

聯 邦 銀 行

聯邦銀行
UNION BANK OF TAIWAN

中華民國九十一年年報
ANNUAL REPORT 2002



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熱忱·穩健·效率·創新

Innovation, Enthusiasm, Soundness and Efficiency.

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Letter to Shareholders

Dear Shareholders:

In reviewing the domestic financial development in 2002, a persistent emigration of local enterprises, a stagnant economy, a rise of domestic unemployment rate, a decline in personal consumption, and a bearish stock and real estate market have all rendered financial institutions an unfavorable operating condition that compromises profitability in spite of a loose monetary policy continually adopted by the Central Bank of China.

Despite the sluggish economy, Union Bank of Taiwan continues to strive forward on the back of corporate stability, engaged in the improvement of deposit composition and credit quality as well as the expansion of our services and operations. With respect to deposit services, we have boosted our acceptance of low-cost current deposits and relatively secured time deposits; these two types of deposit currently account for 64.72% of total outstanding deposits. Regarding credit services, we have consistently developed our corporate finance business and implemented a post-drawdown administration scheme that effectively manages credit risks. In addition, we have launched Cash Card in June 2002 to increase our interest rate spread, diversify credit risks, and grow our consumer finance business. Over 150,000 cash cards have since been issued, an excellent achievement for our bank. To date, consumer loans represent 55.89% of total outstanding loans. As with our international banking business, we have successively introduced Forfaiting, Factoring, and Foreign-Worker Remittance Services to uphold our bank's market share. On the credit card business front, we have aimed at raising the number of cards issued and the value of consumption based on credit card transactions. At present, our bank ranks fifth and fourth respectively in the number of credit cards in circulation and value of credit card consumption. Pertaining to our trust banking business, we have initiated the research and development of new trust products and services that will make a contribution to our income.

As of end-2002, total outstanding deposits has reached NT\$149,948 million, total outstanding loans has attained NT\$103,343 million, total volume of international banking transactions has come to USD2,665 million, and total number of credit cards issued has grown to 2,569,120. Total assets stand at NT\$175,545 million, with operating revenue at NT\$10,846 million. After provision for loan-loss reserves of NT\$2,623 million and bad loan write-offs of NT\$1,344 million, the after-tax loss for 2002 amounts to NT\$1,361 million.

Looking ahead to 2003, we will continue to embrace and incorporate the four business values- Enthusiasm, Soundness, Efficiency, Innovation- into our banking services. Internally, we will seek to raise productivity and organizational mobility; externally, we will strengthen our competitiveness and lower operating cost. We will improve the management of asset quality to foster optimal operations on one hand while reinforcing the development of new financial services on the other. Guided by market demand and holding onto market advantage, we will make every effort to provide our clients with a diverse range of financial services and meet our business targets in return for your kind support and patronage.

Best wishes for your health and prosperity,

Chairman/ C.C. Huang



President/ Shiang-Chang Lee



Bank History and Organization

I. Corporate Profile

Date of Establishment: January 21, 1992

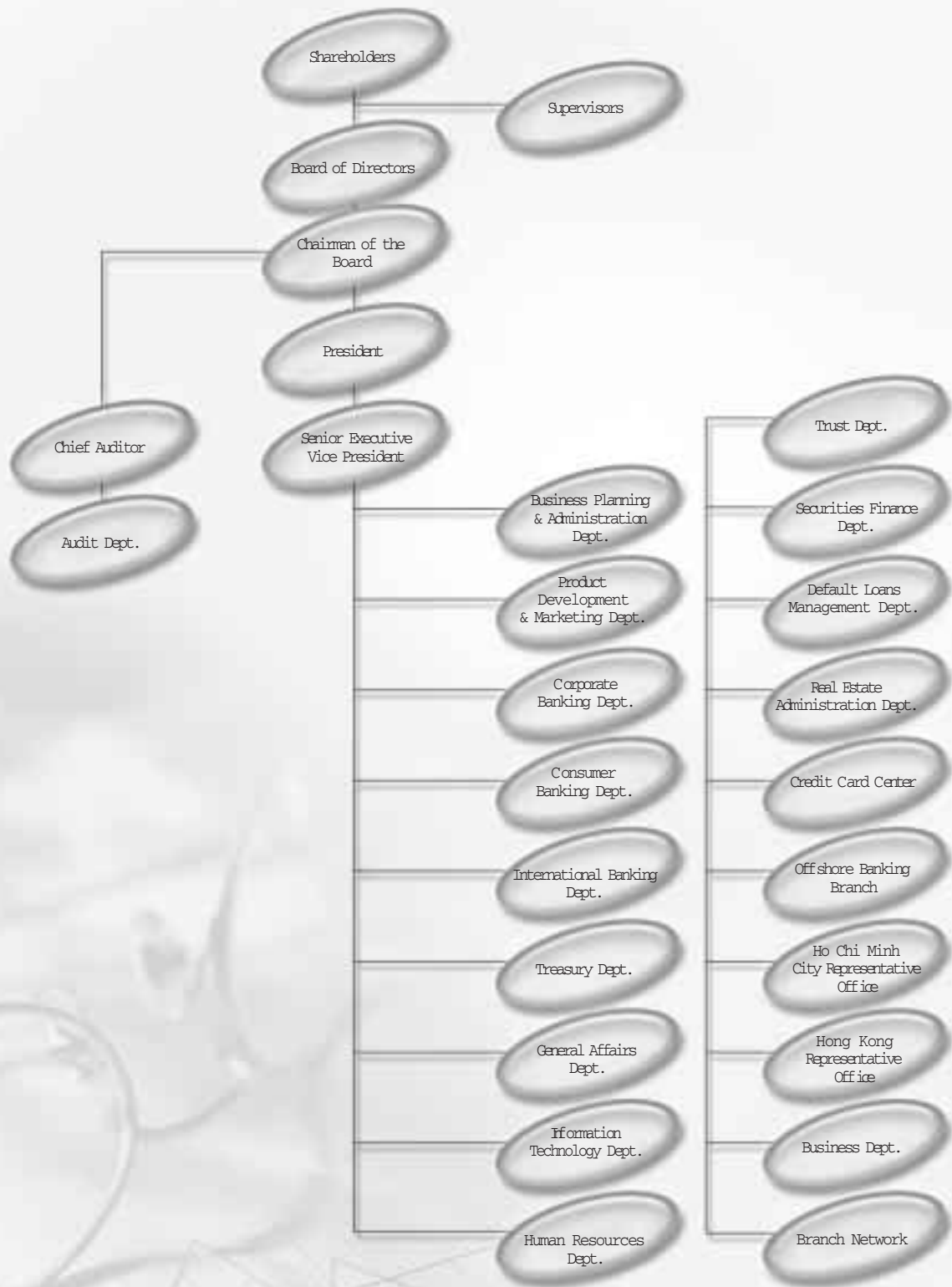
Equity: NTD14,889,263,890

In 1989, the Taiwanese government loosened its restrictions on the establishment of private banks as an initiative to carry out its policy on the liberalization and globalization of financial services industry. In Taipei and Kaohsiung, a group of reputable visionaries - Lee Tswen-Ching, Lin Rong-San, and Lee Yu-Chuan - collaborated their efforts in the establishment of Union Bank of Taiwan with a commitment to lasting ownership. After gaining the approval to start operations in August 1991, Union Bank of Taiwan officially opened for business in January 1992 with the inauguration of the Business Department and Savings Department, becoming a member of the first wave of newly established private banks.

Since founding, Union Bank of Taiwan has been aggressively expanding its branch network to foster competitiveness. As of end-2002, number of domestic business units has reached 40, thirty-four of which are full-functional branches offering complete line of services while the remaining six are mini branches providing specific services in deposits, consumer mortgages, and foreign exchange. In addition, to extend our services network across international borders and strive towards the goal of becoming an international commercial bank, Union Finance International (HK) Limited was established in Hong Kong in April 1997, followed by the launch of Ho Chi Minh City Representative Office and Hong Kong Representative Office in Vietnam and Hong Kong in February 1998 and August 1999 respectively.

During more than a decade of dedicated service, Union Bank of Taiwan has not only diversified the range of financial products provided to satisfy the clients' financial needs, but also built a consolidated cross-selling platform through successive equity investments in financial services affiliates including bills finance, leasing, futures, investment trust, investment advisory, and insurance agency.

II. 2002 Organization Chart, Union Bank of Taiwan



III List of Directors, Supervisors, Executives, and Main Shareholders of Institutional Shareholders Represented on Board of Directors or Supervisors

List of Directors and Supervisors

As of December 31, 2002

| Title | Names | Date of Inauguration | Term (yrs) | No. of Shares Held at Inauguration | | No. of Shares Presently Held | | No. of Shares held by Spouse and Dependent Children | | Educational and Professional Background |
|----------------------|--|----------------------|------------|------------------------------------|--------|------------------------------|--------|---|--------|---|
| | | | | Number | % | Number | % | Number | % | |
| Chairman | C.C. Huang | 2000.06.01 | 3 | 1,008,712 | 0.071% | 1,032,247 | 0.069% | 0 | 0 | B.A. Economics, National Taiwan University; Chairman, Bank of Kaohsiung |
| Managing Director | Zhen-Xong Jiang | 2000.06.01 | 3 | 4,128,030 | 0.291% | 3,979,367 | 0.267% | 0 | 0 | National Defense Medical School; Commissioner, 7 th Branch of International Rotary Club |
| Managing Director | Yu-Pang Co., Ltd. (Representative: Jia-Yi Wang) | 2000.06.01 | 3 | 15,601,190 | 1.100% | 16,373,448 | 1.100% | 0 | 0 | Judicial Training Program, The Judges And Prosecutors Training Institute; Secretary General of Judicial Yuan; President of Supreme Court |
| Director & President | Shiang-Chang Lee | 2000.06.01 | 3 | 831,070 | 0.059% | 872,207 | 0.059% | 2,108,700 | 0.142% | B.A. Economics, National Taiwan University; SVP & GM, Taiwan Cooperative Bank; SEVP, UBOT |
| Director | Union Enterprise Construction Co., Ltd. (Representative: Jeff Lin) | 2000.06.01 | 3 | 58,977,229 | 4.157% | 61,896,601 | 4.157% | 0 | 0 | B.A., California State University, San Francisco; Director, Union Dyeing & Finishing Co., Ltd. |
| Director | Chung-Li Investment Co., Ltd. (Representative: Jin-Ru Liu) | 2000.06.01 | 3 | 29,169,498 | 2.056% | 30,613,388 | 2.056% | 0 | 0 | Taipei Technical Academy Chairman, Li-Chang Ceramics Co., Ltd. |
| Director | Chung-Li Investment Co., Ltd. (Representative: Yao-Nan, Lai) | 2000.06.01 | 3 | 29,169,498 | 2.056% | 30,613,388 | 2.056% | 1,009,166 | 0.068% | B.A. Economics, National Taiwan University; GM of IHD, First Commercial Bank; President, UBOT; Chairman, Union Bills & Finance Co., Ltd. |
| Director | Union Entertainment Enterprise Co., Ltd. (Representative: Sue-Ere C. Lin) | 2000.06.01 | 3 | 21,866,486 | 1.541% | 22,948,877 | 1.541% | 66,734,211 | 4.482% | Taipei Commercial Academy; Chairman, Union Enterprise Construction Co., Ltd. |
| Director | Si-Yang Lin | 2000.06.01 | 3 | 13,932,682 | 0.982% | 14,622,349 | 0.982% | 1,290,027 | 0.087% | National Taiwan Normal University Director, Hong-Bang Construction Co., Ltd. |
| Supervisor | Yu-Quan Development Co., Ltd. (Representative: Yu-Quan Lee) | 2000.06.01 | 3 | 8,273,358 | 0.583% | 8,682,889 | 0.583% | 3,505,303 | 0.235% | National Taiwan Normal University; Councillor, Taiwan Provincial Consultative Council ; Supervisor, First Commercial Bank |
| Supervisor | Zhen-Lu Lin | 2000.06.01 | 3 | 236,380 | 0.017% | 248,080 | 0.017% | 0 | 0 | B.A. Economics, National Taiwan University; GM, Taiwan Cooperative Bank; President, Wan-Kuo Law Firm |
| Supervisor | Ming Hsing Ho | 2000.06.01 | 3 | 1,729 | 0.000% | 1,814 | 0.000% | 236,829 | 0.016% | B.A. Business Administration, Soochow University Branch Manager, UBOT; SEVP, Union Bills & Finance Co., Ltd. |

Bank History and Organization

List of Executives

As of December 31, 2002

| Title | Name | Date of Inauguration | Term (yrs) | No. of Shares Held at Inauguration | | No. of Shares Presently Held | | No. of Shares held by Spouse and Dependent Children | | Educational and Professional Background |
|---------------------------------|-------------------|----------------------|------------|------------------------------------|--------|------------------------------|--------|---|--------|--|
| | | | | Number | % | Number | % | Number | % | |
| President | Shiang-Chang Lee | 1995.07.01 | - | 717,500 | 0.058% | 872,207 | 0.059% | 2,108,700 | 0.142% | B.A. Economics, National Taiwan University; SVP & GM, Taiwan Cooperative Bank; SEVP, UBOT |
| Senior Executive Vice President | Chung-Chieh Huang | 1997.06.10 | - | 854,440 | 0.067% | 995,480 | 0.067% | 0 | 0.000% | B.A., Tankang University; Branch Manager, Taiwan Cooperative Bank; EVP, UBOT |
| Senior Executive Vice President | Hao-Sen Lee | 1999.08.01 | - | 2,713 | 0.000% | 2,847 | 0.000% | 124,220 | 0.008% | B.A. Commerce(Int'l Trade Concentration), Chinese Culture University; Branch Manager, First Commercial Bank; EVP, UBOT |
| Senior Executive Vice President | Jeff Lin | 1998.11.03 | - | 0 | 0.000% | 0 | 0.000% | 0 | 0.000% | B.A. California State University, San Francisco; Director, Union Dyeing & Finishing Co., Ltd. |
| Chief Auditor | Yen-Jye Chang | 1995.07.01 | - | 10,680 | 0.001% | 16,350 | 0.001% | 30,038 | 0.002% | B.A. Finance Army Business Academy; AVP, Taiwan Cooperative Bank; AVP, Information Technology Department, UBOT |
| Executive Vice President | Roger Wang | 1998.12.01 | - | 0 | 0.000% | 2,132 | 0.000% | 20,147 | 0.001% | LL.B, National Taiwan University; VP, ABN Amro Bank, Taipei Branch |
| Executive Vice President | John J.T. Lee | 1999.08.01 | - | 1,956 | 0.000% | 2,052 | 0.000% | 10,935 | 0.001% | B.A. Journalism Chinese Culture University; Branch Manager, Chinfon Bank |
| Executive Vice President | Herman Tu | 2000.09.11 | - | 0 | 0.000% | 1,567 | 0.000% | 173,956 | 0.012% | B.A. Business Administration, Chinese Culture University; Branch Manager, UBOT |
| Executive Vice President | Ing-Bor Jan | 2000.09.11 | - | 80,000 | 0.005% | 101,455 | 0.007% | 0 | 0.000% | B.A. International Trade, Tankang University; VP, Yong-Chuan Securities Co; Branch Manager, UBOT |

Institutional Shareholders with Holding Percentage of 10% or more or Shareholders with Holding Percentage Ranked Among the Top Ten

| Institutional Shareholder | Main Shareholders of the Institutional Shareholder |
|--|--|
| Chung-Li Investment Co., Ltd. | Si-Fong Tsao, Rong-San Lin, Hong-Pang Lin, Tsong-Yu Lee, Si-Yong Lee |
| Union Enterprise Construction Co., Ltd. | Sue-Ere C. Lin, Hong-Yao Lin, Ya-Jean Lin, Hong-Pang Lin, Rong-San Lin, Liu Yeh, Jeff Lin |
| Yu-Pang Co., Ltd. | Sue-Ere C. Lin, Hong-Yao Lin, Hong-Pang Lin, Rong-San Lin, Liu Yeh, Jeff Lin |
| Union Entertainment Enterprise Co., Ltd. | Sue-Ere C. Lin, Hong-Yao Lin, Ya-Jean Lin, Hong-Pang Lin, Rong-San Lin, Liu Yeh, Jeff Lin |
| Yu-Quan Development Co., Ltd. | Chao-May T. Lee, Yu-Quan Lee, Pei-Lin Lee, Pei-Shan Lee, Tsong-Hwai Lee, Pei-Cheng Lee, Kuen-Pin Wu, Li-Shue Lin |

IV. Capital and Shares (including Preferred Shares), Financial Debentures (including Overseas Financial Debentures) and Participation in the Issuance of Global Depository Receipts

1. Capital and Shares (including Preferred Shares)

| Source of Capital | Common Stock Issued (NTD) |
|---|---------------------------|
| Founders' Subscription | 9,600,000,000 |
| Public Offering | 2,400,000,000 |
| Capital Increase from Retained Earnings | 2,889,263,890 |
| Total | 14,889,263,890 |

2. Issuance of Financial Debentures (including Overseas Financial Debentures)

| Name of Debentures | Issuing Date | Maturity Date | Size of Issue | Interest Rate |
|---|---------------|---------------|-----------------|---------------|
| Union Bank of Taiwan, Subordinated Debt, First Issue 2002 | Nov. 14, 2002 | Nov. 14, 2007 | NTD 3.5 billion | 3.8% |

3. Participation in the Issuance of Global Depository Receipts: None



O verview of Operations

I. Business Report

A. Scope of Services

1. Acceptance of checking deposits
2. Acceptance of demand deposits
3. Acceptance of time deposits
4. Extension of short-, mid-, and long-term loans
5. Discounting of bills
6. Securities investment
7. Domestic remittances
8. Acceptance of commercial bills of exchange
9. Issuance of domestic letters of credit
10. Provision of guarantees for the issuance of corporate bonds
11. Domestic guarantees
12. Acting as paying and collecting agent
13. Underwriting of government bonds, treasury bills, corporate bonds, and corporate stocks
14. Sales of gold bullion and gold and silver coins
15. Credit card business
16. Brokerage and proprietary dealing of short-term bills
17. Custodian service and warehousing
18. Rental of safe deposit box
19. Provision of agency services related to business items listed on the banking business license or as approved by central government authorities
20. Export and import financing, outward and inward remittances, foreign currency deposits and loans, and guarantees for foreign currency guaranteed payments
21. Foreign exchange margin trading
22. Trading of derivative products as approved by the central government authorities
23. Provision of factoring services as approved by the central government authorities
24. Provision of trust banking services as permitted by the Trust Business Law
25. Securities brokerage
26. Proprietary trading in government bonds
27. Agency services for futures trading brokerage

B. Deposits

Total deposits at year-end 2002 reached NI\$149,948 million, a decrease of NI\$9,922 million from 2001. Of the total deposits, NI\$39,115 million or 26.09% are demand deposits while NI\$110,833 million or 73.91% are term deposits, posting a 16.37% and -12.22% growth from 2001 respectively.

