examined and accepted as correct the financial reports (unconsolidated and consolidated) for the year 2002 submitted by the Board of Directors of Chinatrust Financial Holding Co., Ltd., which include the operating report, balance sheets, statements of income, statements of cash flows, statements of changes in stockholders' equity, and summary of properties.

Shih-Chuan Lin
Supervisor



Ming-Shan Shaw
Supervisor



T.C. Tsai
Supervisor



Taipei, Taiwan, R.O.C.
April 28, 2003

Independent Auditors' Report

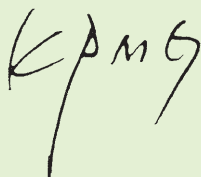
The Board of Directors

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 | | <u>8,102</u> |
| 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:

| | |
|--|-------------------|
| | 2002 |
| 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:

| | July 19, 2002 | December 23, 2002 |
|------------------|--------------------------------------|-------------------------------------|
| 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 superviso | <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 | <u>517</u> |
| 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 | <u>(1,587)</u> |
| 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

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

f. Fair Value of Non-Derivative Financial Instruments

| Non - Derivative financial Instruments | December 31, 2002 | |
|--|-----------------------|-----------------------|
| | Book value | Fair value |
| 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> |
|--------------------------------|-----------------|

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

| | December 31, 2002 |
|--|-----------------------|
| <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:

| | Within 6 months | Between 6 months and 1 year | Over 1 year | Total |
|--------------------------------|--------------------|-----------------------------------|---------------|---------------|
| 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

| | December 31, 2002 | December 31, 2001 |
|---|-------------------|-------------------|
| 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

| | Year Ended December 31, 2002 | Year Ended December 31, 2001 |
|--|---------------------------------|---------------------------------|
| 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

| | December 31, 2002 | December 31, 2001 |
|--------------------------------|-------------------|-------------------|
| 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 |

A. Information About Affiliated Companies

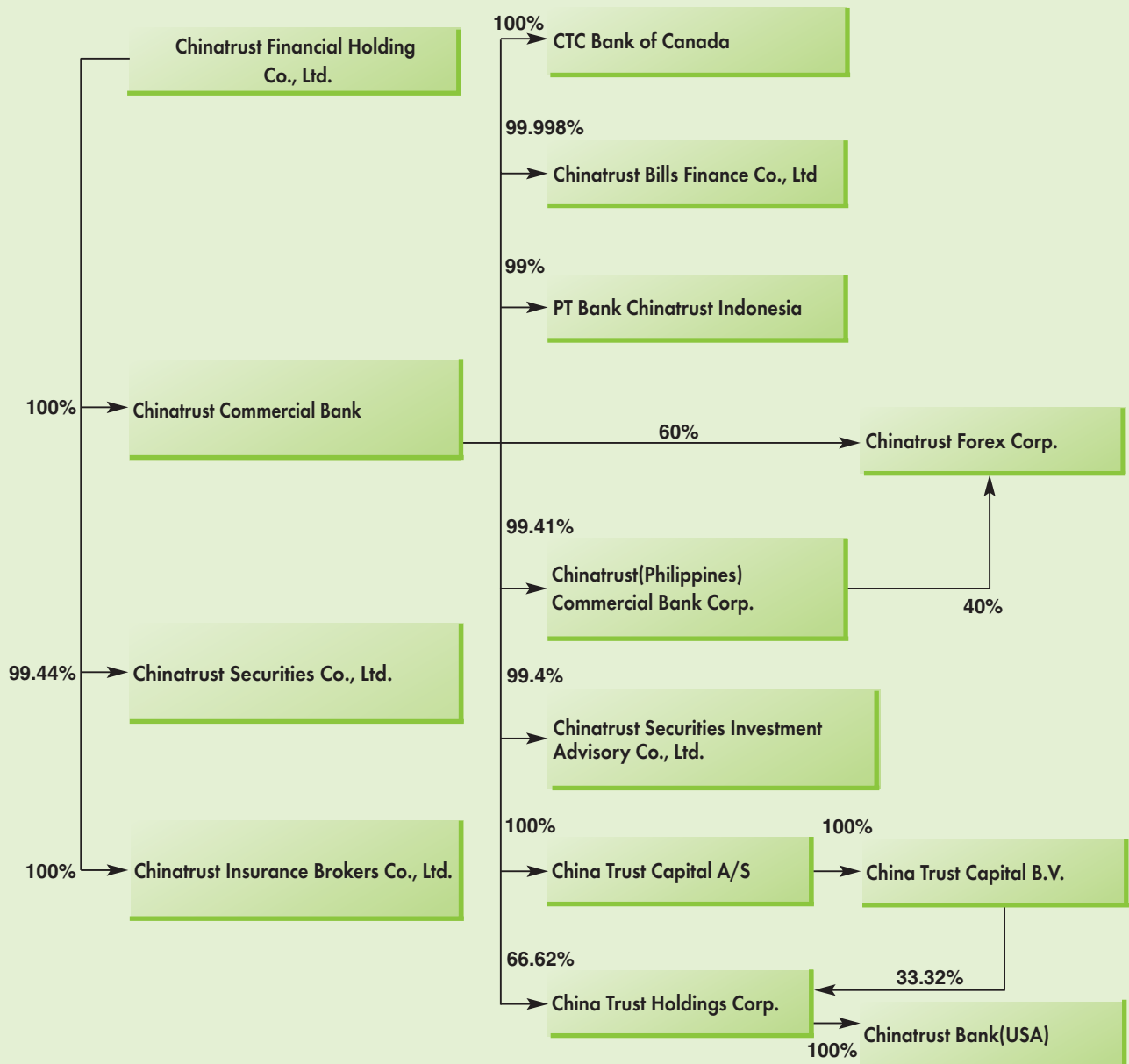
1. Consolidated Financial Statements of Affiliated Companies