Analysis of Deposits by Categories

Unit: NI\$ in million

| Type of Deposits | 2001.12.31. | | 2002.12.31 | |
|-------------------------|-------------|---------|------------|---------|
| | Balance | % | Balance | % |
| Checking Deposits | 1,489 | 0.93% | 1,597 | 1.07% |
| Demand Deposits | 9,782 | 6.12% | 12,405 | 8.27% |
| Demand Savings Deposits | 22,342 | 13.97% | 25,113 | 16.75% |
| Term Deposits | 67,429 | 42.18% | 52,901 | 35.28% |
| Term Savings Deposits | 58,828 | 36.80% | 57,932 | 38.63% |
| Total | 159,870 | 100.00% | 149,948 | 100.00% |

C. Loans

At the end of 2002, total outstanding loans amounted to NI\$103,343 million, declining by 13.93% from 2001. Of the total outstanding loans, secured loans accounted for 69.13% or NI\$71,442 million whereas unsecured loans accounted for 30.87% or NI\$31,901 million.

Loans Portfolio Analysis

Unit: NI\$ in million

| Type of Loans | 2001.12.31. | | 2002.12.31 | |
|--|--------------------|---------|--------------------|---------|
| | Amount Outstanding | % | Amount Outstanding | % |
| Discount | 0 | 0.00% | 0 | 0.00% |
| Short-term loans & Overdraft | 15,994 | 13.32% | 12,434 | 12.03% |
| Short-term secured loans & Secured overdraft | 11,114 | 9.26% | 10,016 | 9.69% |
| Mid-term loans | 14,862 | 12.38% | 16,791 | 16.25% |
| Mid-term secured loans | 34,798 | 28.98% | 18,796 | 18.19% |
| Long-term loans | 1,856 | 1.55% | 2,677 | 2.59% |
| Long-term secured loans | 41,440 | 34.51% | 42,629 | 41.25% |
| Total | 120,064 | 100.00% | 103,343 | 100.00% |

Overview of Operations

D. International Banking Business

Since we adopted a more stringent credit policy, the total volume of international banking transactions in 2002 fell to US\$2,665 million from US\$3,062 million in 2001, translating into a 12.97% year-to-year drop. Of the total international banking transactions in 2002, export transactions contributed US\$236 million, import transactions contributed US\$312 million, and foreign remittances accounted for US\$2,117 million, down 20.54%, 19.17% and 11.01% from 2001 respectively. In terms of relative proportions, foreign remittances makes up the largest share of total transaction volume, representing 79.44%. When compared to other new private banks in Taiwan, we remain among the leading providers of documentary credit and trade finance services.

Analysis of International Banking Transactions

Unit: USD in million

| Year | 2001 | | 2002 | | |
|---------------------------------|--------|---------|--------|---------|----------|
| | Volume | % Total | Volume | % Total | % Change |
| Export-related Foreign Exchange | 297 | 9.70% | 236 | 8.85% | -20.54% |
| Import-related Foreign Exchange | 386 | 12.61% | 312 | 11.71% | -19.17% |
| Foreign Remittances | 2,379 | 77.69% | 2,117 | 79.44% | -11.01% |
| Total | 3,062 | 100.00% | 2,665 | 100.00% | -12.97% |

E. Credit Cards

1. The newly issued credit cards in 2002 included F1 Petro Card (Classic, Gold, and Platinum), Breeze Center co-branded MasterCard (Classic and Gold), Breeze Center co-branded JCB Card (Classic and Gold), Breeze Center Platinum, Kaohsiung President Department Store Platinum, and Kaohsiung Isetan Platinum.
2. Number of credit cards in circulation reached 1,764,914 in 2002, up 47% from 2001. Total number of issued cards (as of December 31, 2002) rose to 2,569,120, a growth of 51% from 2001.
3. Value of authorized card purchases in 2002 totaled NT\$43,317 million, a 44% increase from 2001.
4. Since the operation of our bill collecting services in December 1997, we have been aggressively expanding the number of merchant stores in contract for the service; as of year-end 2002, we managed to sign up with 3,733 merchant stores. In 2002, total value of credit card bills collected attained NT\$28,701 million, a growth of 35% from 2001.
5. In 2002, operating revenue derived from the credit card business reached NT\$2,834 million, a 37% rise from 2001.

F. Trust Banking

1. General Trust Services

At year-end 2002, aggregate value of assets in custodian attained NT\$147.3 billion, up 35% from 2001. In particular, value of mutual funds in custodian amounted to NT\$100.6 billion, which was ranked 2nd among new private banks. With respect to sales of mutual funds, we had not only developed the automated voice trading system for placing mutual fund trade orders, but also marketed three fixed-income products successively in 2002. Total annual sales of mutual funds amounted to NT\$2 billion. Total trust assets were valued at NT\$4.77 billion, an increase of 25% from 2001. Total certifications of marketable securities reached 237 with aggregate certifying amount falling by 17% year-on-year to NT\$27.5 billion. In response to the increasing public awareness of trust banking, we have been committed to the research and development of new trust products and have gained relevant approvals from the Ministry of Finance for conducting various trust services.

2. Investment Management Services

Since acquiring the business license for the operation of "Investment Advisory Services", we have been instituting the personnel structure of investment management specialists and appointing specialists to our key branches. Currently there are 11 branches with dedicated investment management services, providing professional insight, financial advisory and planning to our top 20% of clients awarded with the VIP status.

G. Consumer Banking

1. Car Loans

In 2002, we approved 21,988 applications for car loans with an year-end total outstanding credit of NT\$4,848 million.

2. Home Mortgages

As of the end of 2002, the total outstanding home mortgage loans stands at NT\$49,317 million.

3. Consumer Loans

The total outstanding consumer loans at the end of 2002 reach NT\$3,598 million.

H. Securities Brokerage

Total number of brokerage accounts opened as of the end of 2002 attained 30,406, up 9% from 2001. Aggregate trade turnover on the accounts reached NT\$119.7 billion. Futures IB services are offered at six branches, with a total of 20,324 positions traded in 2002.

I. Electronic Services

1. The newly developed Voice Banking System was introduced in February 2002. The system is capable of supporting the demand of our growing business and facilitates the smooth integration of our customer services operators with the overall flow of call processing, thus rendering our voice banking services more readily accessible to our clients.

2. We unveiled the E-loan Factoring Services in April 2002, providing our corporate clients with the convenience of online financing. The service enables the suppliers of a central buyer to apply for online financing for the commercial invoices and purchasing orders they have acquired from the central buyer, thus raising their capital efficiency.

3. Payment collecting services for school tuitions and miscellaneous fees was also introduced to speed the appointing schools' manual process of payment reconciliation.

J. Operating Performance

Pre-tax loss for 2002 was NT\$1,429 million, primarily as a result of following the government's 2-5-8 financial reform policy (lowering NPL ratio to under 5% and raising BIS ratio to 8% or more in two years) with the increase in provision for loan-loss reserves and bad loan write-offs. Operating income in 2002 amounted to NT\$10,846 million, 79% of which originated from interest income with 16% from commissions and fees income and 4% from gains on trading bills and securities. Collectively the three sources make up for 99%. Operating cost and expenses accumulated to NT\$11,941 million, of which operating and administrative expenses represented 35.17%, interest expense occupied 33.57%, and provisions for credit losses and other purposes accounted for 21.97%.

II. Market Analysis

A. An Overview of Economic and Financial Developments

1. Level of Industrial Manufacturing

Compared to 2001, the industrial output was up 6.95% in 2002 while the manufacturing sector increased its production by 8.05%. Manufacturers of electrical and electronic machinery raised their production by 13.25% and the basic metals industry lifted its output by 10.63% as a result of sustained recovery of the steel sector supported by

Overview of Operations

reduced production from major steel producers and heated demand in Asia. On the other hand, the production level of the consumer goods industry (food, clothing etc) experienced stagnant growth, indicating a sluggish demand in the domestic market. The leading indicator for the construction industry, the total land areas filed for the issuance of construction license, was up 8.51% in 2002 from the previous year; however, the Building Construction Production Index was down 23.11% year-on-year, suggesting the domestic real estate market had not yet recovered.

The forecast for annual growth in industrial production in 2003 is shadowed by anticipations of a bearish global economy, which is expected to hamper our country's export, and a persistent slowdown in domestic investments and consumption.

2. International Trade

Import and export had been rising steadily since the start of 2002, from contraction of 15.2% for import and expansion of 7.9% for export in the first quarter to respective growths of 2.5% and 5.8% in the second. In the third quarter, both import and export achieved double-digit growth. Overall, total export volume amounted to US\$130.64 billion in 2002 and total import volume reached US\$112.59 billion, up 6.3% and 5.0% respectively from previous year and boosting a 15.5% year-on-year increase in trade surplus to US\$18.05 billion, which had served to bolster the domestic economic growth in 2002. Beginning May 2002, the monthly export of electronics products, optical precision devices, and machineries had picked up considerably, contributing to the annual 9.3% increase in the aggregate export of heavy industrial products. To breakdown export by commodity, machineries and electrical equipments stood out by representing 54% of total annual export. With respect to import, a surge was also recorded in step with the expansion in export and progressive liberalization of the domestic market. With the exception of capital equipments, which experienced a reduction, the import of agricultural and industrial supplies and consumer goods both increased from the previous year.

Looking ahead, we are cautiously optimistic towards Taiwan's performance in foreign trade. In the short term, export should enjoy a steady growth as purchase orders are expected to pile up; nevertheless, the uncertainties in future international developments may hinder any optimal performance.

3. Price Level of Goods and Services

In 2002, the consumer price index was down 0.2% while the wholesale price index was up by a minuscule 0.06%. Price levels had been able to stay consistent, or at times contracted, in response to a worldwide pressure of oversupply with demand suppressed by escalating unemployment rate and opaque economic prospects. In addition, the gradual downscale of tariffs and continuing liberalization of domestic markets after Taiwan's membership in the WTO also contributed to the fall in commodity prices. Overall, prices had reflected a concern of potential deflation.

With global demand remaining sluggish and commodity prices heading towards decline, the domestic price levels are expected to maintain a marginal or zero growth with the exception of that for services, which should see a rise corresponding to the increase in health insurance premiums and school tuitions.

4. Financial Conditions

Recounting major fluctuations in NTD/USD exchange rate in 2002, New Taiwan Dollar headed off its appreciation against the USD in mid-April as a result of widespread corporate scandals in the US. In September, the USD regained some of the lost ground with NTD depreciated along with a weak Yen. When the Bank of Japan acknowledged that it would make a ¥2 trillion investment in government bonds and stocks of domestic commercial banks, the Yen appreciated abruptly. This appreciation in Japanese Yen and the concurrent surge of Taiwan's stock market initiated by the upswing in that of the United States led to the mild turnaround of NTD from the weakening trend it suffered since September. The NTD/USD exchange rate is anticipated to float within the range of 34 and 35 in 2003.

With respect to money supply/demand and interest rate, the Central Bank of China continued to adopt a loose monetary policy due to the slowdown in the global economy and a declining domestic economic growth. Over the

period spanning from the end of 2000 to 2002, interest rate was down adjusted 14 times, resulting in the general decline of market interest rates and the expectation of bringing up economic recovery. Disappointingly, the domestic economy did not post significant growth in 2002, and with lackluster corporate demand for capital, domestic lending and private investment activities were quiescent. Moreover, the annual growth rate for broad money supply M2 landed only within the lower margin of the target growth range in 2002 as a consequence of reduced lending and investments and a dramatic increase in the size of bond funds.

After evaluating various indicators and the trend of diversifying financial products, the Central Bank of China has decided to include investments in bond funds in the calculation of monetary aggregates for 2003. The CBC has established two separate money-supply growth targets. The annual growth rate for M2 is targeted to fall between 1.5% and 5.5% and that for M2 adding bond funds investments is targeted to land between 3.0% and 7.0%.

5. Conclusion

In 2002, various domestic aggregate economic indicators showed respectable improvement from 2001. According to the statistics released by the Directorate General of Budget, Accounting, and Statistics, the domestic economy had taken off from the contraction of -2.18% in 2001 and geared towards quarterly growth in 2003. The annual economic growth for 2003 is expected to top 3%. International trade, investments, and consumer spending also bottomed out from the lows of 2001. Furthermore, the monthly indicator on the status of business cycle posted nine consecutive green lights in 2002, suggesting that the domestic economy had incrementally made its way out of the worst conditions.

Nevertheless, revival of the sentiment cannot ensure economic stability and full recovery. In 2002, domestic stock market indexes plunged nearly 20%, NTD/USD exchange rate drifted around its lows, and the concern over domestic unemployment was not effectively addressed to. Fortunately, the export rebounded strongly in 2002, bringing opportunities for economic recovery.

In 2003, the global economy is going to follow the upward trend of 2002. With progressive rebound in the global economy, our country's export is expected to expand steadily with domestic demands also picking up. However, since the domestic financial systems and industries composition are undergoing restructuring, the strength of economic recovery will be rather mild.

B. Financial Market Analysis

According to the Financial Statistics Monthly released for December 2002 by the Central Bank of China, a total of 5,873 financial institutions (including head offices and branches) were operating in Taiwan as of the end of December. Compared to the numbers in 2001, head offices of domestic banks were down by 1 (due to the merger between Taishin International Bank and Dah An Commercial Bank) and branches were up by 63. Local head offices and branches of foreign banks were down by 2 and 1 respectively. Grassroot financial institutions (credit cooperatives and credit departments of farmers' and fishermen's associations) closed down 9 head offices and 55 branches. The postal savings system (excluding postal agencies) added 27 branches. Investment and trust companies were down by 4 branches and life insurance institutions (including Simple Life Insurance Department of Chunghwa Post Co., Ltd.) were up by 1 head office and 2 branches.

Reviewing the domestic financial developments in 2002, the operating climate for financial institutions had been harsher than ever. The economy was weak, the domestic unemployment rate was rising, the consumer spending was declining, and the prospect of borrowers making timely loan repayments was shading. In addition, the hanging effect of the 911 terrorist attacks in the U.S. rendered various Taiwanese businesses mediocre operating results, leading to ill liquidity and financial difficulties in some instances. There was also the disturbing trend for Taiwanese businesses and industries to relocate their operations to Mainland China and leave their credit and loans obligations behind. These variables and developments inevitably resulted in the reshuffling of domestic industries composition and a poorly performing stock and real estate market, further hampering the operations of financial institutions. As

Overview of Operations

the majority of industries experienced lower profitability and became more financially stressed, and banks faced the drops in BIS ratios due to ongoing initiatives to write off bad loans, loans extended to businesses had plunged as a consequence of applying more strict lending terms and conditions and tighter credit review standards. Furthermore, larger enterprises had shifted to direct financing as their primary means of raising capital, which made the bank loans business even more difficult to run.

To rectify Taiwan's ailing financial sector, the government had fostered various financial reform campaigns, including "258 Financial Reform" and "Expansion of the Financial Restructuring Fund". Nevertheless, the efforts to revamp the grassroots financial institutions (credit departments of farmers' and fishermen's associations) by introducing a "risk management by categories" system were halted following the protest by some of the grassroots institutions. This setback had inevitably cast doubts to the government's determination in carrying out the financial reform.

Since the passing of the Financial Holding Company Law, there have been 14 newly established financial holding companies. Taking into account all other domestic and foreign financial institutions in business today, it is foreseeable that the competition in the domestic financial markets will only become more intense. Those financial institutions without a competitive edge will be prone to mergers and acquisitions by other industry players in this wave of changes. On the flip side, if the bank is able to well position itself in the financial markets, proactively train for financial specialists, and head towards providing more specialized services, respectable profits could be generated along with a irreplaceable leadership position in the domestic financial industry.

III. Employee Demography

Employee Demography for 2001 and 2002

| Year | | 2001 | | 2002 | |
|---|------------------------|--------|--------|--------|--------|
| Sex | | Male | Female | Male | Female |
| Number of Employees | | 810 | 1,001 | 946 | 1,271 |
| Percentage | | 44.73% | 55.27% | 42.67% | 57.33% |
| No of Employees | Full time | 1,810 | | 2,216 | |
| | Temporary | 1 | | 1 | |
| | Total | 1,811 | | 2,217 | |
| Average Age | | 31.16 | | 30.40 | |
| Average Years Seniority | | 3.35 | | 3.66 | |
| Level of Education (percentage of employees) | Postgraduate | 4.91% | | 5.1% | |
| | University | 40.14% | | 37.71% | |
| | Junior College | 41.36% | | 39.42% | |
| | High School (or Under) | 13.58% | | 17.77% | |

IV. Labor-Management Relations: Harmonious

V. Fixed Assets and Other Real Estate

Fixed Asset Acquisitions in Last Two Years with Transaction Value Equivalent to 1% of Paid-in Capital or NT\$50 million or over

Unit:NT\$ in thousand

| Subject Description | Date of Acquisition | Cost of Acquisition | Counterparty | Relationship with Counterparty |
|---|--|---------------------|--|--------------------------------|
| Land:Land No.50-10, New Keelung section, Putou-ken subsection, San-shi village, Taipei County | 2002.05.30(Auction Settled Date) | 237,760 | Tien Shang Construction Co., Ltd. | Creditor-Debtor |
| Premise:Premise No.3451 (including 177 housing units), No. 1, Alley 39, San-ming Street, San-shi village, Taipei County | | | | |
| Land:308-20 (19 land lots), Shu-lin section, Taoyuan City, Taoyuan County | 2002.06.27(Auction Settled Date) | 257,884 | Pao Shiang Construction & Industrial Co., Ltd. | Creditor-Debtor |
| Land:Land No.109 & 112, Hui-ming section, Shi-tun District, Taichung City | 2002.09.12 (Acquisition of Certification of Ownership Transfer) | 157,600 | Chung Chiao Development Co., Ltd. | Creditor-Debtor |
| Land:Land No.228-2 (37 land lots), Hai-tian section, Tamshui Township, Taipei County | 2002.08.20 (Agreement Date) | 1,250,000 | Lin San Hao International Co., Ltd. | Creditor-Debtor |
| Land:Land No.86, Kaocheng section, Ba-de City, Taoyuan County | 2002.08.13(Date of Ownership Transfer) | 210,000 | Her Tai International Co., Ltd. | Creditor-Debtor |
| Premise:No.292 (63 premises), Chunghua Rd., Ba-de City, Taoyuan County | | | | |
| Land:Land No.11 (15 land lots), Ho-feng Section 1, Hsintian City, Taipei County | 2002.08.07(Auction Settled Date) | 134,280 | Her Feng Co., Ltd. | Creditor-Debtor |
| Land:Land No.64, Subsection 1, City Council Section, Tatong District, Taipei | 2001.04.18 (Acquisition of Certification of Ownership Transfer) | 179,240 | Fang Kuei Fan | Creditor-Debtor |
| Premise:2F, 30 & 32, Nanking West Rd., Tatong District, Taipei | | | | |
| Land:Land No.641, Kaichuan section, I-lan City | 2001.04.16 (Acquisition of Certification of Ownership Transfer) | 73,726 | Chian Lin Construction Co., Ltd. | Creditor-Debtor |
| Premise:No.5-39 (24 premises), Shuanliu Rd., I-lan City | | | | |
| Land:Land No.195-620 (26 land lots), Er-chong River Section, Yangmei Township, Taoyuan County | 2001.04.11 (Acquisition of Certification of Ownership Transfer) | 65,952 | Ing Tai Construction Co., Ltd. | Creditor-Debtor |
| Premise:No.54 (26 premises), Alley 276, Yu-cheng South Rd., Yangmei Township, Taoyuan County | | | | |
| Land:Land No.1075, Tafeng Section, Hsintien City | 2002.06.13 (Agreement Date) | 63,500 | Kang Ying Construction Co., Ltd. | Creditor-Debtor |
| Premise:No.360 (8 premises & 19 parking spots) Chung Cheng Rd, Hsintien City | | | | |
| Land:Land No.54 (4 land lots) Chung-yang Section, Luchou City, Taipei County | 2002.07.01 (Acquisition of Certification of Ownership Transfer) | 62,339 | Chia Chi Construction Co., Ltd. | Creditor-Debtor |
| Premise:223-1 (8 premises) Chi-shin Rd., Luchou City, Taipei County | | | | |
| Land:274-16 (9 land lots) Chiang-nan Section, Taoyuan City | 2002.10.17 (Agreement Date) | 68,000 | Hong Chuan Construction Co., Ltd. | Creditor-Debtor |
| Premise:233 (10 premises), Kuo-Chiang First Street, Taoyuan City | | | | |

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Fixed Asset Disposition in Last Two Years with Transaction Value Equivalent to 1% of Paid-in Capital or NT\$50 million or over

Unit:NT\$ in thousand

| Subject Description | Transaction Date or Effected Date | Date of Initial Acquisition | Book Value | Transaction Value | Gain/Loss from Disposition | Transaction Counterparty | Relationship with Bank |
|--|---|--|------------|-------------------|----------------------------|--------------------------|------------------------|
| Land:Land No.64, Subsection 1, City Council Section, Tatong District, Taipei | 2002.05.22 (Board of Directors Meeting) | 2001.04.18 (Acquisition of Certification of Ownership Transfer) | 179,872 | 153,000 | -26,872 | Individual | None |
| Premise:2F, 30 & 32, Nanking West Rd., Tatong District, Taipei | | | | | | | |
| Land:308-20 (19 land lots), Ta-Shulin Section, Taoyuan City, Taoyuan County | 2002.07.25 (Agreement Date) | 2002.06.27 (Auction Settled Date) | 259,143 | 250,000 | -9,143 | Individual | None |
| Land:Land No.195-620 (26 land lots), Er-Chongchi Section, Yangmei Township, Taoyuan County | 2001.11.05 (Agreement Date for the Last Unit Sold) | 2001.04.11 (Acquisition of Certification of Ownership Transfer) | 67,026 | 72,495 | 5,469 | Individual | None |
| Premise:No.54 (26 units), Alley 276, Yu-Cheng South Rd., Yangmei Township, Taoyuan County | | | | | | | |

VI. Reinvestment

Unit:NT\$ in thousand, Shares in thousands

| Enterprise | Business Scope | Reinvestment Cost | Book Value | Shares Holding | Holding Ratio (%) | Net Value | Accounting Method | Equity Investment Book Earnings (Losses) in 2002 | Cash Dividend Payout in 2001 | Shares of Parent Company Held | Shares of Parent Company Acquired in 2002 | Shares of Parent Company Disposed in 2002 |
|--|--|-------------------|------------|----------------|-------------------|-----------|-------------------|--|------------------------------|-------------------------------|---|---|
| Union Bills Finance Company | 1. Brokerage and dealing of short-term bills. 2. Underwriting, certifying, and endorsing (as guarantor) of commercial notes. 3. Brokerage and dealing of government bonds. | 1,238,450 | 1,055,988 | 126,576 | 42.76% | 1,055,988 | Equity Method | (303,880) | - | - | - | - |
| Union Finance & Leasing (International) Corp. | 1. Leasing and dealership of machineries and transportation equipment. 2. Leasing and re-leasing of VCRs and refrigerators, etc. 3. Leasing of artworks. 4. Factoring (FX business excluded). | 1,000,000 | 668,616 | 100,000 | 99.99% | 668,616 | Equity Method | 133,060 | - | - | - | 0.171 |
| Unionbank Futures Corporation | Commodity futures trading | 594,397 | 631,710 | 59,440 | 99.07% | 631,710 | Equity Method | 47,337 | - | - | - | - |
| Union Finance International (HK) Ltd. | Trade finance | 106,589 | 185,995 | 30,000 | 99.99% | 185,995 | Equity Method | 15,682 | - | - | - | - |
| Union Securities Investment Trust Corporation | Securities investment trust | 105,000 | 109,292 | 10,500 | 35.00% | 109,292 | Equity Method | 8,842 | - | - | - | - |
| Union Securities Investment Consulting Corporation | Securities investment consulting | 9,940 | 8,293 | 994 | 99.40% | 8,293 | Equity Method | 109 | - | - | - | - |
| Union Information Technology Corp. | Systems development and computer software and hardware dealership | 90,650 | 94,345 | 12,950 | 99.92% | 90,619 | Equity Method | 3,695 | - | - | - | - |
| Union Insurance Broker Corp. | Life insurance brokerage service | 25,220 | 48,380 | 2,522 | 90.07% | 49,256 | Equity Method | 20,153 | 11,300 | - | - | - |

VII. Risk Management

A. Credit Extension

1. We emphasize the management of risk weightings and its contribution to a rising BIS ratio. To maintain a clear sense of our lending clients' current operating conditions and monitor their credit status, we conduct frequent client visits to anticipate any potential changes in their operations as well as implement credit risk evaluation measures.
2. To increase our competitiveness, expand the scope of our credit business and diversify credit risks, we have proactively introduced new kinds of credit services. In 2002 we started to offer both domestic and foreign factoring services and E-Loan online services. It is expected that Small Credit Line Convenience Loan will be available in 2003.
3. For commercial banks, the primary source of profitability for extending credit is the interest rate differential. Hence besides ensuring reasonably positive correlation between return and risk, we also work to measure and analyze individual client's degree of contribution by applying ROA Contribution calculations and for prospective clients, Expected ROA Analysis. In addition, we understand that credits extended to a new client would generate not only a direct contribution in terms of interest income, but also an indirect contribution in the forms of bringing in deposits and sales of peripheral banking services including mutual funds, international banking, trust banking and credit cards. Potential contributions may also be drawn from establishing banking relationships with the client's associated affiliates. To incorporate all of these perspectives into our competitive and differentiated pricing strategy, we have made a contractual agreement with IBM for the development and implementation of the Data Warehousing Risk Management System to effectively analyze the degree of profit contribution from individual clients.
4. To raise the professional competence of our employees in the credit services and reinforce management of client credit, we hold regular internal training courses in "Fundamental- and Intermediate-level Credit Investigation and Extension", "Financial Laws and Regulations", "Practical Approach to Loan Collections", and specific training programs for current client account officers and applicants for client account officer certifications who are transferring to serve at Collection Centers. We also organize internship trainings to breed well qualified personnel (seeds) for the sales and marketing of new lines of credit services under corporate finance. The trainees participate in the assessment and evaluation of credit applications and take part in our Assessment Committee for Investment Activities and Credit Extension, thus developing a shared understanding of our bank's credit extension policy and measures for credit investigation.

B. Maturity Analysis of Assets and Liabilities and Report on Interest-Rate Sensitive Information

1. Our assets and liabilities management scheme is derived from the interest rate sensitivity and gap analysis of assets and liabilities. Currently an Assets and Liabilities Management Committee is deployed to provide directional and policy guidance and management of interest rate gaps. Closely monitoring the changes in interest rates and short positions, the committee would call for a top management meeting to fully review the gaps when the need arises.
2. With respect to the management of interest rate risks involving domestic and foreign currencies, we are equipped with a comprehensive trading and capital management system to oversee the daily changes in total deposits and outstanding loans, the capital cost and outstanding balance for all different terms and categories of deposits and loans, the analysis of floating and fixed interest rate deposits and loans, the analysis of rate-sensitive assets and liabilities, and the analysis of interest rate spread. With the use of Interest Rate Adjustment Simulation and Analysis System, the strategy on interest rate revisions are proposed and reported to Assets and Liabilities Management Committee for approval, or a top management meeting is called upon to timely adjust the interest rate.
3. To manage foreign exchange transaction risks, internal control procedures are in place to ensure the independence of trading and settlement operations. Measures are also taken to manage the control of total positions held, positions held under individual traders, and stop-loss executions.
4. Regarding the management of liquidity risks, scrupulous monitoring of our daily cash reserves and in- and out-flow of cash are coupled with measures for the projection, evaluation, calculation, and advanced warning of changes in current assets to ensure current assets availability.

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C. Foreign Exchange

* External Risk Management

1. Country Risk: To diversify sovereign risks, an individual risk-controlling credit limit is assigned to each country. To more effectively manage the risks, we have established Guidelines for the Management and Control of Sovereign Risks. The guidelines are closely complied by our branches with centralized control by our International Banking Department. When need arises from breaking worldwide development, IBD may make a timely corresponding upward or downward revision to a previously approved country credit limit.
2. Bank Risk: To lower our risk exposure, different credit limits are assigned to various dealing banks according to their rankings in assets and credit ratings.
3. Foreign Exchange Rate Risk: Covering of long or short positions of different currencies to avoid the risk associated with fluctuations in exchange rates.
4. Client Risk: We have assigned different credit limits to individual clients of different credit status.
5. Transaction Risk: Develop various novel foreign exchange and derivatives products to meet the changing client and market demands. A research and development team is also established to spot current market trends and innovate new services related to our import, export, remittance, and other businesses. Different limits are set up to manage transaction risks.
6. Market Risk: For the risks associated with ongoing changes in market interest rates, exchange rates and stocks, we timely review and adjust our financial products portfolio to reflect the current economic development, market conditions and investment sentiment.
7. Foreign Exchange Transaction Settlement Risk: To lower the risk of breached settlement in foreign exchange transactions, we are going to participate in Continuous Linked Settlement (CLS) to ensure secured settlement of the transaction.

* Internal Risk Management

1. Operational Risk: To limit operational risk, laws and regulations related to banking operations and internal operating guidelines are fully complied with. Regular and random internal audits are conducted to monitor daily operating procedures and workflow. Moreover, internal courses and trainings pertaining to foreign exchange operations are held and external training programs are arranged to breed qualified management candidates.
2. Compliance to Laws and Regulations: Personnel placement of Compliance Officers to ensure any operating procedures and processes are in line with both domestic and foreign laws and regulations.
3. Credit Risk: Foreign Exchange Operations and Authorization Guidelines are established as measures for the authorization of transactions. In addition, foreign exchange transactions that involve credit extensions are counted towards the client's assigned total credit limit.

D. Amount of Non-Performing Loans

Unit:NI\$ in thousand

| Reference Date | 2002.12.31. |
|--|-------------|
| Non-Performing Loans (see 1 under) | 4,553,102 |
| Non-Performing Loans Ratio (see 2 under) | 4.12% |

1. Non-Performing Loans (including loans overdue by six months or longer): The disclosure of the amount of non-performing loans is provided according to the regulations and articles set forth by Ministry of Finance.
2. Non-Performing Loans Ratio = Non-Performing Loans (including loans overdue by six months or longer) ÷ (Total Outstanding Loans + Loans overdue by six months or longer)

E. Interest Rate Sensitivity

Unit: %

| | 2002.12.31. |
|---|-------------|
| Interest Rate Sensitive Assets to Liabilities Ratio | 61.96 |
| Interest Rate Sensitive Gap to Net Worth Ratio | (336.68) |

Note:

1. Rate Sensitive Assets to Liabilities Ratio = Rate Sensitive Assets / Rate Sensitive Liabilities (Referring to MID-interest-rate sensitive assets and rate sensitive liabilities for the year)
2. Interest Rate Sensitive Gap = Interest Rate Sensitive Assets - Interest Rate Sensitive Liabilities

F. Total outstanding secured loans extended to related third parties to total outstanding loans ratio: 4.38%

VI II. Major Contracts/Agreements

1. In December 2002, a Letter of Intent for the testing of Continuous Linked Settlement (CLS) was signed between Union Bank of Taiwan and Citibank. If implemented, CLS would lower our future exposure to foreign currency settlement risk.
2. To speed up the writing-offs of non-performing loans, a contract was signed with Taiwan Asset Management Company (TAMCO) on November 29, 2002 for the sales of non-performing loan assets; the book value of NPLs sold was approximately NT\$8.85 billion.

IX. Litigious or Non-Litigious Matter

- A. Litigious or non-litigious matter related to credit extensions or collections of past-due loans: None.
- B. Regarding the petition filed by China Commercial Bank involving claims against our execution of guarantee obligations, we appealed to the Supreme Court for a third trial. The Supreme Court reasoned that China Commercial Bank had missed the legal time period allowed for filing an appeal for a second trial and thus abandoned the court decision of the second trial; the Supreme Court hence upheld the decision of the first trial, rejecting China Commercial Bank's claims. The lawsuit between us and China Commercial Bank pertaining to the execution of guarantee obligations reached a third-trial and final verdict; we are not obligated to the payment of NT\$70 million to China Commercial Bank.
- C. Our self-reporting of tax deductibles for fiscal years 1994, 1995, 1997, 1999 and 2000 included tax deductibles of NT\$85,496,000 derived from government bond interests conferred to previous bondholders. This, however, was deemed by governmental tax administrations as not applicable for tax deductions. We believe this practice was unreasonable and without sufficient legal basis. If previous bondholders were institutions, the interests they earned during their entitlement of the bond would have been counted towards their interest income and taxed accordingly. Therefore, if reporting of tax deductibles for government bond interests earned by previous bondholders was denied of eligibility, a consequence of double taxation would arise. We have filed administrative lawsuits to relevant regulatory authorities regarding our business income tax submissions for fiscal years 1994, 1995 and 1997, as well as appeals for reexamination regarding business income tax submissions for fiscal years 1999 and 2000. The litigation related to 1994 business income tax submissions reached a decision in favor of our claims by the Taipei High Administrative Court.
- D. Our affiliate, Union Bills Finance Company, was taxed for bond interests paid to previous bondholders for fiscal years 1995 to 1999. The tax submissions were deemed by tax administrations as obligatory since "Receipt of bond interests paid to previous bondholders is classified as collected for interest transfer payment and not as tax obligations as stipulated under article 89 of Income Tax Law" and therefore were not refundable. Union Bills Finance Company believes this classification was against the Income Tax Law and relevant reiterations from Ministry of Finance. The company has undertaken administrative lawsuits to relevant regulatory authorities regarding business income tax submissions for fiscal years 1995, 1996, 1997 and 1998, and filed litigation related to business income tax submissions for fiscal year 1999. The litigation related to 1995 business income tax submissions reached a decision in favor of our claims by the Taipei High Administrative Court.

Business Outlook and Capital Utilization Plans

I. Operating Strategies, Targets, and Plans for Year 2003

A. Operating Strategies

1. Increase the acceptance of low-cost, stable deposits to enhance our funding composition and lower operating costs.
2. Modestly expand our corporate finance business and practice post-drawdown management to raise the overall quality of loan assets.
3. Integrate the marketing and packaging efforts of existing consumer finance products while proactively developing new consumer finance services to raise our profitability.
4. Increase non-interest income and diversify sources of profitability to reduce operating risk.
5. Simplify our operational procedures and processes to provide clients with the most efficient services and build a corporate brand standing for high quality.
6. Offer a full range of financial products and services to solidify our competitiveness.
7. Bolster our competence in real estate appraisals, establish a comprehensive appraisal database, integrate online marketing with traditional media, and accelerate the recovery of our non-performing assets.
8. Bring down existing level of non-performing loans and lower non-performing loans ratio.
9. Develop new trust products and services to provide our clients with diversified investment choices.
10. Develop new international banking products and continue to establish correspondent relationships with the financial institutions in Mainland China to expand our correspondent network in the region.
11. Emphasize cost effectiveness, avoid unnecessary expenditures and improve capital structure.
12. Strengthen internal controls to suspect and prevent unlawful acts and ensure confidentiality of client information.

B. Operating Targets for 2003

1. Total deposits to reach NT\$165.9 billion.
2. Total extended loans to achieve NT\$118.4 billion.
3. Total volume of international banking transactions to make US\$2.9 billion.
4. Guarantees and acceptances to top NT\$10.6 billion.

Note: The above business targets for deposits, loans, guarantees and acceptances are in terms of annual averages, whereas the target for international banking transactions is in terms of total volume accrued over the year.

C. Operating Plans for 2003

A. Deposits

1. To attract deposits, particularly currency deposits, to optimize our deposit composition and lower the cost of funds.
2. To promote and market our Salary-Transfer Savings Account and other deposit accounts to raise our market share in accepted deposits.
3. Encourage consolidated marketing by all personnel and continue to solidify our relationships with current clients while taking initiatives to develop new client base.
4. Develop new products and services with consideration of the different needs and characteristics of different clients to increase the acceptance of deposits.
5. Bolster our agency services for insurance products to satisfy the investment demands of clients and boost non-operating income.

6. Engage in payment collecting and transfer services to raise fees income.
7. Value professional expertise, improve service processes, and enhance the efficiency of our deposit and remittances processing center.
8. Provide clients with convenient and comprehensive electronic financial services to effectively reduce operating cost and elevate service quality.
9. Consolidate existing resources and capitalize on strategic alliance and cross-selling opportunities to develop a diversified product line that meets the need of different clients and improve our competitiveness.

B. Loans

1. The Corporate Finance Department set up the Business Development Division in May 2002 in light of helping our branches expand credit business, establish new clientele and capitalize on market opportunities. To ensure consistent growth of our credit business and raise our profitability, efforts will be spent on the promotion of self-repaying credit instruments to lower credit risk exposure, the penetration of medium and small enterprises market, and the screening off of lenders with greater credit risk and/or little contribution to our profitability.
2. To bolster our financial services to medium and small enterprises and improve our service efficiency, we will support various project financing and lending programs backed by Small and Medium Business Credit Guarantee Fund. In addition, we will continue the development of new credit services including Simplified Bills-Receiveable Financing and Small Creditline Business Financing. A service window dedicated to providing professional banking services to medium and small enterprises will also be instituted across our branches.
3. To follow closely any changes in the credit status of our clients and effectively manage credit risks, we will strengthen our management of collaterals and collection of industry information. We will strive to improve the quality of our loan assets, prevent the occurrence of past-due loans, and ensure our clients' credit obligations are secured against default by conducting elaborate post-drawdown monitoring and periodic credit reviews.
4. To enhance the professional credentials of our staff involved in credit services and raise their awareness of recent industry development, we will periodically hold internal training courses and seminars including Fundamental and Intermediate Level Credit Investigation and Extension, Seminars for OPs, Seminars for OP Managers, Seminars for AOs, and Practical Training on Credit Collection. We will continue to implement the service structure of Account Officers, taking initiatives to understand clients' needs, conducting comprehensive credit investigation and making well-justified decisions in extending credit. We will fully support enterprises' need for working capital only when the purpose for lending and the source of repayment are definite.
5. To operate in parallel with the Central Bank of China's policy, we are revising our current methodology used in the determination of prime interest rate. The revised methodology takes into account the average interest rate for one-year, fixed-interest-rate term savings deposit at 6 major banks including Bank of Taiwan, Taiwan Cooperative Bank, Land Bank of Taiwan, First Bank, Hua Nan Commercial Bank and Chang Hua Commercial Bank. The new methodology also incorporates the average interest rate in the secondary market for 90-day short-term bills. The prime interest rate is the weighted average of the aforementioned two interest rate averages plus premium. The average interest rate in the secondary market trading for the 90-day short-term bills is determined by referring to the average interest rate quoted on page 6165 of Associated Press after 11am every morning. The premium is adjusted annually on June 15 according to our operating expenses accrued from conducting Corporate Finance services, the average outstanding direct credit and the interest premiums adopted by our competitors. The prime interest rate is adjusted every quarter and the adjusted rate becomes effective as of the 15th of March, June, September and December of each year. The application of the prime interest rate is focused on corporate lendings and non-consumer financing by individuals.