According to "Principle of preparing consolidated operation reports, consolidated financial statements, and relation reports regarding affiliated companies," those affiliated companies that should be included in the consolidated financial statements are the same as those which should be included in the consolidated financial statements for parent and subsidiaries based on SFAS No.7, therefore no additional consolidated financial statements of affiliated companies is prepared.

2. Consolidated Operation Reports of Affiliated Companies

(1) Organization Chart of Affiliated Companies

December 31, 2002



(2) Operating Condition of Subsidiaries

December 31, 2002; NT\$ in thousands

| Name of subsidiary | Registered Capital | Total Assets | Total Liabilities | Net Value | Operating Revenue | Operating Profit | Profit and Loss for This Term (after tax) | EPS (after tax) |
|--------------------------------|--------------------|--------------|-------------------|------------|-----------------------|-----------------------|---|-----------------|
| Chinatrust | | | | | | | | |
| Commercial Bank | 48,554,268 | 849,255,307 | 769,361,307 | 79,894,000 | 58,968,921 | 14,951,526 | 12,031,880 | 2.59 |
| Chinatrust Insurance | | | | | | | | |
| Brokers Co., Ltd. | 2,000 | 598,700 | 165,715 | 432,985 | 622,483 | 573,560 | 427,762 | 2,138.81 |
| Chinatrust Securities | | | | | | | | |
| Co., Ltd. | 3,500,000 | 7,790,024 | 4,287,775 | 3,428,126 | 1,080,776 | (269,565) | (326,187) | (0.93) |
| Chinatrust (Phils.) | | | | | | | | |
| Commercial Bank Corp. | 1,230,000 | 11,104,280 | 8,947,707 | 2,156,573 | 765,803 (Note 1) | 287,899 (Note 1) | 269,546 | 1.44 |
| Chinatrust Bills Finance Corp. | 3,725,000 | 15,515,841 | 10,155,205 | 5,360,636 | 2,482,798 (Note 2) | 1,199,903 (Note 2) | 1,058,278 | 3.28 |
| PT Bank Chinatrust Indonesia | 585,000 | 6,815,730 | 4,966,685 | 1,849,045 | 747,685 (Note 1) | 395,451 (Note 1) | 261,060 | 174,040.06 |
| Chinatrust Forex Corp. | 32,800 | 38,203 | 242 | 37,961 | 3,154 (Note 2) | 2,114 (Note 2) | 1,671 | 0.07 |
| Chinatrust Securities | | | | | | | | |
| Investment Advisory Corp. | 10,000 | 14,601 | 3,644 | 10,957 | 14,435 (Note 2) | 518 (Note 2) | 368 | 0.37 |
| CTC Bank of Canada | 331,050 | 1,930,462 | 1,667,366 | 263,096 | 88,412 (Note 1) | 5,451 (Note 1) | 5,451 | 3.53 |
| China Trust Capital A/S. | 2,745 | 2,131,610 | 313 | 2,131,297 | 1,703 (Note 3) | 1,703 (Note 3) | 226,902 | 378,193.61 |
| China Trust Holdings Corp. | 35 | 61,083,262 | 54,692,290 | 6,390,972 | 3,229,423 (Note 1) | 1,034,110 (Note 1) | 686,546 | 513,869.33 |
| China Trust Capital B.V. | 695 | 2,127,961 | 139 | 2,127,822 | 225,234 (Note 3) | 223,462 (Note 3) | 223,462 | 557,264.36 |
| Chinatrust Bank (U.S.A.) | 20,852 | 61,056,747 | 54,659,067 | 6,397,680 | 3,229,423 (Note 1) | 1,086,066 (Note 1) | 717,163 | 7,171.63 |