C. International Banking

1. With the growth in our corporate finance business, we will strive to regain our leadership position among private banks in providing international banking services.
2. We will continue to promote our Foreign Worker Remittances, L/C Forfaiting and Factoring services, all of which are relatively low-risk in nature and provide a stable source of income.
3. We will further develop our international finance business through our OBU operations related to syndicated loans, guarantees, ECB and fix income products.
4. We will seek opportunities to form strategic alliance with prominent foreign banks to introduce new financial products and strengthen our market image of being a "small yet specialized" bank.
5. We will continue our efforts in establishing overseas business units.
6. We will arrange professional education and training for our international banking services personnel to facilitate branch marketing of international banking services.
7. We will promote the application of information technology in our international banking operations to fully leverage the productivity of our limited operations staff.
8. We will establish 4 regional international banking processing centers to expedite the processing efficiency and lower the processing cost.

D. Trust

1. We will integrate existing financial products and hold various promotional events to market our trust banking products and services.
2. We will grow our custodian service for mutual funds by integrating it with mutual fund sales.
3. We will upgrade the functions of our Internet and Phone Banking Systems related to placement of trade orders to enable our clients to enjoy the most convenient way of managing their investments.
4. We will expand our competitive edge in the certification services for marketable securities.
5. We will promote and market the concept and benefits of trust banking and continue to research for new kinds of trust products to meet our clients' demands.
6. We will fully implement the Investment Specialist personnel structure to advance our full range of investment management services and raise the relevant services fee income.
7. We will make continuous development to our UMA full-functional investment account and to achieve marketing synergy via integration with Union Financial Web.

E. Marketable Securities

1. We will develop new securities-related services with relevant government deregulations. We will also promote our electronic trading services and futures IB business to offer diversified investment platforms to our clients.
2. We will conduct professional training to breed securities specialists and recruit for qualified equity sales to expand our scope of securities business and lift our competitiveness.

F. Credit Card

1. Business Target

- (1) To raise cardholder royalty of existing and new cardholders, we will continue to launch benefit programs to reward cardholders making purchases on credit cards issued by our bank. In 2003, total number of credit cards in circulation is expected to reach 2.25 million and aggregate value of card purchases made is expected to top NT\$51.1 billion.
- (2) Total number of merchant stores in contract for our bill collecting services is expected to reach 4,200 with a total revenue of NT\$40 billion.
- (3) Outstanding small-creditline unsecured consumer loan (for repayment of outstanding credit on cardholder's other credit cards) is expected to amount to NT\$6 billion, and the outstanding revolving credit is expected to top NT\$20 billion.

(4) Total operating revenue generated from the credit card business is anticipated to reach NT\$3,948 million, or a projected growth of 39%.

2. Credit Card Services

- (1) In concert with initiatives taken by international credit card issuing organizations, we will adopt the advanced chip technology in our credit card production to make card purchases more secure. We will also provide personalized credit card services and benefits to make cardholder's financial management easier and more convenient.
- (2) We will consolidate our marketing programs with bill collecting and electronic commerce services to provide cardholders with multilateral services across virtual and traditional platforms.
- (3) We will also integrate tangible credit cards with intangible distribution networks and systems such as Internet Banking, Mobile Banking, and Internet Fund.
- (4) We will enhance the features beared on our credit cards to provide more comprehensive added-values to our cardholders.
- (5) We will develop more features, benefits, related promotions and programs specifically for our Platinum cardholders.
- (6) We will expand our telemarketing efforts to achieve our target for small consumer loans.
- (7) To speed up processing time and reduce relevant labor cost, we will implement a paperless processing system and automated credit review system for handling credit card applications.

3. Systems Upgrade

- (1) We will continue to market our online merchant bill-collecting service and raise the number of Cyber cards issued and online purchases made.
- (2) We will enhance the online payment system for Cyber cards.
- (3) We will collaborate with international credit card issuing organizations in the development of secured B2B financial services platform to offer safe and efficient e-financial services for corporate online trading.

G. Treasury Operations

1. We will enhance the risk management systems for the control of various market risks and liquidity risks.
2. We will develop and trade in new financial products to meet the hedging demands of the market and our clients.
3. We will conduct research and analysis on various opportunities to carry out overseas investment or capital raising activities, and collaborate with related entities in their execution; we will also raise our global recognition by seeking opportunities to collaborate with prominent foreign banks.
4. We will add to our profits the gains generated from the trading of NTD-denominated bills and bonds and conducting RP and F/X transactions.
5. We will register employees for training programs offered by domestic and overseas financial professionals training institutions to cultivate specialists who are competent in foreign exchange, risk management, financial engineering, management of NTD and foreign currency cash positions, and trading of bills, notes, and bonds.

H. Social Welfare

Sponsored by Union Bank of Taiwan and its affiliates, the Union Foundation was established in 1998. The foundation convenes two annual events - the "Mother's Day Fair" and "Union Bank Awards for Distinguished Young Artists". For the past five years, the "Union Bank Awards for Distinguished Young Artists" has been considered one of the most prestigious local distinctions to honor young artists for their work and accomplishment. The awards have been credited with successfully showcasing artistic achievement in oil painting.

Besides embracing arts and cultural values, we have also been a committed sponsor for the maintenance cost of a community park. As a member of the community, we are more than willing to make it a better place. In the future we will continue to make our contributions and give back to our society.

II. Real Estate Disposition and Procurement & Long-Term Investment Plans

Real Estate Assets Expected to be Disposed within an Year

Unit: NT\$

| Real Estate Property | Type of Acquisition | Location | Land Area in ping* | Premise Area in ping* | Auction Settled Price | Auction Settled Date | Total Acquisition Cost | Date of Transfer of Property Ownership | Expected Selling Price |
|----------------------|----------------------|--|--------------------|-----------------------|-----------------------|----------------------|------------------------|--|------------------------|
| Land & Premise | Taking up Collateral | 51, Section 3, Chung-shan Road, Tai-ping, Taichung County (Tai-ding case) | 748.00 | 5,048.00 | 400,000,000 | 1995.05.30 | 401,879,542 | 1995.05.30 | 402,000,000 |
| Land & Premise | Taking up Collateral | 2-7 Fl., No.1, Alley 258, & No.250, Yen-ping St., Chiayi City | 245.03 | 1205.48 | 112,564,803 | 1995.07.12 | 112,564,803 | 1994.10.28 | 112,580,000 |
| Land | Taking up Collateral | No. 252, 4th block, Shi-tan section, Nei-hu region, Taipei | 191.92 | - | 51,840,000 | 2001.04.27 | 51,840,192 | 2001.05.29 | 53,000,000 |
| Land | Taking up Collateral | No. 109, 112, Hwei-ming section, Xi-tun region, Taichung City | 571.20 | - | 157,600,000 | 2002.08.29 | 157,620,077 | 2002.10.04 | 171,360,000 |
| Land & Premise | Taking up Collateral | 8F, 223-1; 8F, 223; 8F, No.2, Alley 221; Chi-xian Rd., Louchou City, Taipei County | 22.26 | 380.53 | 62,339,000 | 2002.06.12 | 62,549,138 | 2002.08.07 | 62,550,000 |

*1 ping = 35.71 sq. feet

Real Estate Expected to be Acquired within an Year : None

Long-Term Investment Plans for the Forthcoming Year:

To pursue along the recent advances in electronic payment systems, we have been proactively involved in various initiatives for digitalizing the payment processes in public transport and developing related financial services.

The asset management market in Taiwan has started to grow as this service enables banks to raise their capital efficiency. We will be assessing our opportunities pertaining to asset management services.

III. Research and Development

A. Expenditures on Research and Development

Unit: NT\$

| Year | 2001 | 2002 |
|-----------------|---------------|---------------|
| R&D Expenditure | \$102,445,273 | \$122,094,984 |

Note: The figure for R&D expenditure in 2002 was before CPA certification.

B. Results of Research and Development

1. E-infrastructure development to support internal management

(1) Implemented data warehousing system with applications in asset-liability management, risk analysis of past-due loans, branch operations management, management accounting and credit-card marketing analysis. More comprehensive management information is provided to facilitate internal management.

(2) Enriched the contents of our internal information database. With Notes as the main platform for internal communications and departmental regulations and measures as guide for internal document administration, the information related to business operations, systems development and operations management can be stored and distributed across departments and branches.

- (3) Installed the statistical reports directory and printing system, thereby substantially reducing the amount of hardcopy reports produced and relevant carriage expense. The system can save NI\$5-6 million each year and allow users to use information more efficiently.
2. Developing new financial services
- (1) We introduced E-loan online financing service in April 2002, providing online financing to suppliers for the purchase orders they received from a common central buyer.
- (2) In June 2002, we rolled out an integrated cash card that combines the full functional features of a credit card, FISC card, and cash card. Integrated cash card, the first of its kind, gives consumers a consolidated financial instrument for payment, cash withdrawal, and financing.
- (3) Completed the design of new financial products including adjusted rate mortgage and overdraft. Revisions on prime interest rate calculation methodology are also instituted.
3. E-services for traditional financial products
- Following the successful launch of corporate APR account receivables service in 2001, we introduced the school tuition and miscellaneous fees payment collection service in October 2002, supported by the use of virtual account designation. The service facilitates the management of tuition and miscellaneous fees payments by elementary and secondary schools by assisting with the collection of payment and reconciliation. Provision of this service helps increase our fees income.
4. Replacement of Information systems and functional upgrade
- (1) We self-developed a new terminal system based on Java. Data communications are in xml format and programming modules are centralized for easier management. The terminal data entries for cheques collected at branches for clearance are centralized to a processing center, thereby lifting the workload off our branch and achieve greater management efficiency.
- (2) We enhanced our mainframe's automated control features and instituted system upgrades. The annual utilization rate of 99.5% of our mainframe system is relatively higher than the industry average of 98%. The enhancement and upgrades enabled our performance on banking services involving interbank transactions to receive top ratings among new private banks.
- (3) System firewalls and invasion detection system are installed and periodically reexamined and adjusted. Strategy for network security is also formulated to effectively prevent unauthorized access or break-in by international hackers and computer viruses, ensuring the security of our network transactions.
- (4) Standard interface for terminal platforms is established. By utilizing Middle Ware and end-terminal Connect, the time required to develop or revise systems to accommodate new services is reduced.
- (5) The consumer finance information system is built with four major sub systems including consumer financing, past-due loans, credit investigation, and collateral appraisal. The systems allow for effective management of clients' credit risk, improvement of credit quality, automated processing of credit applications and rapid loan drawdown.
- (6) We expanded the existing B2B and B2C electronic commerce marketing channels including the UB web site, UMA personalized webpage, Yesfund, Cyber X, and WAP. We also established the Yesgogogo Portal and formed strategic alliances with hi-tech companies and broadband operators to provide a network setting for interactions between us and our clients.
- (7) The new Call Center system is implemented. Besides inbound and outbound capabilities, features related to the web, email and fax are also added. The Call Center system integrates with our Data warehousing to provide more comprehensive information delivered through its Email to Any Device (EMS) function.

C. Future Research and Development Plans

1. Internal Management

- (1) Corresponding to financial market developments, we will plan and organize the next generation of accounting and reconciliation systems and international banking system.
- (2) We will consolidate our various electronic financial services on one single platform to allow for the most efficient use of resources.

2. Customer Service

- (1) We will further expand our Call Center system. With respect to inbound calls, we will develop relevant functions for various financial products and services. Regarding outbound calls, we will develop functions related to client retention, loans collection, and product marketing.
- (2) We will participate in the FISC IC Card development initiatives led by Financial Information Service Corporation. We will adopt the technology related to the issuance of IC cards and offer added values of customer rewards and benefits. We will also develop the Triple-DES securities technology to raise the security and confidentiality of IC card transactions.
- (3) We will integrate our various services and marketing channels (UMA, IBANK, Call Center, etc.) so that the clients get the same customer service experience no matter what channel they choose.
- (4) We will plan and implement technologies to consolidate the resources of our affiliates.
- (5) The three-in-one combo cash card has been receiving tremendous market acceptance since its debut in 2002. We will continue to develop integrated financial products to reduce the overlapping marketing cost accrued from marketing individual banking product and to provide our clients with more convenient financial services.
- (6) We will develop new financial products that correspond to government deregulation and market openings.
- (7) With the legislative passing of the electronic signatures law and the increasingly digitalized social infrastructure, we will continue to assess initiatives for further digitalization, automation, and improvement of our operations flow to raise our service efficiency and quality.

3. E-marketing

- (1) We will continue the second phase of our broadband implementation to enable the addition of more marketing and distribution channels.
- (2) We will improve the mobility of various electronic financial products.
- (3) We will develop online small-balance payment system to tap into and serve the vast group of young consumers who are yet to hold any credit cards.
- (4) We will strengthen our client relationship management and continue to develop CRM related applications to integrate CRM with business operations and enhance our marketing efforts to raise profitability.

IV. Capital Utilization Plans

1. The planning, funding, utilization approximation, and probable benefits of intended business expansion and fixed asset extension or establishment:

Please refer to Business Outlook and Capital Utilization Plans: I. Operating Strategies, Targets, and Plans for Year 2003 and Financial Highlights: VI. Review and Analysis of Financial Conditions and Operating Results.

2. The status of execution for last capital utilization plan:

The issuance of NT\$3.5 billion subordinated financial debentures was approved by the Ministry of Finance on November 14, 2002. The purpose for the issuance was to augment our source of stable, long-term funding and raise our capital adequacy ratio.

3. Capital utilization plans in the past two years of which anticipated benefits have yet to realize: None.

Financial Highlights

I. Balance Sheets and Income Statements for the Past Five Years

1. Balance Sheets

Unit: NT\$ in thousand

| Item | Year | Financial information for the past five years | | | | |
|---|---------------------|---|---------------|---------------|---------------|---------------|
| | | 2002 | 2001 | 2000 | 1999 | 1998 |
| Cash, Deposits with the Central Bank, and Deposits at interest with banks | | \$ 16,451,409 | \$ 16,555,716 | \$ 15,628,447 | \$ 20,952,823 | \$ 13,525,411 |
| Marketable Securities-less allowance for market decline | | 10,822,743 | 17,252,395 | 14,379,537 | 11,926,037 | 13,378,849 |
| Loans, Discounts, and Foreign Currency Purchased-less allowance for credit losses | | 108,609,034 | 125,574,838 | 139,841,311 | 143,927,304 | 137,711,909 |
| Long-term Equity Investments | | 3,783,285 | 3,754,720 | 3,611,639 | 3,617,078 | 3,849,498 |
| Fixed Assets | | 2,917,408 | 3,014,345 | 3,069,648 | 2,309,884 | 2,040,424 |
| Other Assets | | 32,960,850 | 19,148,941 | 13,861,817 | 11,483,847 | 12,890,979 |
| Deposits of and loans from other banks | | 1,599,665 | 2,982,033 | 10,725,309 | 10,956,146 | 10,544,521 |
| Deposits and Remittances | | 149,958,821 | 159,878,978 | 156,492,640 | 160,789,312 | 150,511,861 |
| Other Liabilities | | 8,785,717 | 5,898,126 | 6,509,068 | 6,128,648 | 7,030,978 |
| Capital | Before Distribution | 14,889,264 | 14,889,264 | 14,889,264 | 14,187,007 | 13,615,170 |
| | After Distribution | * | 14,889,264 | 14,889,264 | 14,889,264 | 14,187,007 |
| Capital Reserve | | 1,398 | 1,656 | 1,656 | 244 | 94 |
| Retained Earnings | Before Distribution | 579,855 | 1,940,882 | 2,160,131 | 2,438,518 | 1,908,460 |
| | After Distribution | * | 1,940,882 | 1,871,393 | 1,736,261 | 1,336,623 |
| Unrealized Loss on Long-term Equity Investments | | (42,670) | (97,024) | (293,947) | (296,528) | (231,061) |
| Translation Adjustments | | 68,476 | 102,837 | 20,402 | 13,626 | 17,047 |
| Treasury Stock | | (295,262) | (295,262) | (112,124) | - | - |
| Net Loss Not Recognized as Pension Cost | | (535) | (535) | - | - | - |
| Total Assets | | 175,544,729 | 185,300,955 | 190,392,399 | 194,216,973 | 183,397,070 |
| Total Liabilities | Before Distribution | 160,344,203 | 168,759,137 | 173,727,017 | 177,874,106 | 168,087,360 |
| | After Distribution | * | 168,759,137 | 173,727,017 | 177,874,106 | 168,087,360 |
| Total Stockholders' Equity | Before Distribution | 15,200,526 | 16,541,818 | 16,665,382 | 16,342,867 | 15,309,710 |
| | After Distribution | * | 16,541,818 | 16,376,644 | 16,342,867 | 15,309,710 |

* 2002 posted a net loss and earnings distribution has yet to gain approval at the shareholders' meeting.

2. Income Statements

Unit: NT\$ in thousand

| Item | Year | Income Statements for the past five years | | | | |
|--------------------------------------|------|---|--------------|--------------|--------------|--------------|
| | | 2002 | 2001 | 2000 | 1999 | 1998 |
| Operating Revenue | | \$10,845,698 | \$13,798,762 | \$15,133,417 | \$15,145,756 | \$13,755,052 |
| Operating Cost | | 11,940,901 | 13,653,150 | 14,571,550 | 13,734,022 | 12,782,694 |
| Operating Income (Loss) | | (1,095,203) | 145,612 | 561,867 | 1,411,734 | 972,358 |
| Earnings Before Income Tax (Loss) | | (1,428,718) | 58,061 | 567,729 | 1,430,087 | 993,523 |
| Net Income (Loss) | | (1,316,285) | 69,489 | 423,884 | 1,102,045 | 795,221 |
| Earning Per Share (Loss) (in dollar) | | (0.94) | 0.05 | 0.28* | 0.74* | 0.53* |

* based on retroactively-adjusted weighted-average number of common shares outstanding

Financial Highlights

3. Independent Auditors and Audit Opinions for the Past Five Years

| Year | CPA Firm | Auditors | Audit Opinion |
|-------------|-----------------|-------------------------------------|---------------------|
| 1998 | T N Soong & Co. | Mr. Eli C. Wang and Mr. Fred Tsai | Unqualified |
| 1999 & 2000 | T N Soong & Co. | Mr. Eli C. Wang and Ms. Joannie Lee | Unqualified |
| 2001 | T N Soong & Co. | Ms. Joannie Lee and Mr. Ray Chang | Revised Unqualified |
| 2002 | T N Soong & Co. | Ms. Joannie Lee and Mr. Ray Chang | Qualified (note) |

Note: The qualified opinion is issued against our loss derived from the sales of non-performing loans, which will be carried forward over 60 months as stipulated by the Law Governing Merger of Financial Institutions.