Note 1: The revenue of foreign banks is listed at the interest income; the operating profit is stated at net profit (or loss) before tax.

Note 2: The revenue of bills companies and foreign exchange companies is stated at income; the operating profit is stated at net profit (or loss) before tax.

Note 3: The revenue of holding companies is listed at profit/loss of investment; the operating profit is stated at net profit (or loss) before tax.

(3) Directors, Auditors and General Manager of Each Subsidiary

December 31, 2002

| Name of Subsidiary | Title | Name or Representative | Shares Holding (in thousands) | Equity Holding (%) |
|---|---------------------------------|--|----------------------------------|-----------------------|
| Chinatrust Commercial Bank | Director/Chairman | Chinatrust Financial Holding Co., Ltd. Representative: Jeffrey L. S. Koo (Note 1) | 4,855,427 | 100.00 |
| | Director | Representative: Cheng Kang Wang | | |
| | Director | Representative: Jeffrey J. L. Koo, Jr. (Note 1) | | |
| | Director | Representative: Wen-Long Yen | | |
| | Director | Representative: Michael L.C. Jong | | |
| | Director | Representative: Ming-Shan Shaw | | |
| | Director | Representative: Kuo-Tsai Lin | | |
| | Director | Representative: James J. Sheu | | |
| | Director | Representative: Charles L. F. Lo | | |
| | Resident Supervisor | Representative: Tsai-Hua Lin (Note 2) | | |
| | Supervisor | Representative: T. C. Tsai | | |
| President | Jeffrey J. L. Koo, Jr. (Note 3) | | | |
| Chinatrust Securities Co., Ltd. | Chairman | Chinatrust Financial Holding Co., Ltd. Representative: Michael L.C. Jong | 348,049 | 99.44 |
| | Director / President | Representative: Steven Cheng | | |
| | Director | Representative: Shiaw- Pin Lin | | |
| | Director | Representative: Steve R. S. Chou | | |
| | Director | Representative: Oliver Shang | | |
| | Supervisor | Representative: Ying-Tsai Hsu | | |
| | Supervisor | Representative: Daniel C.K. Chen | | |
| Chinatrust Insurance Brokers Co., Ltd. | Chairman | Chinatrust Financial Holding Co., Ltd. Representative: Frank P. Y. Lin | 200 | 100 |
| | Director | Representative: Ted Lin (Note 4) | | |
| | Director | Representative: Hai Lain Shue (Note 4) | | |
| | Director | Representative: James C. H. Lee | | |
| | Supervisor | Representative: Yong Jin Chen (Note 5) | | |
| Chinatrust (Phils.) Commercial Bank Corp. | Director/Chairman | Chinatrust Commercial Bank Jeffrey L. S. Koo | 186,386 | 99.41 |
| | Director/Vice-Chairman | Thomas K. S. Chen | | |
| | Director/Vice-Chairman | William B. Go | | |
| | Director/President | Joey A. Bermudez | | |
| | Director | Steve R. S. Chou | | |
| | Director | Morris M. S. Li | | |
| | Director | Yung Fang Yang | | |
| | Director | Edwin B. Villanueva | | |
| Chinatrust Bills Finance Corp. | Chairman | Chinatrust Commercial Bank Representative: Steven Cheng | 372,494 | 99.998 |
| | Director | Representative: Jeffrey J. L. Koo, Jr. | | |
| | Director | Representative: Frank P. Y. Lin | | |
| | Director | Representative: Charles L. F. Lo | | |
| | Director | Representative: Morris M. S. Li | | |
| | Supervisor | Representative: James J. Sheu | | |
| | Supervisor | Representative: Steve R. S. Chou | | |

| | | | | |
|---|---|--|--------|--------|
| PT Bank Chinatrust Indonesia | President Commissioner VP Commissioner Commissioner Commissioner Commissioner President Director VP Director Director Director Compliance Director | Chinatrust Commercial Bank Jeffery L. S. Koo Zairyanto Poedjiaty Thomas Chen Steve R. S. Chou Inghie Kwik Ray Kuo Chao Ru Wen (Mark Chao) Chin Ai Shan Tantina Repi Ngoedianto | 99.00 | 1 |
| Chinatrust Forex Corp. | Director/Chairman Director/President Director Director Director | Chinatrust Commercial Bank William B. Go Thomas K.S. Chen Joey A. Bermudez Angel C. Lopez, Jr. Eulogio V. Catabran III | 30,000 | 60.00 |
| CTC Bank of Canada | Director/Chairman Director/President & CEO Director Director Director Director | Chinatrust Commercial Bank Jeffrey L. S. Koo Frank Lin John Teng John Clayden Stanley Kwok William Neilson | 1,500 | 100.00 |
| Chinatrust Securities Investment Advisory Corp. | Director/Chairman/ President Director Director Supervisor | Chinatrust Commercial Bank Representative: Chen Rong Bin Representative: Lin Chi Song Representative: Lee Yuh An Representative: Lin Ming Tien | 994 | 99.40 |
| China Trust Capital A/S | Liquidator (Note 6) | Chinatrust Commercial Bank Claus Bennetsen (Landwel Law Firm) | 0.6 | 100.00 |
| China Trust Holdings Corp. | Chairman and Director President and Director Director | Chinatrust Commercial Bank Jeffrey L.S. Koo Steven Cheng Ethan Meister | 0.89 | 66.62 |
| China Trust Capital B.V. | Liquidator (Note 7) | China Trust Capital A/S Jeffrey L. S. Koo | 0.401 | 100.00 |
| Chinatrust Bank (U.S.A.) | Director/Chairman Director/President Director Director Director Director Director Director Director Director | China Trust Holdings Corp Jeffrey L. S. Koo William Hon Henry Peng Morgan Brassler Hugh Carey J. Hallam Dawson Henry Krist William Waldron III Steve R. S. Chou John Teng | 1 | 100.00 |

Note 1: On March 12, 2003, the Chairman of Chinatrust Commercial Bank is changed to Jeffrey J. L. Koo, Jr..

Note 2: On January 1, 2003, the Resident Supervisor of Chinatrust Commercial Bank is changed to Shih-Chuan Lin.

Note 3: On April 7, 2003, the President of Chinatrust Commercial Bank is changed to Eric Chen.

Note 4: On April 17, 2003, the Directors of Chinatrust Insurance Brokers Co., Ltd. are changed from Ted Lin and Hai Lain Shue to Steven Cheng, Su Kuo Huang, and Shiao-Pin Lin.