II. Financial Analysis for the Past Five Years

| Item | Year | Financial Analysis for the past five years | | | | | |
|-------------------------|--|--|--------|--------|--------|--------|------|
| | | 2002 | 2001 | 2000 | 1999 | 1998 | |
| Financial Structure (%) | Liabilities to assets ratio | 91.34 | 91.07 | 91.25 | 91.59 | 91.65 | |
| | Deposits to net worth ratio | 986.47 | 966.46 | 938.94 | 983.69 | 982.79 | |
| | Fixed assets to net worth ratio | 19.19 | 18.22 | 18.42 | 14.13 | 13.33 | |
| Liquidity (%) | Current ratio | 769.59 | 611.80 | 246.97 | 249.52 | 202.84 | |
| | Current reserve ratio | 9.52 | 13.80 | 9.10 | 12.50 | 8.31 | |
| Operating Performance | Deposits to loans ratio (%) | 73.61 | 79.31 | 90.77 | 90.48 | 94.60 | |
| | Non-Performing Loans Ratio (%) | 4.12 | 3.91 | 3.54 | 3.71 | 2.18 | |
| | Interest expense to average outstanding deposits ratio (%) | 2.59 | 4.80 | 5.35 | 5.82 | 6.82 | |
| | Interest Income to average outstanding loans ratio (%) | 7.20 | 8.00 | 8.80 | 8.95 | 9.34 | |
| | Total asset turnover (times) | 0.0601 | 0.0735 | 0.0787 | 0.0802 | 0.0825 | |
| | Average operating revenue per employee (NID thousand) | 5,385 | 7,657 | 8,765 | 9,641 | 10,413 | |
| | Average profit per employee (NID thousand) | (676) | 39 | 246 | 702 | 602 | |
| | Profitability | Returns on Assets (%) | (0.75) | 0.04 | 0.22 | 0.58 | 0.48 |
| | Returns on Equity (%) | (8.58) | 0.42 | 2.57 | 6.96 | 5.29 | |
| | Ratio to issued capital stock (%) | Operating Income | (7.5) | 1.00 | 3.80 | 9.95 | 7.14 |
| | | Income before tax | (9.79) | 0.40 | 3.84 | 10.08 | 7.30 |
| | Net income to total revenue ratio (%) | (12.55) | 0.50 | 2.80 | 7.28 | 5.78 | |
| | Earnings per share (NID) | (0.94) | 0.05 | 0.28* | 0.74* | 0.53* | |
| Cash Flow (%) | Cash flow ratio | 65.23 | 57.42 | Note | 8.84 | 10.68 | |
| | Cash flow adequacy ratio | 375.85 | 231.29 | 87.9 | 103.84 | 68.24 | |
| | Cash reinvestment ratio | 6.35 | 8.28 | Note | 3.77 | 6.08 | |

* based on retroactively-adjusted weighted-average number of common shares outstanding

Note: Cash flow from operating activities was a net outflow.

III Net Worth, Earnings, Dividends, and Market Value Per Share for the Past Two Years

Unit: NIS

| Item | Year | 2002 | 2001 |
|------------------------|---|---------------|---------------|
| Net Worth Per Share | before distribution | 10.21 | 11.11 |
| | after distribution | Note 2 | 11.11 |
| Earnings Per Share | weighted-average number of shares outstanding | 1,443,689,389 | 1,446,992,904 |
| | before adjustment | -0.94 | 0.05 |
| | after adjustment | Note 2 | 0.05 |
| Dividends Per Share | cash dividend | Note 2 | - |
| | stock dividend | Note 2 | - |
| Market Price Per Share | | 4.97~7.85 | 4.80~8.00 |

Note: 1. Common stock became publicly traded over the counter on September 19, 1995 and were subsequently listed and traded on Taiwan Stock Exchange on June 29, 1998.

2. Loss in 2002 will be allocated for after 2003 general shareholders' meeting.

IV. Financial Statements for the Past Year

English Translation of a Report Originally Issued in Chinese

Independent Auditors' Report

February 21, 2003

The Board of Directors and Stockholders

Union Bank of Taiwan

We have audited the accompanying balance sheets of Union Bank of Taiwan as of December 31, 2002 and 2001, and the related statements of income, changes in stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit. As stated in Note 8 to the financial statements, the financial statements of the investees accounted for by the equity method were audited by other auditors except the 2002 financial statements of Union Security Investment Consulting Company. The above balance of long-term equity investments accounted for by the equity method were \$2,814,639 and \$2,794,367, represent 1.6% and 1.5% of total asset, as of December 31, 2002 and 2001, respectively. The equity in net loss of investees accounted for by the equity method for the years ended December 31, 2002 and 2001 were \$70,374 and \$245,531, represent 4.93% and 422.88% of pre-tax loss and pre-tax income, respectively, which were based on the investees' 2002 and 2001 audited financial statements.

We conducted our audits in accordance with Regulations for Audit of Financial Statements of Financial Institution by Certified Public Accountants and 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 provide a reasonable basis for our opinion.

As stated in Note 10 to the financial statements, the bank sold part of its non-performing loans to the asset management company on November 29, 2002 from which the Bank recognized deferred loss of \$7,781,652 (included in other assets) amortized over sixty months in accordance with Financial Institution Consolidation Law. If the above loss were not deferred, the balances of the other assets and unappropriated earnings would be decreased by \$7,522,042 as of December 31, 2002, and the net loss would be decreased by the same amount for the year ended December 31, 2002.

In our opinion, except for the effects of the deferred loss on the sale of non-performing loans to the related statements stated in the above paragraph, based on our audit and other auditor's reports, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial positions of Union Bank of Taiwan as of December 31, 2002 and 2001, and the results of its operations and its cash flows for the years then ended in conformity with Guidelines for Securities Issuers' Financial Reporting and accounting principles generally accepted in the Republic of China.

T N Soong + Co

T N Soong & Co
An Associate Member Firm of Deloitte Touche Tohmatsu
Effective April 22, 2002
Formerly a Member Firm of Andersen Worldwide, (SC)
Taipei, Taiwan
The Republic of China

Notice to Readers

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

Financial Highlights

UNION BANK OF TAIWAN BALANCE SHEETS

December 31, 2002 and 2001

(Amounts Expressed in Thousands of New Taiwan Dollars, Except Par Value of Capital Stock)

| ASSETS | 2002 | | 2001 | | LIABILITIES AND STOCKHOLDERS' EQUITY | | 2002 | | 2001 | |
|--|----------------|-----|----------------|-----|---|-----|---------------|-------|---------------|-----|
| | Amount | % | Amount | % | Amount | % | Amount | % | Amount | % |
| CASH (Note 3) | \$ 7,697,876 | 4 | \$ 5,794,187 | 3 | Call loans and due to banks (Notes 11 and 20) | 1 | \$ 1,599,665 | 1 | \$ 2,982,033 | 1 |
| DUE FROM BANKS (Note 20) | 1,737,517 | 1 | 3,200,208 | 2 | Payables and advance receipts (Notes 12, 17 and 20) | 2 | 4,468,303 | 2 | 5,154,956 | 3 |
| DUE FROM CENTRAL BANK (Note 4) | 7,016,016 | 4 | 7,561,321 | 4 | Deposits and remittances (Notes 13 and 20) | 85 | 149,958,821 | 85 | 159,878,978 | 86 |
| SECURITIES PURCHASED - NET (Notes 2, 5, 20 and 21) | 10,822,743 | 6 | 17,252,395 | 9 | Bank debenture (Note 14) | 2 | 3,500,000 | 2 | - | - |
| RECEIVABLES - NET (Notes 2, 6 and 20) | 18,778,409 | 11 | 15,189,343 | 8 | Other liabilities (Note 2) | 1 | 817,414 | 1 | 743,170 | 1 |
| PREPAID EXPENSES | 645,990 | - | 784,984 | 1 | Total Liabilities | 91 | 160,344,203 | 91 | 168,759,137 | 91 |
| LOANS, DISCOUNTS AND BILLS PURCHASED - NET (Notes 2, 7 and 20) | 108,609,034 | 62 | 125,574,838 | 68 | STOCKHOLDERS' EQUITY | | | | | |
| LONG-TERM EQUITY INVESTMENTS (Notes 2 and 8) | 3,783,285 | 2 | 3,754,720 | 2 | Capital stock - \$10 Par value | | | | | |
| PROPERTIES AND EQUIPMENT (Notes 2 and 9) | 1,723,764 | 1 | 1,746,515 | 1 | Authorized and issued 1,488,926,389 shares in 2002 and 2001 | 9 | 14,889,264 | 9 | 14,889,264 | 8 |
| Cost | | | | | Capital surplus | - | 1,398 | - | 1,656 | - |
| Land | 752,991 | 1 | 786,117 | 1 | Retained earnings: | | | | | |
| Buildings and improvements | 1,102,144 | 1 | 1,015,009 | 1 | Legal reserve | | 1,809,297 | 1 | 1,788,373 | 1 |
| Office equipment | 131,629 | - | 125,701 | - | Special reserve | | 75,049 | - | 75,049 | - |
| Transportation equipment | 664,595 | - | 646,380 | - | Unappropriated earnings | | (1,304,491) | (1) | 77,460 | - |
| Leasehold improvements | 4,375,123 | 3 | 4,319,722 | 2 | Unrealized loss on long-term equity investments | | (42,670) | - | (97,024) | - |
| Accumulated depreciation | 1,475,416 | 1 | 1,334,554 | 1 | Cumulative translation adjustments | | 68,476 | - | 102,837 | - |
| Prepayments for equipment (Note 22) | 2,899,707 | 2 | 2,985,168 | 1 | Treasury stock - at cost: | | | | | |
| Net Properties | 17,701 | - | 29,177 | - | 45,237,000 shares in 2002 and 2001 | | (295,262) | - | (295,262) | - |
| | 2,917,408 | 2 | 3,014,345 | 1 | Net loss not recognized as pension cost | | (535) | - | (535) | - |
| OTHER ASSETS (Notes 2, 10, 18 and 20) | 13,536,451 | 8 | 3,174,614 | 2 | Total Stockholders' Equity | 9 | 15,200,526 | 9 | 16,541,818 | 9 |
| TOTAL ASSETS | \$ 175,544,729 | 100 | \$ 185,300,955 | 100 | CONTINGENCIES AND COMMITMENTS (Notes 20, 22 and 26) | | | | | |
| | | | | | TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | 100 | \$175,544,729 | 100 | \$185,300,955 | 100 |

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

(With T N Soong & Co report dated February 21, 2003)

U N I O N B A N K O F T A I W A N

S T A T E M E N T S O F I N C O M E

For the Years Ended December 31, 2002 and 2001
(Amounts Expressed in Thousands of New Taiwan Dollars, Except Earnings Per Share)

| | 2002 | | 2001 | |
|---|------------------------|---------------|-------------------|--------------|
| | Amount | % | Amount | % |
| OPERATING REVENUES | | | | |
| Interest (Notes 2 and 20) | \$ 8,541,333 | 79 | \$10,756,646 | 78 |
| Service fees (Notes 2 and 20) | 1,806,434 | 16 | 1,473,133 | 11 |
| Income from securities - net (Note 2) | 412,536 | 4 | 1,293,380 | 9 |
| Foreign exchange gain - net (Note 2) | 85,395 | 1 | 275,603 | 2 |
| Total Operating Revenues | 10,845,698 | 100 | 13,798,762 | 100 |
| OPERATING COST AND EXPENSES | | | | |
| Interest (Notes 2 and 20) | 4,008,607 | 37 | 7,592,497 | 55 |
| Service charges | 787,569 | 7 | 707,222 | 5 |
| Loss from long-term equity investments - net (Notes 2 and 8) | 62,302 | 1 | 236,191 | 2 |
| Provision for credit and other losses (Notes 2, 6 and 7) | 2,623,093 | 24 | 1,457,627 | 11 |
| Other operating cost | 259,381 | 2 | - | - |
| Operating and administrative expenses (Notes 2, 17 and 20) | 4,199,949 | 39 | 3,659,613 | 26 |
| Total Operating Cost and Expenses | 11,940,901 | 110 | 13,653,150 | 99 |
| OPERATING INCOME (LOSS) | (1,095,203) | (10) | 145,612 | 1 |
| NON-OPERATING EXPENSES | | | | |
| Income (Note 20) | 193,061 | 2 | 63,955 | - |
| Expenses | (526,576) | (5) | (151,506) | (1) |
| Non-operating Expenses - Net | (333,515) | (3) | (87,551) | (1) |
| INCOME (LOSS) BEFORE INCOME TAX | (1,428,718) | (13) | 58,061 | - |
| INCOME TAX BENEFIT (Notes 2 and 18) | 67,433 | - | 11,428 | - |
| NET INCOME (LOSS) | (\$ 1,361,285) | (13) | \$ 69,489 | - |
| | 2002 | | 2001 | |
| | Before Tax | After Tax | Before Tax | After Tax |
| EARNINGS (DEFICIT) PER SHARE (Note 19) | | | | |
| Basic earnings (deficit) per share | (\$ 0.99) | (\$ 0.94) | \$ 0.04 | \$ 0.05 |

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

(With T N Soong & Co report dated February 21, 2003)

U N I O N B A N K O F T A I W A N
STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

For the Years Ended December 31, 2002 and 2001

(Amount Expressed in Thousands of New Taiwan Dollars)

| | CAPITAL STOCK | | CAPITAL SURPLUS (Notes 2 and 15) | | | RETAINED EARNINGS (Note 15) | | UNREALIZED LOSS ON LONG-TERM INVESTMENTS (Notes 2 and 8) | CUMULATIVE TRANSLATION ADJUSTMENT (Notes 2 and 8) | TREASURY STOCK (Notes 2 and 16) | NET LOSS NOT RECOGNIZED AS PENSION COST (Notes 2 and 8) | TOTAL STOCKHOLDERS' EQUITY (Note 15) |
|--|-----------------------|--------------|----------------------------------|--------------------------------|----------|-----------------------------|-----------------|--|---|---------------------------------|---|--------------------------------------|
| | Shares (in Thousands) | Amount | Donated Capital | Gain on Disposal of Properties | Total | Legal Reserve | Special Reserve | | | | | |
| BALANCE, JANUARY 1, 2001 | 1,488,926 | \$14,889,264 | \$ 1,398 | \$ 29 | \$ 1,656 | \$ 1,661,212 | \$ 74,867 | \$ 424,052 | \$ 2,160,131 | (20,200) | \$ - | \$16,665,382 |
| Appropriations of 2000 earnings | - | - | - | - | - | 127,161 | - | (127,161) | - | - | - | - |
| Legal reserve | - | - | - | - | - | - | - | - | - | - | - | - |
| Cash dividend-2% | - | - | - | - | - | - | - | (288,738) | (288,738) | - | - | (288,738) |
| Special reserve | - | - | - | - | - | - | 182 | (182) | - | - | - | - |
| After appropriations | 1,488,926 | 14,889,264 | 1,398 | 258 | 1,656 | 1,788,373 | 75,049 | 7,971 | 1,871,393 | (20,200) | - | 16,376,644 |
| Net income for 2001 | - | - | - | - | - | - | - | 69,489 | 69,489 | - | - | 69,489 |
| Unrealized loss on long-term equity investments from the investee under the equity method | - | - | - | - | - | - | - | - | 196,923 | - | - | 196,923 |
| Charge in translation adjustment on long-term equity investments | - | - | - | - | - | - | - | - | 82,435 | - | - | 82,435 |
| Net loss not recognized as pension cost recognized from the investee under the equity method | - | - | - | - | - | - | - | - | - | - | (55) | (55) |
| Treasury stock | - | - | - | - | - | - | - | - | - | (25,037) | - | (183,138) |
| BLANCE, DECEMBER 31, 2001 | 1,488,926 | 14,889,264 | 1,398 | 258 | 1,656 | 1,788,373 | 75,049 | 77,460 | 1,940,882 | (45,237) | (55) | 16,541,818 |
| Appropriations of 2001 earnings | - | - | - | - | - | 20,924 | - | (20,924) | - | - | - | - |
| Legal reserve | - | - | - | - | - | - | - | - | - | - | - | - |
| After appropriations | 1,488,926 | 14,889,264 | 1,398 | 258 | 1,656 | 1,809,297 | 75,049 | 56,536 | 1,940,882 | (45,237) | (55) | 16,541,818 |
| Net loss for 2002 | - | - | - | - | - | - | - | (1,361,285) | (1,361,285) | - | - | (1,361,285) |
| Transfer of gain on sale of properties | - | - | - | (28) | (28) | - | - | 258 | 258 | - | - | - |
| Charge in translation adjustment on long-term equity investments | - | - | - | - | - | - | - | - | (34,361) | - | - | (34,361) |
| Unrealized loss on long-term equity investments from the investee under the equity method | - | - | - | - | - | - | - | - | 54,354 | - | - | 54,354 |
| BLANCE, DECEMBER 31, 2002 | 1,488,926 | \$14,889,264 | \$ 1,398 | \$ - | \$ 1,398 | \$ 1,809,297 | \$ 75,049 | \$ (1,304,491) | \$ 579,855 | (45,237) | (55) | \$15,200,526 |

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

(With TNY Soong & Co report dated February 21, 2003)

U N I O N B A N K O F T A I W A N
S T A T E M E N T S O F C A S H F L O W S

For the Years Ended December 31, 2002 and 2001

(Amounts Expressed in Thousands of New Taiwan Dollars)

| | 2002 | 2001 |
|---|----------------|----------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net income (loss) | (\$1,361,285) | \$69,489 |
| Adjustments to determine net cash attributable to operating activities: | | |
| Equity in net loss of investees accounted for by the equity method | 70,265 | 245,531 |
| Cash dividend and remuneration to directors and supervisors recognized by the equity method | 11,813 | 40,085 |
| Depreciation and amortization | 275,999 | 268,473 |
| Amortization of loss from sale of non-performing loans | 259,381 | - |
| Loss (gain) on disposal of properties | 108,535 | (665) |
| Provision for credit and other losses | 2,623,093 | 1,457,627 |
| Provision for (reversal of allowance for) decline in market value of securities purchased | 162,825 | (263,081) |
| Provision for decline in market value of collaterals assumed | 220,000 | 120,000 |
| Depreciation of collaterals assumed | 158 | 224 |
| Deferred income taxes | (80,709) | (160,980) |
| Decrease in securities purchased - for trading purposes | 6,548,889 | 8,409,610 |
| Increase in receivables | (4,333,217) | (4,085,276) |
| Decrease (increase) in prepaid expenses | 138,994 | (428,406) |
| Decrease in payables | (686,653) | (1,000,772) |
| Net Cash Provided by Operating Activities | 3,958,088 | 4,671,859 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Decrease (increase) in due from banks | 1,462,691 | (1,260,939) |
| Decrease (increase) in due from Central Bank | 545,305 | (1,503,372) |
| Increase in securities purchased - for investing purposes | (282,062) | (11,019,387) |
| Decrease in loans, discounts and bills purchased | 13,780,848 | 13,037,818 |
| Disposal of non-performing loans | 1,050,000 | - |
| Increase of long-term equity investments | (90,650) | (150,000) |
| Proceeds from sale of long-term equity investments | - | 126 |
| Acquisition of properties and equipment | (179,468) | (161,485) |
| Proceeds from disposal of properties and equipment | 34,159 | 347 |
| Increase in other assets | (10,643,574) | (1,005,902) |
| Net Cash Provided by (Used in) Investing Activities | 5,677,249 | (2,062,794) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Decrease in call loans and due to banks | (1,382,368) | (7,743,276) |
| Increase (decrease) in deposits and remittances | (9,920,157) | 3,386,338 |
| Increase in other liabilities | 70,877 | 382,707 |
| Increase in bank debenture paid | 3,500,000 | - |
| Cash dividends | - | (288,738) |
| Acquisition of treasury stock | - | (183,138) |
| Net Cash Used in Financing Activities | (7,731,648) | (4,446,107) |
| NET INCREASE (DECREASE) IN CASH | 1,903,689 | (1,837,042) |
| CASH, BEGINNING OF YEAR | 5,794,187 | 7,631,229 |
| CASH, END OF YEAR | \$ 7,697,876 | \$ 5,794,187 |
| SUPPLEMENTAL INFORMATION | | |
| Interest paid | \$ 5,012,431 | \$ 7,417,405 |
| Income tax paid | \$ 80,019 | \$ 208,191 |

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

(With T N Soong & Co report dated February 21, 2003)

U N I O N B A N K O F T A I W A N N O T E S T O F I N A N C I A L S T A T E M E N T S

(Amounts Expressed in Thousands of New Taiwan Dollars, Unless Otherwise Stated)

1. ORGANIZATION AND OPERATIONS

The Bank obtained the approval from the Ministry of Finance (MOF) to establish its operations on August 1, 1991 and was incorporated on December 31, 1991. It started operations on January 21, 1992.

The Bank engages in activities allowed under the Banking Law: Deposits, loans, discounts, remittances, acceptance, guarantee, letter of credit, short-term bill transactions, investment, foreign exchange transactions, savings, trust, etc.

As of December 31, 2002, the Bank's operating units included Banking, Trust, Security Finance and International Banking Department of the Head Office; an Offshore Banking Unit (OBU), two overseas representative offices; and 39 domestic branches.

The operations of the Bank's Trust Department consist of: (1) planning, managing and operating of trust business; (2) custodianship of non-discretionary trust fund in domestic and overseas securities and mutual funds. These foregoing operations are regulated under the Banking Law and Trust Law.

The Bank's shares of stock was traded on the Taiwan Stock Exchange (the TSE).

2. SIGNIFICANT ACCOUNTING POLICIES

The Bank's significant accounting policies, which conform to accounting principles generally accepted in the Republic of China (the R.O.C.), are summarized below:

Basis of financial statements

The accompanying financial statements include the accounts of the Head Office, OBU, all branches, and representative offices. All inter-office transactions and balances have been eliminated.

Securities purchased

Securities purchased include short-term bills, stocks, beneficiary certificates, bank debentures, corporate bonds and government bonds. Short-term bills, bank debentures and unlisted bonds are stated at cost. Stocks, beneficiary certificates, government bonds and corporate bonds traded on Over-The-Counter Securities (the OTC Exchange) are stated at the lower of cost or market. Cost of securities sold is determined using the weighted-average cost, except corporate bonds traded on the OTC Exchange which is determined using the specific identification method. Market prices are determined as follows: (a) listed stocks - average daily closing prices for the last month of the accounting period, published by the TSE; (b) over-the-counter stocks - average daily closing prices for the last month of the accounting period, published by the OTC Exchange; (c) beneficiary certificates (open-end fund) - net asset values as of the balance sheet date; and (d) bonds - reference prices published by the OTC Exchange as of the balance sheet date.

Sales and purchases of bonds and short-term bills under agreements to repurchase or resell are treated as outright sales and purchases, pursuant to a directive issued by the MOF.

Non-performing loans

The balance of overdue loans and other credits extended by the Bank and the related accrued interest are classified as non-performing loans in accordance with guidelines issued by the MOF.

Allowance for credit losses and provision for losses on guarantees

In determining the allowance for credit losses and provision for losses on guarantees, the Bank evaluates the losses on particular loans and overall credit portfolio considering the balances of loans, discounts and bills purchased, accounts, interest and other receivables, non-performing loans, as well as guarantees and acceptances as of the balance sheet dates.

Pursuant to "The Rules for Bank Asset Evaluation, Loss Reserve Provision, and Disposal of Overdue Loans and Bad Debts" (the "Rules") issued by the MOF, the Bank evaluates credit losses based on its borrowers'/clients' financial condition, post deal experience, the payment on the interest and principal and collateral provided to estimate level of collectibility.

The bank evaluates losses on particular loans in accordance with the Rules stated above. The Rules provide that the minimum amount requirement of provision for credit losses shall be equal to the aggregate of 50% of the doubtful credits and 100% of the unrecoverable credits.

Write-offs of specific loans under the MOF guidelines, upon approved by the board of directors, are offset against the recorded allowance for loan losses.

Long-term equity investments

Long-term equity investments are accounted for by the equity method or the cost method, depending on whether the Bank has significant influence on the investee companies or not.

Investments accounted for by the equity method are stated at cost plus (or minus) a proportionate share in net earnings (losses) or changes in net worth of investees. Cash dividends are deducted from the investments. Stock dividends result only in an increase in the number of shares and are not recognized as investment income. The Bank's proportionate equity in the donated capital and net loss not recognized as pension cost, which recognized from the investees under the equity method, are also recognized as an increase (decrease) in the carrying value of the related investments with a corresponding amount credited or charged to stockholders' equity. Any difference between the acquisition cost and the equity of the investee acquired at the time of investment is amortized over 15 years.

The income from cross sharing investee is computed using treasury stock method. Investments accounted for by the cost method are carried at cost. Cash dividends received are recognized as investment income. Stock dividends result only in an increase in the number of shares and are not recognized as investment income. The carrying value of an investment is reduced to the extent of such decline considered irrecoverable with the related provision for losses charged to current income.

Properties and equipment

Properties and equipment are stated at cost less accumulated depreciation. Major renewals and betterments are capitalized; repairs and maintenance are expensed as incurred.

Upon sale or disposal of properties and equipment, their cost and related accumulated depreciation are removed from the respective accounts. Any resulting gain (loss) is credited (charged) to current income.

Depreciation is calculated by the straight-line method based on estimated service lives which ranges as follows: Buildings and improvements, 50 to 55 years; office equipment, 3 to 5 years; transportation equipment, 3 to 5 years; and leasehold improvements, 5 years. For assets still in use beyond their original estimated service lives, further depreciation is calculated on the basis of the estimated additional service lives.

Other assets

Deferred charges, which included cost of computer system software and telephone installation cost, are amortized using the straight-line method over 5 years.

The loss on sale of non-performing loans is amortized over sixty months in accordance with the Rule No. 15 of Financial Institution Consolidation Law.

Collaterals assumed

Collaterals assumed (included in other assets) are recorded at cost which includes the assumed prices and any necessary repairs to achieve the selling status and revalued by the lower of cost or net realizable value as of balance sheet dates.

Recognition of interest revenue and service fees

Interest revenue on loans is recorded at accrual basis. No interest revenue is recognized in the accompanying financial statements on loans and other credits extended by the Bank that are classified as non-performing loans. The interest revenue on those loans/credits is recognized upon collection.

Pursuant to the regulation issued by MOF, the interest revenue on credits covered by agreements that extend their maturities is recognized upon collection.

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

Income tax

Interperiod income tax allocation is applied, whereby tax effects of deductible temporary differences. Unused investment tax credits and loss carryforward are recognized as deferred income tax assets and those of taxable temporary differences are recognized as deferred income tax liabilities. A valuation allowance is provided for deferred income tax assets that are not certain to be realized.

Adjustments of prior years' tax liabilities are included in the current year's tax provision.

Tax credits, generated from acquisitions of equipment or technology, research and development expenditure, personnel training expenditure and equity investments acquisition, are accounted for by the flow-through method.

Income tax (10%) on unappropriated earnings is recorded as income tax in the year when the shareholders resolve that the earnings shall be retained.

Pension

Pension expense is determined based on actuarial calculations.

Contingencies

A loss is recognized if it is probable that an asset has been impaired or a liability has been incurred and the amount of loss can be reasonably estimated. If the amount of loss cannot be reasonably estimated and the loss is possible and remote, the related information is disclosed in the financial statements.

Financial Highlights

Foreign-currency transactions

The Bank records foreign-currency transactions in the respective currencies in which these are denominated. Foreign-currency denominated income and expenses are translated into New Taiwan dollars at month end based on the spot rates. Foreign-currency assets and liabilities are translated into New Taiwan dollars at closing rates as of the balance sheet dates. Realized and unrealized foreign exchange gains or losses are credited or charged to current income. Gains or losses resulting from restatement of period-end foreign-currency denominated long-term equity investments accounted for by the equity method are credited or charged to "cumulative translation adjustment" under stockholders' equity.

Derivative financial instruments

a. Foreign exchange forward contracts

Foreign-currency assets and liabilities arising from forward exchange contracts, which are mainly to accommodate customers' needs or to manage the Bank's own currency positions, are recorded at the contracted rates. Gains or losses arising from the differences between the contracted rates and spot rates at settlement date are credited or charged to current income. For contracts outstanding as of the balance sheet dates, gains or losses arising from the differences between the contracted forward rates and the forward rates available for the remaining maturities of the contracts are credited or charged to current income. Receivables arising from forward exchange contracts are offset against the related payable as of the balance sheet dates.

b. Currency swaps contracts

Foreign-currency spot-position assets or liabilities arising from currency swap contracts, which are mainly to accommodate customers' needs or to manage the Bank's own currency positions, are recorded at the spot rates when the transactions occur, while the corresponding forward-position assets or liabilities are recorded at the contracted forward rates; with receivables netted against the related payable.

The related discount or premiums is amortized by the straight-line basis over the contract period.

c. Interest rate swaps

Interest rate swaps, which do not involve exchanges of the notional principals, are recorded as memorandum entries at the contract dates. For swaps entered into for hedging purposes, the net interest upon each settlement date/balance sheet date is recorded as an adjustment to interest income or expense associated with the item being hedged.

d. Asset swaps

Asset swaps involve exchanging the fixed rate interest and stock conversion rights of convertible bonds for floating rate interest. These transactions are recorded as memorandum entries at the contract date since no actual exchange of notional principals is involved. Asset swaps are entered into for hedging purposes which are used to hedge interest rate exposure of convertible bonds denominated in foreign currency. Net interest on each settlement date/balance sheet date are recorded as adjustments to interest revenue or expenses associated with the bonds being hedged.

e. Options

Options bought and/or held and options written, which are mainly to accommodate customers' needs or to manage the Bank's currency positions, are memorandum recorded only while the transactions occur because no principal transfer. The premium of the instruments are recorded as income and loss when they are exercised. Gains or losses on the exercise of options are also included in current income. The carrying values of the instruments are charged to income when they are not exercised.

Treasury stocks

Capital stock acquired is carried at cost and reflected as a separate deduction from stockholders' equity (Note 16).

3. CASH

| | December 31 | |
|------------------------------------|---------------------|---------------------|
| | 2002 | 2001 |
| Negotiable certificates of deposit | \$ 5,620,000 | \$ 3,385,558 |
| Cash on hand | 1,348,768 | 1,310,486 |
| Notes and checks in clearing | 729,108 | 1,098,143 |
| | <u>\$ 7,697,876</u> | <u>\$ 5,794,187</u> |

As of December 31, 2002, negotiable certificates of deposit aggregating \$200,000 has maturities over one year.

Pursuant to regulations, negotiable certificates of deposit amounting to \$250,000 and \$240,000 have been provided to the Central Trust Bureau as the consumer reserve as of December 31, 2002 and 2001, respectively.

To comply with the Central Bank's clearing system of Real-time Gross Settlement (RTGS), negotiable certificates of deposit aggregating \$2,570,000 has been provided as collateral for the day-time overdrafts as of December 31, 2002, with the pledged amount which can be adjusted momentarily.

4. DUE FROM CENTRAL BANK

| | December 31 | |
|--|---------------------|---------------------|
| | 2002 | 2001 |
| Denominated required deposit reserve | \$ 3,282,317 | \$ 3,491,761 |
| Denominated deposit reserve - checking account | 2,176,830 | 2,402,037 |
| Due from Central Bank | 1,552,000 | 1,552,000 |
| Foreign-currency denominated deposit reserve | 4,869 | 115,523 |
| | <u>\$ 7,016,016</u> | <u>\$ 7,561,321</u> |

The denominated required deposit reserves determined monthly at prescribed rates on average balances of customers' New Taiwan dollar- denominated deposits. The denominated required deposit reserve is subject to withdrawal restrictions, whereas reserve - checking account and foreign-currency denominated deposit reserves may be withdrawn momentarily and are non-interest earning.

5. SECURITIES PURCHASED

| | December 31 | |
|---|----------------------|----------------------|
| | 2002 | 2001 |
| Traded on the TSE and the OTC Exchange | | |
| Government bonds | \$ 5,355,675 | \$ 1,666,255 |
| Stocks | 121,439 | 371,886 |
| | <u>5,477,114</u> | <u>2,038,141</u> |
| Beneficiary certificates | 2,367,497 | 2,129,895 |
| Unlisted | | |
| Commercial paper | 1,283,798 | 11,813,350 |
| Offshore corporate bonds | 860,805 | 565,801 |
| Bank debentures | 801,700 | 876,257 |
| Credit linked notes | 356,495 | - |
| Bank acceptances | 9,208 | - |
| | <u>3,312,006</u> | <u>13,255,408</u> |
| | 11,156,617 | 17,423,444 |
| Less: Allowance for decline in market value | 333,874 | 171,049 |
| Net | <u>\$ 10,822,743</u> | <u>\$ 17,252,395</u> |

The market value or reference prices of government bonds, stocks which traded on the TSE and the OTC Exchange and beneficiary certificates as of December 31, 2002 and 2001 were as follows:

| | December 31 | |
|--------------------------|---------------------|---------------------|
| | 2002 | 2001 |
| Government bonds | \$ 5,425,080 | \$ 1,698,074 |
| Stocks | 111,130 | 330,376 |
| Beneficiary certificates | 2,043,102 | 1,991,181 |
| | <u>\$ 7,579,312</u> | <u>\$ 4,019,631</u> |

Securities purchased as of December 31, 2002 and 2001, include government bonds and bank debentures \$991,200 and \$1,231,000 respectively, which have been provided to the courts as guarantee deposits for provisional seizures against the debtors' properties used as collateral on defaulted loans and other obligations to the Bank. As of December 31, 2002 and 2001, government bonds \$50,000 have been provided to the Central Bank as trust reserve.

In addition, pursuant to regulations, government bonds amounting \$26,500 have been provided to the Central Trust Bureau as the consumer reserve as of December 31, 2002.

Financial Highlights

6. RECEIVABLES

| | December 31 | |
|---|----------------------|----------------------|
| | 2002 | 2001 |
| Accounts receivable | \$ 16,108,168 | \$ 11,986,398 |
| Interest receivable | 1,415,827 | 1,895,188 |
| Receivable from sale of non-performing loan | 945,000 | - |
| Acceptances receivable | 418,932 | 364,582 |
| Accrued revenue | 356,095 | 227,349 |
| Others | 596,255 | 1,033,543 |
| | <u>19,840,277</u> | <u>15,507,060</u> |
| Less: Allowance for credit losses | <u>1,061,868</u> | <u>317,717</u> |
| Net | <u>\$ 18,778,409</u> | <u>\$ 15,189,343</u> |

7. LOANS, DISCOUNTS AND BILLS PURCHASED

| | December 31 | |
|--|-----------------------|-----------------------|
| | 2002 | 2001 |
| Overdrafts | \$ 681,554 | \$ 407,764 |
| Loans | | |
| Short-term - unsecured | 12,412,863 | 15,473,800 |
| - secured | 9,355,912 | 10,783,326 |
| Mid-term - unsecured | 16,790,863 | 14,861,782 |
| - secured | 18,796,081 | 34,798,361 |
| Long-term - unsecured | 2,677,001 | 1,855,582 |
| - secured | 42,629,481 | 41,439,648 |
| Bills purchased and import/export negotiations | 318,802 | 469,153 |
| Non-performing loans | <u>6,716,662</u> | <u>6,702,183</u> |
| | <u>110,379,219</u> | <u>126,791,599</u> |
| Less: Allowance for credit losses | <u>1,770,185</u> | <u>1,216,761</u> |
| Net | <u>\$ 108,609,034</u> | <u>\$ 125,574,838</u> |

As of December 31, 2002 and 2001, the balance of non-accrual loans were \$6,716,662 and \$6,702,183, respectively. The unrecognized interest revenue on non-performing loans amounted to \$423,095 and \$523,403 for the years ended December 31, 2002 and 2001.

Since the third quarter of 2000, the economic and financial environment has been beset by many economic and noneconomic difficulties from inside and outside Taiwan. Thus, the country's economic growth has decelerated, investment is reduced, unemployment has risen, the stock market is bearish, and the New Taiwan dollars devaluated. Certain business enterprises, including conglomerates and listed companies, failed to meet their obligations when those obligations became due. To stabilize the situation, the government has taken various economy-boosting measures.

Against this background, the Bank's financial statements for the year ended December 31, 2002 included provisions for possible losses and guarantee losses based on information available to the Bank, including defaults to the extent they can be determined or estimated. However, these estimates do not include any adjustments that might be required when related contingent liabilities become probable or determinable in the future.

For the years ended December 31, 2002 and 2001, the Bank had not written off credits without any legal proceedings having been initiated.