Note 5: On April 17, 2003, the Supervisor of Chinatrust Insurance Brokers Co., Ltd. is changed to Clinton Chang.

Note 6: China Trust Capital A/S completed liquidation on March 16, 2003.

Note 7: China Trust Capital B. V. completed liquidation on March 14, 2003.

(4) Basic Information of Each Subsidiary

| Name of subsidiary | Date Founded | Address | Contributed Capital | Targeted Service |
|---|--------------|---|--|---|
| Chinatrust Commercial Bank | 1966.03.14 | 3, Sung Shou Rd. Taipei, Taiwan, R.O.C. | 48,554,268 Thousand | Banking |
| Chinatrust Securities Co., Ltd. | 2000.06.01 | 10F, 3, Sung Shou Rd. Taipei, Taiwan, R.O.C. | 3,500,000 Thousand | Securities and future business |
| Chinatrust Insurance Brokers Co., Ltd. | 1996.02.16 | 13F, 3, Sung Shou Rd. Taipei, Taiwan, R.O.C. | 2,000 Thousand | Brokerage of property and life insurance business |
| Chinatrust (Philippines) Commercial Bank Corp. | 1995.09.07 | 3rdF, Tower One, Ayala Triangle Ayala Avenue cor Paseo de Roxas Makati City Philippines | PHP 1,875,000 Thousand (1: 0.656) | Banking |
| Chinatrust Bills Finance Corp. | 1996.03.18 | 4F, 98, Sec. 2, Nanking East Rd. Taipei, Taiwan, R.O.C. | 3,725,000 Thousand | Brokerage, underwriting, proprietary and dealership business of securities |
| PT Bank Chinatrust Indonesia | 1996.10.15 | Wisma Tamara, 16th F1, Jl Jenderal Sudirman Kev. 24 Jakarta 12920, Indonesia | IDR 150,000Million (1: 0.0039) | Banking |
| Chinatrust Forex Corp. | 1997.04.07 | 3F, Tower One, Ayala Triangle Ayala Avenue cor Paseo de Roxas Makati City Philippines | PHP 50,000 Thousand (1: 0.656) | Foreign exchange brokerage |
| CTC Bank of Canada | 1998.11.12 | 1518west Broadway, Vancouver BC V6J IW8 | CAD 15,000 Thousand (1: 22.07) | Banking |
| Chinetrust Securities Investment Advisory Corp. | 2000.04.28 | 7F, 3, Sung Shou Rd. Taipei, Taiwan, R.O.C. | 10,000 Thousand | Investment consultancy |
| China Trust Capital A/S | 1999.12.29 | Holbergsgade 14, 2. Sal tv, Copenhagen, Demark | USD 79 Thousand (1: 34.753) | Securities investment |
| China Trust Holdings Corp | 1989.02.27 | 229 South State Street, Dover, Delaware 19901 | USD 1 Thousand (1: 34.753) | Securities investment |
| China Trust Capital B.V. | 1989.02.28 | Telestone 8 - Teleport, Naritaweg 165, 1043 BW Amsterdam, The Netherlands | USD 20 Thousand (1: 34.753) | Securities investment |
| Chinatrust Bank (U.S.A) | 1995.02.27 | 22939 Hawthorne Boulevard, Torrance, CA 90505, U.S.A | USD 600 Thousand (1: 34.753) | Banking |

B. Dividend Policy and Earnings Distribution

1. In the Article of CFHC's Articles of Incorporation, the contents regarding dividend policy are as following:

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.