The details and changes in allowance for credit losses of loans, discounts and bills purchased are summarized as follows:

| | For the Year Ended December 31, 2002 | | |
|----------------------------------|--------------------------------------|---------------------|---------------------|
| | Specific Provision | General Provision | Total |
| Balance, beginning of year | \$ 659,937 | \$ 556,824 | \$ 1,216,761 |
| Provision | 2,177,498 | - | 2,177,498 |
| Write-off | (1,344,253) | - | (1,344,253) |
| Recovery of written-off credit | 50,223 | - | 50,223 |
| Reclassifications | (919,659) | 589,394 | (330,265) |
| Effects of exchange rate changes | 221 | - | 221 |
| Balance, end of year | <u>\$ 623,967</u> | <u>\$ 1,146,218</u> | <u>\$ 1,770,185</u> |

| | For the Year Ended December 31, 2001 | | |
|----------------------------------|--------------------------------------|----------------------|---------------------|
| | Specific Provision | General Provision | Total |
| Balance, beginning of year | \$ 1,222,992 | \$ 972,017 | \$ 2,195,009 |
| Provision | 1,228,655 | - | 1,228,655 |
| Write-off | (2,209,709) | - | (2,209,709) |
| Reclassifications | 415,193 | (415,193) | - |
| Effects of exchange rate changes | 2,806 | - | 2,806 |
| Balance, end of year | <u>\$ 659,937</u> | <u>\$ 556,824</u> | <u>\$ 1,216,761</u> |

8. LONG-TERM EQUITY INVESTMENTS

| | December 31 | | | |
|--|---------------------|-------------------------|---------------------|-------------------------|
| | 2002 | | 2001 | |
| | Amount | Holding Ratio (%) | Amount | Holding Ratio (%) |
| Unlisted stocks | | | | |
| Equity method | | | | |
| Union Bills Finance Corporation | \$ 1,055,988 | 42.76 | \$ 1,359,868 | 42.76 |
| Union Finance and Leasing International Corporation | 668,616 | 99.99 | 514,514 | 99.99 |
| Union Bank Futures Corporation | 631,710 | 99.07 | 584,373 | 99.07 |
| Union Finance International (H.K.) Limited | 185,995 | 99.99 | 171,363 | 99.99 |
| Union Security Investment Trust Corporation | 109,292 | 35.00 | 100,450 | 35.00 |
| Union Information Technology Corporation | 94,345 | 99.92 | - | - |
| Union Insurance Broker Company | 48,380 | 90.07 | 40,039 | 90.07 |
| Union Real-Estate Management Corporation | 20,313 | 40.00 | 15,576 | 40.00 |
| Union Securities Investment Consulting Company | 8,293 | 99.40 | 8,184 | 99.40 |
| | <u>2,822,932</u> | | <u>2,794,367</u> | |
| Cost method | | | | |
| Entie Securities Finance Company | \$ 622,188 | 12.15 | \$ 622,188 | 12.15 |
| Taiwan Asset Management Corporation | 100,000 | 0.57 | 100,000 | 0.57 |
| Universal Venture Fund Inc. | 80,000 | 4.76 | 80,000 | 4.76 |
| Taiwan Financial Asset Service Corporation | 50,000 | 2.94 | - | - |
| Financial Information Service Company | 45,500 | 1.14 | 45,500 | 1.14 |
| Euroc II Venture Capital COT. | 30,000 | 5.00 | 30,000 | 5.00 |
| NCTU Spring I Technology Venture Capital Investment Corporation | 21,615 | 5.00 | 21,615 | 5.00 |
| Taiwan Future Exchange Corporation | 10,250 | 0.51 | 10,250 | 0.51 |
| Taipei Forex Inc. | 800 | 0.40 | 800 | 0.40 |
| | <u>960,353</u> | | <u>910,353</u> | |
| Deposit on subscriptions | | | | |
| Taiwan Financial Asset Service Corporation | - | - | 50,000 | 2.94 |
| | <u>\$ 3,783,285</u> | | <u>\$ 3,754,720</u> | |

The equity in net loss of investees accounted for by the equity method for the years ended December 31, 2002 and 2001 were \$70,374 and \$245,531, respectively, which were based on the investees' 2002 and 2001 financial statements audited by other auditors except the 2002 financial statements of Union Securities Investment Consulting Company.

As of December 31, 2002 and 2001, the unrealized losses on long-term equity investments resulting from decline in the market value of listed stocks held by the investee accounted for by the equity method amounted to \$42,670 and \$97,024, respectively. As of December 31, 2002 and 2001, the cumulative translation adjustments amounted to \$39,973 and \$73,285 were resulted from the investee accounted for by the equity method, respectively.

Financial Highlights

As of December 31, 2002 and 2001, the Bank recognized its equity in net loss not recognized as pension cost both totaling \$535, which resulting from net loss not recognized as pension cost held by the investee accounted for by the equity method.

The total asset and operating revenue of each subsidiaries are less than 10% of those of the Bank, and the total asset and operating revenue of all subsidiaries are less than 30% of those of the Bank, no consolidated financial statement is required.

9. PROPERTIES AND EQUIPMENT

| | December 31 | |
|----------------------------|---------------------|---------------------|
| | 2002 | 2001 |
| Cost | \$ 4,375,123 | \$ 4,319,722 |
| Accumulated depreciation | | |
| Buildings and improvements | 83,662 | 72,834 |
| Office equipment | 749,494 | 684,404 |
| Transportation equipment | 96,199 | 85,534 |
| Leasehold improvements | 546,061 | 491,782 |
| | <u>1,475,416</u> | <u>1,334,554</u> |
| Prepayments for equipment | 17,701 | 29,177 |
| Net | <u>\$ 2,917,408</u> | <u>\$ 3,014,345</u> |

10. OTHER ASSETS

| | December 31 | |
|--|----------------------|---------------------|
| | 2002 | 2001 |
| Deferred loss for sale of non-performing loans | \$ 7,522,042 | \$ - |
| Collaterals assumed - net | 4,063,814 | 1,417,422 |
| Guarantee deposits | 1,345,124 | 1,254,982 |
| Deferred charges | 223,292 | 200,740 |
| Deferred tax asset - net | 382,179 | 301,470 |
| | <u>\$ 13,536,451</u> | <u>\$ 3,174,614</u> |

On November 29, 2002, the bank sold non-performing loans of \$8,831,652 to Taiwan Asset Management Company at \$1,050,000 and recognized a loss of \$7,781,652. The loss has been deferred in accordance with the Financial Institution Consolidation Law and amortized over sixty months.

\$945,000 of the selling price has not yet been received by the Bank and recorded as the receivable as of December 31, 2002.

11. CALL LOANS AND DUE TO BANKS

| | December 31 | |
|-------------------------------------|---------------------|---------------------|
| | 2002 | 2001 |
| Due to Central Bank and other banks | \$ 1,098,373 | \$ 1,771,222 |
| Call loans from banks | 374,833 | 1,144,851 |
| Overdrafts | 126,459 | 65,960 |
| | <u>\$ 1,599,665</u> | <u>\$ 2,982,033</u> |

Call loans from banks mainly come from foreign exchange borrowings between the International Banking Department of the Head Office and OBU.

12. PAYABLES

| | December 31 | |
|---|---------------------|---------------------|
| | 2002 | 2001 |
| Interest payable | \$ 973,316 | \$ 1,977,136 |
| Notes and checks in clearing | 729,108 | 1,098,143 |
| Notes and checks in clearing - branches | 609,693 | 76,200 |
| Advance receipts | 560,557 | 215,310 |
| Bank acceptances payable | 423,419 | 370,174 |
| Accrued expenses | 306,132 | 246,589 |
| Other | 866,078 | 1,171,404 |
| | <u>\$ 4,468,303</u> | <u>\$ 5,154,956</u> |

13. DEPOSITS AND REMITTANCES

| | December 31 | |
|--|-----------------------|-----------------------|
| | 2002 | 2001 |
| Savings | \$ 83,044,922 | \$ 81,170,009 |
| Time | 32,400,869 | 39,520,309 |
| Due to Postal Remittances and Savings Bank | 18,481,185 | 20,231,153 |
| Demand | 12,405,038 | 9,782,320 |
| Negotiable certificates of deposit | 2,018,700 | 7,677,300 |
| Checking | 1,597,352 | 1,489,331 |
| Inward and outward remittances | 10,755 | 8,556 |
| | <u>\$ 149,958,821</u> | <u>\$ 159,878,978</u> |

14. BANK DEBENTURES

The Bank issued the first 5-year bank debentures with total face amount \$3,500,000 bearing fixed annual interest rate of 3.8% on November 14, 2002. The debenture was traded on the OTC Exchange. The annual interest will be paid every half year and the principal will be repaid at the maturity date.

15. STOCKHOLDERS' EQUITY

a. Capital surplus

According to the Company Law, the component of capital surplus arising from issuance of shares in excess of par value and donation can be appropriated transfer to the common stock with the approval of stockholders.

The component of capital surplus arising from issuance of shares in excess of par value can, except in the year it arises, be distributed as stock dividends. Such distribution can be made only once a year and within other specified limits. The foregoing restrictions are in accordance with regulations issued by the Securities and Futures Commission (the "SFC").

The component of capital surplus arising from equity-accounted long-term equity investment can not be distributed for any purpose.

b. Retained earnings

The Bank's Articles of Incorporation provide that annual net income, after offsetting any deficit of prior years, should be appropriated as follows:

- 1) 30% as legal reserve;
- 2) Special reserve, as deemed proper;
- 3) Dividend to the stockholders;
- 4) The remainder:
 - a) Employees bonus of not less than 10%;
 - b) Retained earnings, as deemed proper;
 - c) The remainder, together with prior year's unappropriated earnings: 95% as bonus to stockholders and 5% as bonus to directors and supervisors.

These appropriations should be resolved by the stockholders in the following year and given effect to in the financial statements of that year.

The appropriation of cash and stock dividend declared and to be distributed is proposed by the Board of Directors (BOD) taking into account the overall financial economic condition, the expected future profitability and capital expenditure requirements. In view of the Bank's needs for capital to expand its operations and in order to meet capital adequacy ratios, primarily cash dividends will be declared in the next three years up to the resolution of shareholder meeting.

The declaration of cash dividend needs to be resolved by shareholders meeting while that of stock dividend needs further approval from SFC.

The 2001 earnings has been resolved by 2002 shareholders meeting to appropriate legal reserve only, the remainings are reserved for future appropriation. Meanwhile the Bank has no earnings to be appropriated for the year ended 2002, no employee bonus and numeration to directors should be appropriated either. The above related information can be referred from the SEC Market Observation Post System (M.O.P.S.) website.

A special reserve is appropriated from the balance of the retained earnings at an amount that is equivalent to the debit balance of account in the stockholders' equity, such as unrealized loss on long-term equity investments and cumulative translation adjustment but excluding treasury stock, pursuant to a directive issued by the SFC. The reserve shall be at an amount equal to the same debit balance. The balance of the special reserve is adjusted to reflect any changes in the debit balances of the related account.

Financial Highlights

Under the Company Law, the aforementioned appropriation for legal reserve is made until the reserve equals the aggregate par value of the Bank's outstanding capital stock. This reserve is only used to offset deficit, or when the reserve reaches 50% of aggregate par value of the Bank's outstanding capital stock, up to 50% thereof can be distributed as stock dividends. In addition, the Banking Law provides that, when the balance of legal reserve is less than the Bank's outstanding capital stock, annual cash dividends and bonuses to directors, supervisors and employees should not exceed 15% of aggregate par value of the Bank's outstanding capital stock. Under the Integrated Income Tax System, non-corporate and ROC-resident stockholders are allowed tax credits for the income tax paid by the Bank on earnings generated in 1998 onwards.

16. TREASURY STOCK

| Reasons of Redeem | (Shares in thousands) | | | End of Year |
|--------------------------|-----------------------|----------|----------|-------------|
| | Beginning of Year | Increase | Decrease | |
| <u>2002</u> | | | | |
| Re-issuance to employees | 45,237 | - | - | 45,237 |
| <u>2001</u> | | | | |
| Re-issuance to employees | 20,200 | 25,037 | - | 45,237 |

The Bank is prohibited under the Securities and Exchange Law to acquire treasury stock in excess of 10% of the total shares issued and limited the total acquisition cost not to exceed the combined total of the retained earnings, additional paid-in capital in excess of par value and capital surplus arising from gains on disposal of properties and donated capital. In addition, the Bank is prohibited from using the treasury stock to secure any of its obligations and to exercise the rights of a stockholder in respect to those treasury stock.

For the years ended December 31, 2002 and 2001, the highest number of shares of treasury stock held by the Bank were both 45,237,000 shares, and the highest balance of treasury stock were both \$295,262 and \$295,410, respectively.

17. PENSION

The Bank has a defined benefit noncontributory pension plan covering all regular employees. The Bank makes monthly contributions to the pension fund managed by the employees pension fund administrative committee and the supervisor committee of labor retirement reserve.

The changes in the pension fund are summarized as follows:

| | For the Year Ended | |
|----------------------------|--------------------|-------------------|
| | December 31 | |
| | 2002 | 2001 |
| Balance, beginning of year | \$ 274,159 | \$ 246,411 |
| Contributions | 34,671 | 39,606 |
| Interest income | 6,693 | 9,732 |
| Benefits paid | (1,744) | (21,590) |
| Balance, end of year | <u>\$ 313,779</u> | <u>\$ 274,159</u> |

a. Net pension costs for the years ended December 31, 2002 and 2001 are summarized below:

| | 2002 | 2001 |
|--------------------------------|------------------|------------------|
| Service cost | \$ 39,115 | \$ 36,874 |
| Interest cost | 13,381 | 11,967 |
| Actual return on assets | (\$ 3,439) | (\$ 18,032) |
| Deferred assets gains | (11,064) | - |
| Expected return on plan assets | (14,503) | (18,032) |
| Net amortization and deferral | (519) | (519) |
| Net pension cost | <u>\$ 37,474</u> | <u>\$ 30,290</u> |

b. The reconciliations of the funded status of the plan and accrued pension cost as of December 31, 2002 and 2001 are as follows:

| | <u>2002</u> | <u>2001</u> |
|--|------------------|------------------|
| Benefit obligation | | |
| Vested benefit obligation | \$ 31,113 | \$ 24,491 |
| Nonvested benefit obligation | 167,040 | 132,650 |
| Accumulated benefit obligation | 198,153 | 157,141 |
| Additional benefits based on future salaries | 98,652 | 119,485 |
| Projected benefit obligation | 296,805 | 276,626 |
| Fair value of plan assets | (311,014) | (277,384) |
| Funded status | (14,209) | (758) |
| Unrecognized net transitional obligation | - | - |
| Unrecognized prior service cost | 9,075 | 9,594 |
| Unrecognized pension gain (loss) | 10,914 | (5,920) |
| Accrued pension cost | <u>\$ 5,780</u> | <u>\$ 2,916</u> |
| c.Vested benefits obligation | <u>\$ 35,751</u> | <u>\$ 29,332</u> |
| d.Actuarial assumptions | | |
| Discount rate used in determining present values | 4.0% | 5.0% |
| Future salary increase rate | 0.0%-3.0% | 3.5%-4.0% |
| Expected rate of return on plan assets | 4.0% | 5.0% |

18. INCOME TAX

a.The compositions of income tax are as follows:

| | For the Year Ended December 31 | |
|---|-----------------------------------|--------------------|
| | <u>2002</u> | <u>2001</u> |
| Income tax on income before income tax at 25% statutory rate | \$ 357,179) | \$ 14,505 |
| Interest income on short-term bills, which is taxed separately | (12,189) | (30,114) |
| Loss (income) on sales of securities | 966 | (111,529) |
| Other | 368,402 | 127,138 |
| Currently tax payable | - | - |
| Tax on unappropriated earnings (10%) | - | 46,428 |
| Change in deferred income tax | (80,709) | (160,980) |
| Separate tax on interest income from short- term bills | 48,758 | 120,458 |
| Other | (35,482) | (17,334) |
| | <u>\$ 67,433)</u> | <u>\$ 11,428)</u> |

b.As of December 31, 2002 and 2001, net deferred income tax consists of the tax effect of the following:

| | December 31 | |
|--|-------------------|-------------------|
| | <u>2002</u> | <u>2001</u> |
| Provision for credit losses | \$ 383,008 | \$ 22,609 |
| Loss carryforward | 283,585 | 305,710 |
| Unrealized loss of collaterals assumed | 89,996 | 34,996 |
| Unrealized foreign exchange loss (gain) | 10,646 | (20,061) |
| Provision for default reserve | 6,797 | 5,955 |
| Investment tax credit | 3,052 | 24,635 |
| Equity in net income of investee accounted for by the equity method | (12,726) | (8,806) |
| | 764,358 | 365,038 |
| Allowance for valuation of deferred income tax assets | (382,179) | (63,568) |
| Net deferred income tax asset | <u>\$ 382,179</u> | <u>\$ 301,470</u> |

The loss carryforward and investment tax credit as of December 31, 2002 which can be used to reduce the Bank's taxable income due on Year 2007.

Financial Highlights

c.The related information under the Integrated Income Tax System is as follows:

| | December 31 | |
|--|-------------|------------|
| | 2002 | 2001 |
| Balances of the imputed tax credit account | \$ 296,046 | \$ 213,725 |

The actual ratio for 2001 of imputed tax credit to earnings was 34.85%. As of December 31, 2002, the bank won't distribute imputed tax credit until earnings distribution is available.

The Bank's income tax returns had been examined and approved by the tax authorities except 1996, 1998 and 2001. In the assessment for 1994, 1995, 1997, 1999 and 2000 income tax returns, the tax authorities had denied the creditability of 10% withholding tax from interest income on bonds totaling \$85,496 that is attributable to period those bonds were held by other investors. The income tax returns for 1996, 1998 and 2001 also reflected reduction in income tax obligations totaling \$41,480 attributable to similar type of withholding taxes; which returns were not yet examined by the tax authorities.

The Bank believes that the aforementioned assessments are without merit since there is no related regulation or law to deny the creditability of the foregoing withholding tax resulting from interest income on bond. If the bonds were held by the non-natural people before the Bank, the interest revenue had been recognized based on their holding periods and had been accounted into taxable income. It will result in the double-tax effect if the tax authorities deny the foregoing withholding tax as the offset to tax payable or applied for refund tax. However, the Bank has recognized the foregoing withholding tax belong to natural people as part of 2001 tax expense amounting \$1,373.

19. EARNINGS PER SHARE

The numerators and denominators used in computing earnings per share (EPS) are summarized as follows:

| | Numerator (Amounts) | | Denominator (Shares in Thousands) | EPS (NT\$) | |
|--|---------------------|----------------|---|------------|-----------|
| | Pre-tax | After tax | | Pre-tax | After tax |
| For the year ended December 31, 2002 | | | | | |
| Basic EPS | | | | | |
| Net loss belongs to stockholders of common stock | (\$1,428,718) | (\$1,361,285) | 1,443,689 | (\$0.99) | (\$0.94) |
| | | | Denominator | | |
| | Numerator (Amounts) | After tax | (Shares in Thousands) | EPS (NT\$) | |
| | Pre-tax | | | Pre-tax | After tax |
| For the year ended December 31, 2001 | | | | | |
| Basic EPS | | | | | |
| Net income belongs to stockholders of common stock | \$58,061 | \$69,489 | 1,446,993 | \$0.04 | \$0.05 |

20. RELATED PARTY TRANSACTIONS

Significant transactions with related parties are summarized as follows:

a.Related parties

| Name | Relationship to the Bank |
|--|---|
| Yu-Pang Co., Ltd. (Yu-Pang) | Bank's director |
| Yong-Xuan Co., Ltd. (Yong-Xuan) | Its chairman is the representative of the Bank |
| Hung-Kou Construction Inc., Ltd. (Hung-Kou) | Its chairman is a second-degree relative of the Bank's director |
| Union Enterprise Construction Co., Ltd. (UECC) | Its chairman is the representative of the Bank |
| Union Bills Finance Corporation (UBF) | Investee accounted for by the equity method |
| Union Finance and Leasing International Corporation (UFLIC) | Subsidiary |
| Others | Directors, supervisors, managers, their relatives and affiliated companies |

b. Significant transactions with related parties (the percentages refer to shares in the total account balance):

1) Loans

| | December 31 | | Interest Revenue | | |
|------|-------------|------|------------------|----------|------|
| | Amount | % | Rate | Amount | % |
| 2002 | \$2,293,281 | 2.08 | 2.45%-11.75% | \$38,540 | 0.45 |
| 2001 | 2,138,617 | 1.69 | 1.057%-11.75% | 150,856 | 1.40 |

2) Deposits

| | December 31 | | Interest Expense | | |
|------|-------------|------|------------------|----------|------|
| | Amount | % | Rate | Amount | % |
| 2002 | \$3,776,580 | 2.52 | 0%-13.00% | \$98,617 | 2.46 |
| 2001 | 3,286,301 | 2.06 | 0%-13.00% | 186,685 | 2.46 |

3) Guarantees and letters of credit

| | December 31 | |
|------|-------------|------|
| | Amount | % |
| 2002 | \$ 447,336 | 4.80 |
| 2001 | 1,251,069 | 9.61 |

4) Due from banks - UBF

| | Highest Balance During the Year | Balance as of December 31 | Rate | Interest Revenue |
|------|---------------------------------|---------------------------|-------------|------------------|
| | 2002 | \$ 300,000 | \$ - | 1.45%-2.40% |
| 2001 | 522,000 | - | 2.35%-4.75% | 1,062 |

5) Call loans - UBF

| | Highest Balance During the Year | Balance as of December 31 | Rate | Interest Expense |
|------|---------------------------------|---------------------------|----------------|------------------|
| | 2002 | \$ 1,018,000 | \$ - | 1.35%-2.30% |
| 2001 | 1,756,000 | - | 2.375%-4.9525% | 7,218 |

6) Securities purchased/sold under agreements to resell/repurchase

| | December 31 | | | |
|---|-------------|-------------|-------------|-----------|
| | 2002 | | 2001 | |
| | Amount | Rate | Amount | Rate |
| Securities purchased under agreements to resell | \$8,466,183 | 1.275%-2.0% | \$4,992,741 | 2.0%-4.1% |
| Securities sold under agreements to repurchase | 24,756 | 1.2% | 47,832 | 3.1%-3.7% |

7) Securities brokerage fees

| | For the Years Ended December 31 | |
|------|---------------------------------|------|
| | Amount | % |
| 2002 | \$ 4,414 | 3.06 |
| 2001 | 3,297 | 2.71 |

8) Consulting and advisory contract

The Bank entered into an consulting and advisory contract with UFLIC due on 2004. The contract contained the services provided by UFLIC which includes the consulting of car loans operation, marketing, car loan management and advisory etc. The advisory charge and related expenses paid for the year ended December 31, 2002 and 2001 were \$313,411 and \$110,988, respectively, while the accrued expenses as of December 31, 2001 was \$30,842.