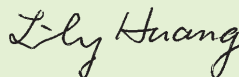
2. Impact of stock dividends and estimated stock dividends upon its operating performance, earnings per share and rate of return to shareholders' investment

(Expressed in NT\$/shares, unless otherwise stated)

| Year | Year 2003 | | |
|--|---|---------------------------------|--------|
| Items | (Distribution of Earnings of Year 2002) | | |
| Paid-in capital, beginning of the year (NT\$ in thousands) | | 48,554,268 | |
| Stock and Cash dividends paid | Cash dividend per share | 1 | |
| | Stock dividend per share from capitalization of retained earnings | 0.01 | |
| | Stock dividend per share from additional capital surplus | 0.1 | |
| Change of operational performance | Operating income (NT\$ in thousands) | 14,842,727 | |
| | Percentage growth in operating income | -% | |
| | Net income (NT\$ in thousands) | 15,030,000 | |
| | Percentage growth in net income | -% | |
| | Earnings per share | 3.31 | |
| | Percentage growth in earnings per share | -% | |
| | Average annual return on investment (the reciprocal of average annual P/E ratio) | 11.51% | |
| Pro forma EPS and P/E ratio | If stock dividends from capitalization of retained earnings were all replaced by cash dividends. | Pro forma EPS (NT\$) | 3.01 |
| | | Pro forma average annual return | 10.47% |
| | Had there been no capitalization of capital surplus | Pro forma EPS (NT\$) | 3.28 |
| | | Pro forma average annual return | 11.41% |
| | Had there been no capitalization of capital surplus and stock dividends from capitalization of retained earnings been replaced by cash dividends. | Pro forma EPS (NT\$) | 3.31 |
| | | Pro forma average annual return | 11.51% |

Note:

- Interest rates in the above pro forma data are assumed to be 1.25% in 2003.
The effective tax rate is assumed to be 25% throughout the years.
- Daily average closing prices on April 30, 2003 are used to calculate the annual average return on investments.
- Except for the distribution of earnings, assumptions used in 2003 financial forecasts have been reviewed by Independent CPA and a review report has been issued. The distribution of earnings was according to the proposal approved by the Boarding Meeting on April 17, 2003.

Chairman:  Manager:  Staff: 

C. Internal Control Representations

Chinatrust Financial Holding Co., Ltd. Internal Control System Representations

Date: Feb.17, 2003

According to our self inspection of the internal control system execution for the year ended Dec.31, 2002, Chinatrust Financial Holding Co., Ltd. represents the following:

1. Chinatrust Financial Holding Co., Ltd. acknowledges that the Board of Directors and Managers are responsible for the establishment, execution, and maintenance of the internal control system. Chinatrust Financial Holding Co., Ltd. has already established such a system in order to provide reasonable assurance with respect to the achievement of the following targets: (1) the effectiveness and efficiency of the business operation (including profit, performance, safeguarding of assets, etc.), (2) the credibility of financial reports, (3) the compliance with all applicable laws, regulations, rulings and orders.
2. The internal control system has its limitation in nature. No matter how perfectly it is designed, the efficient internal control system can only provide reasonable assurance with respect to achievement of the above three targets. Furthermore, since the environment and circumstances are changeable, the effectiveness of the internal control system may also vary from time to time. However, the internal control system of Chinatrust Financial Holding Co., Ltd. is subject to self inspection. Once a deficiency is identified, Chinatrust Financial Holding Co., Ltd. will correct it as soon as possible.
3. Pursuant to the "Criteria for Establishment of Internal Control System by Public Companies " (hereinafter referred to as "Criteria") announced by Securities and Futures Commission, Ministry of Finance, Chinatrust Financial Holding Co., Ltd. exercises its own judgement on efficiency of the internal control system in order to see whether or not the design and execution of internal control system is effective. According to the "Criteria", the internal control system consists of the following subjects: (1). Control Environment. (2). Risk assessment. (3). Control Activities. (4). Information and Communication. (5). Monitoring. Each subject includes many items as specified in the "Criteria ."
4. In order to inspect the efficiency of the design and execution of the internal control system, Chinatrust Financial Holding Co., Ltd. has adopted the above mentioned criteria of internal control system.
5. According to the above inspection result, Chinatrust Financial Holding Co., Ltd. considers that the design and execution of the internal control system (including the supervision to the subsidiaries), including effectiveness and efficiency of the business operation, credibility of financial reports, and compliance with applicable laws, regulations, rulings are valid and can reasonably assure the achievement of the above mentioned targets.
6. These "Representations" will be a major part of Chinatrust Financial Holding Co., Ltd. Annual Report and Prospectus, and will also be published for public information. If the above mentioned public information has misrepresentations, frauds, intentional omissions, or any other acts which are sufficient to mislead other persons, such illegal deeds shall entail liabilities specified in Articles 20, 32, 171, and 174 under the Securities and Exchange Law.
7. The Board of Directors of Chinatrust Financial Holding Co., Ltd. unanimously passed these "Representations" on Feb .17, 2003.

Jeffrey L.S. Koo
Chairman



Jeffrey J. L. Koo, Jr.
President



D. Penalized Actions, Main Defections and Improvements Concerned for the Past Two Years

1. Chinatrust Financial Holding Co., Ltd.: None

2. Chinatrust Commercial Bank

| | Cause and amount concerned (please briefly state what happened, if any name or company is involved, please specify it) | |
|--|--|--|
| | 2003 | 2002 |
| Any prosecution brought against the Chairman and/or staff for criminal offense during the past two years | None | None |
| Any penalty for Banking Law violations during the past two years | None | One case: Office document: No. 90730757 ,Tai Tsai Jung (4), March 13, 2001, Ministry of Finance Cause: A staff disclosed customer's information to the 3 rd Party which caused NT\$500 thousand dollars in fines for breaking information confidentiality regulation prescribed in Article 2 of Clause 48 of Banking Law. Remark: Adequate rectification procedures had been performed. |
| Any significant weakness identified by MOF during the past two years | None | None |
| Losses caused by any fraud, significant events or accidents over NT\$ 50 million dollars during the past two years | Three cases: 1. Robbery loss of NT\$75 thousand dollars at the Chunghsiao Branch after indemnity from the insurance company. 2. Loss of NT\$ 300 thousand dollars caused by culprits' withdrawals with fake ATM cards. 3. Loss of US\$4.7million dollars caused by one customer's counterfeit bill of lading. Remark: Adequate rectification procedures had been performed. | None |
| Others | None | None |

3.Chinatrust Securities Co., Ltd.: None

4.Chinatrust Insurance Brokers Co., Ltd.: None

E. Other Supplementary Details:

In March 2003, Chinatrust Venture Capital Corp.(CVCC) was established, and the related information is as follows:

1. CVCC's business: venture capital investment.
2. Investment weighting: 35% in early stage investment, 65% in expansion and late-stage investments.
3. Planned offerings of financial products and services: CVCC will work with other units of the CFHC to provide customers with total solution of their financial service need, such as equity loan and financial consulting.
4. Risk management policy: In achieving a high quality investment portfolio, CVCC aims to gain reasonable profit under the premise of effective risk management. CVCC's working guideline is that each investment project must pass a rigorous and disciplined evaluation process. CVCC's investment allocation strategy will be dynamic, and will adjust to the changing environment of the industries. CVCC seeks to realize the principle of diversification through appropriate allocation of funds in companies in different development stages and in different industries in order to achieve the goals of risk management.
5. Operation plan:
 - (1) CVCC will aggressively implement investment projects to establish a high quality investment portfolio. CVCC's plan is to complete investing NT\$2 billion within the next 2 to 4 years. The industries targeted by CVCC's investment include electronics, biotechnology and other growth industries. In terms geographic allocation of investment, Taiwan will account for about 70%, and overseas areas for about 30%, of CVCC's investment. Therate of return on each CVCC's investment project is projected to be higher than 20%.
 - (2) CVCC plans to establish a framework of cooperation with Corporate Finance business units of Chinatrust Financial Holding Co., with the aim of achieving effective cross selling as well as providing a total solution of financial services that fit each customer's specific needs.
 - (3) CVCC works continuously toward enhancing its level of professionalism and differentiation, adding value for customers, and providing "smart money". CVCC's goal is to achieve differentiation while not overpaying for quality investment projects.