9) Leases

a) The Bank as lessee

The Bank lease the office premises, including the Head Office, Trust, International Banking, Consumer Banking Departments, Credit Card Dept. and five branches, from related parties for various periods ranging from 1 year to 7 years. The lease contracts call for quarterly rental payments or the placement of lease deposit with the lessor in lieu of rental payments. Rental expenses are as follows:

Financial Highlights

| | Lease Deposit | | Renta | |
|-------------|---------------|-------|------------|-------|
| | Amount | % | Amount | % |
| <u>2002</u> | | | | |
| Hung-Kuo | \$ 231,775 | 17.23 | \$ 128,777 | 36.21 |
| Yu-Pang | 454,355 | 33.78 | 15,909 | 4.47 |
| UECC | 3,684 | 0.27 | 7,801 | 2.19 |
| Yong-Xuan | 414 | 0.03 | 728 | 0.20 |
| UFLIC | 66 | - | 55 | 0.02 |
| <u>2001</u> | | | | |
| Hung-Kuo | 231,601 | 18.45 | 133,449 | 36.01 |
| Yu-Pang | 454,211 | 36.19 | 31,678 | 8.55 |
| UECC | 3,824 | 0.30 | 7,864 | 2.12 |

b) The Bank as lessor

The Bank's Tauring Branch has leased part of its office premises to UFLIC since December 1999. The lease term is five years, with a monthly rental of \$77. The related leasing revenues received for the year-ended December 31, 2002 and 2001 were both \$923.

10) Other receivable

The Bank bought \$12,306 Bao-Xiang Company's debt from UBF to strengthen the whole Bank's credit right, meanwhile the Bank also assume the collateral which the appraisal value \$15,000 of the same debt. The Bank has received \$2,105 from disposal part of the collateral as of December 31, 2002.

In compliance with Banking Law, except for customer loans, credits extended by the Bank to any related party should be fully secured, and the terms of credits extended to related parties should be similar to those extended to non-related parties.

The terms of transactions with related parties are similar to those with unrelated parties, except for the more favorable interest rate for employees' savings within a prescribed limit.

21. PLEDGED ASSETS

As of December 31, 2002 and 2001, negotiable certificates of deposit, government bonds and bank debentures amounted \$1,317,700 and \$1,521,000, respectively, have been provided to the courts, the Central Trust Bureau and Central Bank as guarantee deposits on provision seizures against the debtors' properties, the bank consumer reserve and trust reserve. In addition, negotiable certificates of deposit aggregating \$2,570,000 has been provided as collateral for the day-time overdraft as of December 31, 2002.

22. CONTINGENCIES AND COMMITMENTS

Financial instruments, contingencies and commitments of the Bank, in addition to those disclosed in Note 26, are summarized as follows:

a. Leases contracts

The Bank rents several office premises under operating leases ranging from 2 to 10 years. Rentals are paid monthly, quarterly or annually. Among those office premises, lease deposits of the Nanking E. Rd., San Chung and Nankan branches, lease deposits are made in lieu of lease payments; rental expenses are recognized at imputed interests of 1.8%. Future lease payments are as follows:

| <u>Year</u> | <u>Amount</u> |
|-------------|---------------|
| 2003 | \$ 292,265 |
| 2004 | 241,837 |
| 2005 | 164,449 |
| 2006 | 43,519 |
| 2007 | 20,249 |

Total rentals for the years beyond 2008 amount to \$18,794, the present value of which is about \$16,267 as discounted at the Bank's one-year time deposit interest rate of 1.95% on January 1, 2003.

b. Computer equipment purchase contracts

The Bank has entered into contracts to buy computer equipment and software for \$174,496, of which \$92,205 was already paid as of December 31, 2002.

c. Short-term bills and bonds sold under agreements to repurchase

As of December 31, 2002, short-term bills and bonds with a total cost amount of \$3,610,948 were sold under agreements to repurchase at \$3,613,142 between January to February 2003.

d. Short-term bills and bonds purchased under agreements to resell

As of December 31, 2002, short-term bills and bonds with a total cost amount of \$2,668,947 were purchased under agreements to resell at \$2,669,740 around January 2003.

e. As of December 31, 2002, the Bank has issued a US\$3,800,000 dollars standby L/C to guarantee the credit line of Union Finance International (H.K.) Limited, the investee accounted for by the equity method.

f. Balance sheet and trust properties of trust accounts

UNION BANK OF TAIWAN
BALANCE SHEET OF TRUST ACCOUNTS
December 31, 2002

| <u>Trust Assets</u> | <u>Amount</u> | <u>Trust Liabilities</u> | <u>Amount</u> |
|-----------------------|---------------------|--------------------------|---------------------|
| Bank deposit | \$ 293 | Trust capital | \$ 4,768,495 |
| Domestic mutual funds | 874,190 | | |
| Overseas mutual funds | 3,894,012 | | |
| Total trust assts | <u>\$ 4,768,495</u> | Total trust liabilities | <u>\$ 4,768,495</u> |

UNION BANK OF TAIWAN
TRUST PROPERTIES OF TRUST ACCOUNTS
December 31, 2002

| <u>Investment Portfolio</u> | <u>Amount</u> |
|---------------------------------------|--------------------|
| Demand deposits | \$293 |
| Short-term investments - mutual funds | <u>4,768,202</u> |
| | <u>\$4,768,495</u> |

23. CAPITAL ADEQUACY RATIO

The Banking law and related regulations require that the Bank maintains a capital adequacy ratio of at least 8%. Pursuant to such law and regulations, if the Bank's capital adequacy ratio falls below 8%, the MOF may impose certain restrictions on the level of the cash dividends that the Bank can declare or, in certain conditions, totally prohibit the Bank from declaring cash dividends.

As of December 31, 2002, the Bank's standalone and consolidated capital adequacy ratio were 12.623% and 13.012%, respectively.

As of December 31, 2001, the Bank's standalone capital adequacy ratio was 10.371%.

24. AVERAGE AMOUNT AND AVERAGE

INTEREST RATE OF INTEREST-EARNING
ASSETS AND INTEREST-BEARING LIABILITIES

Average balance is calculated by daily average balance of interest earning assets and interest bearing liabilities.

| | For the Years Ended December 31 | | | |
|---|---------------------------------|---------------------|-------------------|---------------------|
| | 2002 | | 2001 | |
| | Average Amount | Average Rate (%) | Average Amount | Average Rate (%) |
| <u>Assets</u> | | | | |
| Cash negotiable certificates of deposit | \$4,513,954 | 1.95 | \$2,804,704 | 3.53 |
| Due from banks | 2,602,681 | 2.08 | 3,322,386 | 3.67 |
| Due from Central Bank | 6,546,687 | 1.29 | 6,948,989 | 2.44 |
| Securities purchased | 13,901,135 | 0.97 | 18,822,719 | 4.29 |
| Loans, discounts and bills purchased | 120,030,969 | 5.55 | 134,518,347 | 6.86 |
| <u>Liabilities</u> | | | | |
| Call loans and due to banks | 4,175,965 | 2.45 | 5,699,346 | 4.23 |
| Demand | 10,044,301 | 0.86 | 8,488,732 | 1.73 |
| Savings | 24,653,437 | 1.89 | 19,665,719 | 3.71 |
| Due to postal remittances and savings bank | 18,145,183 | 2.83 | 19,871,239 | 5.03 |
| Timing | 34,516,449 | 2.42 | 46,950,204 | 4.52 |
| Timing - saving | 57,814,803 | 3.12 | 56,301,177 | 5.07 |
| Negotiable certificates of deposit | 4,402,083 | 3.02 | 8,295,500 | 4.89 |

Financial Highlights

25. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The maturity of assets and liabilities of the Bank is based on the remaining period from balance sheet dates. The remaining period to maturity is based on maturity dates specified under agreements, and, if cases where there is no specified maturity dates, based on expected dates of collection.

December 31, 2002

| | Due in One Year | Due Between One Year and Seven Years | Due After Seven Years | Total |
|---|----------------------|--|--------------------------|----------------------|
| <u>Assets</u> | | | | |
| Cash | \$ 7,697,876 | \$ - | \$ - | \$ 7,697,876 |
| Due from banks | 1,737,517 | - | - | 1,737,517 |
| Due from Central Bank | 7,016,016 | - | - | 7,016,016 |
| Securities purchased | 11,156,617 | - | - | 11,156,617 |
| Receivables | 19,840,277 | - | - | 19,840,277 |
| Loans, discounts and bills purchased | 31,239,037 | 35,846,923 | 43,293,259 | 110,379,219 |
| | <u>\$ 78,687,340</u> | <u>\$ 35,846,923</u> | <u>\$ 43,293,259</u> | <u>\$157,827,522</u> |
| <u>Liabilities</u> | | | | |
| Due to Central Bank | \$ 12,398 | \$ - | \$ - | \$ 12,398 |
| Call loans and due to other banks | 1,587,267 | - | - | 1,587,267 |
| Payables | 4,468,303 | - | - | 4,468,303 |
| Deposits and remittances | 145,154,195 | 4,804,626 | - | 149,958,821 |
| Bank debentures | - | 3,500,000 | - | 3,500,000 |
| | <u>\$151,222,163</u> | <u>\$ 8,304,626</u> | <u>\$ -</u> | <u>\$159,526,789</u> |

December 31, 2001

| | Due in One Year | Due Between One Year and Seven Years | Due After Seven Years | Total |
|---|-----------------------|--|--------------------------|-----------------------|
| <u>Assets</u> | | | | |
| Cash | \$ 5,794,187 | \$ - | \$ - | \$ 5,794,187 |
| Due from banks | 3,200,208 | - | - | 3,200,208 |
| Due from Central Bank | 7,561,321 | - | - | 7,561,321 |
| Securities purchased | 17,423,444 | - | - | 17,423,444 |
| Receivables | 15,507,060 | - | - | 15,507,060 |
| Loans, discounts and bills purchased | 43,856,045 | 41,113,187 | 41,822,367 | 126,791,599 |
| | <u>\$ 93,342,265</u> | <u>\$ 41,113,187</u> | <u>\$ 41,822,367</u> | <u>\$ 176,277,819</u> |
| <u>Liabilities</u> | | | | |
| Due to Central Bank | \$19,299 | \$ - | \$ - | \$ 19,299 |
| Call loans and due to other banks | 2,962,734 | - | - | 2,962,734 |
| Payables | 5,154,956 | - | - | 5,154,956 |
| Deposits and remittances | 156,626,939 | 3,252,039 | - | 159,878,978 |
| | <u>\$ 164,763,928</u> | <u>\$ 3,252,039</u> | <u>\$ -</u> | <u>\$ 168,015,967</u> |

26. FINANCIAL INSTRUMENTS

a. Derivative financial instruments

The Bank is engaged in derivative transactions mainly to accommodate customers' needs and to manage its exposure positions. The Bank's strategy is to hedge most of its market risk exposures using hedging instruments whose changes in market value have a highly negative correlation with the changes in the market of the exposures being hedged. The Bank also assesses the hedge effectiveness of the instruments periodically. It also enters into interest rate swap and assets swap to hedge the effects of foreign exchange or interest rate fluctuations on its foreign-currency net assets, net liabilities or commitments.

The Bank is exposed to credit risk in the event of non-performance of the counterparties to the contracts. The Bank enters into contracts with customers that have satisfied the credit approval process and have provided necessary collateral. The transactions are then made within each customer's credit line and guarantee deposits may be required, depending the customers' credit standing. Transactions with other banks are made within the trading limit prescribed for each bank based on the bank's credit rating and its worldwide ranking. Thus, no significant losses resulting from counterpart defaults are anticipated.

The contract amounts (or notional amounts), credit risk and fair values of outstanding contracts are as follows:

| | December 31, 2002 | | | December 31, 2001 | | |
|--|----------------------------------|----------------|--------------|----------------------------------|----------------|--------------|
| | Contract (Notional) Amount | Credit Risk | Fair Value | Contract (Notional) Amount | Credit Risk | Fair Value |
| | <u>Financial Instruments</u> | | | | | |
| For non-trading purpose: | | | | | | |
| Interest rate swap contracts | \$ 173,900 | \$ - | (\$ 65,647) | \$175,035 | \$ - | (\$ 68,719) |
| Assets swap contracts | 582,565 | 11,317 | (124,271) | 350,070 | - | (222,364) |
| For the purpose mainly to accommodate customers' needs and to manage its exposure: | | | | | | |
| Forward contracts | 5,045,718 | 1,679 | (22,175) | 3,271,178 | 52,830 | 22,525 |
| Currency swap contracts | 5,047,335 | 41,733 | 35,250 | 3,451,272 | 69,025 | 68,051 |

The fair value of each contract is determined using the quotation from Reuters or Telerate Information system.

The Bank has entered into certain derivative contracts in which the notional amounts are used solely as a basis for calculating the amounts receivable and payable under the contracts. Thus, the notional amount does not represent potential cash inflows or outflows. The possibility that derivative financial instruments held or issued by the Bank cannot be sold with reasonable price is minimal, accordingly, no significant cash demand is expected.

The gains and losses on derivative financial instruments for the years ended December 31, 2002 and 2001 were not significant.

b. Fair values of non-derivative financial instruments

| | December 31, 2002 | | December 31, 2001 | |
|--|--------------------|---------------|--------------------|---------------|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| <u>Assets</u> | | | | |
| Financial assets - with fair values approximating carrying amounts | \$148,967,261 | \$148,967,261 | \$162,329,599 | \$162,329,599 |
| Securities purchased - net | 10,822,743 | 10,822,743 | 17,252,395 | 17,252,395 |
| <u>Liabilities</u> | | | | |
| Financial liabilities - fair values approximating carrying amounts | 155,626,481 | 155,626,481 | 168,022,252 | 168,022,252 |
| Bank debentures | 3,500,000 | 3,499,965 | - | - |

Methods and assumptions applied in estimating the fair values of non-derivative financial instruments are as follows:

- 1) The carrying amounts of cash, due from banks, due from Central Bank, receivables, call loans and due to banks and payables approximate their fair values because of the short maturities of these instruments.
- 2) The fair values of securities purchased and bank debentures issued are based on their market prices, if such market prices are available. Otherwise fair values are estimated at their carrying amounts.
- 3) The fair values of long-term equity investments are based on their carrying amounts since the market prices are not available.
- 4) Loans, discounts and bills purchased, deposits and remittances and loan fund liabilities are interest-earnings assets and interest-bearing liabilities. Thus, their carrying amounts represent fair values. Fair value of non-performing loans is based on the carrying amounts which is net of allowance for credit losses.
- 5) Fair values of refundable deposits and guarantee deposits are based on their carrying amounts as such deposits do not have specific due dates.

Certain financial instruments and all nonfinancial instruments are excluded from disclosures of fair value. Accordingly, the aggregate fair values presented above do not represent the underlying value of the Bank.

Financial Highlights

c. Off-balance-sheet credit risks

The Bank has significant credit commitments principally relating to credit cards issued, credit facilities extended, and commitments to provide financial guarantee under letter of credit issued. The terms of most of credit commitment range from one year to seven years. For the years ended December 31, 2002 and 2001, the loan interest rates ranged from 0.18% to 17.02%, and 1.77% to 17.22%, respectively, and the highest interest rate for credit cards is 19.71%. The Bank also provided guarantees on customers' loans and letters of credit obtained from third parties. The maturity dates of these commitments are not concentrated in a particular period.

The contract amounts of financial contracts with off-balance-sheet credit risks as of December 31, 2002 and 2001 are as follows:

| | December 31 | |
|--|-------------|-------------|
| | 2002 | 2001 |
| Irrevocable loan commitments | \$ 201,245 | \$ 948,348 |
| Credit commitments for credit cards | 229,335,524 | 131,651,093 |
| Guarantees and issuance of letters of credit | 9,310,954 | 13,020,039 |

Since most of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank's maximum credit risk relative to these commitments is the amount of the commitment assuming that the customer uses the full amount of the commitment and the related collateral or other security turn out to be worthless.

The Bank makes credit commitments and issues financial guarantees and standby letters of credit only after careful evaluation of customers' creditworthiness. Based on the result of the credit evaluation, the Bank may require collateral before drawings are made against the credit facilities. As of December 31, 2002 and 2001, secured loans amounted to about 68.92% and 73.12% of the total loans. In addition, the coverage ratios of guarantees and standby letters of credit secured by collateral were 48.70% and 46.22% as of December 31, 2002 and 2001, respectively. Collaterals held vary but may include cash, inventory, marketable securities, and other property. When the customers default, the Bank will, as required by circumstances, foreclose the collateral or execute other rights arising out of the guarantees given. For credit card facilities, no collateral is required but the credit status of each credit cardholder is closely monitored. Appropriate measures are adopted, depending on the results of the credit status monitoring, which include amending the credit limit and, if necessary, cancellation of the facility.

27. INFORMATION ON CONCENTRATION OF CREDIT RISK

Credit risk concentrations exist when the financial instrument counterparties are individuals or groups engaged in similar activities or activities in the same region that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. The Bank has no credit risk concentration arising from any individual counterparty or groups of counterparties engaged in similar business activities. Industries which account for 10% or more of the outstanding loans, discounts and bills purchased as of December 31, 2002 and 2001 are as follows:

| | 2002 | | 2001 | |
|------------------------|--------------|-------|--------------|-------|
| | Amount | % | Amount | % |
| Natural person | \$63,886,468 | 57.88 | \$70,337,245 | 55.47 |
| Manufacturing industry | 9,506,831 | 8.60 | 12,365,158 | 9.75 |

The net positions on foreign-currency transaction as of December 31, 2002 and 2001 are not significant.

28. SEGMENT AND GEOGRAPHIC INFORMATION

The Bank is engaged only in banking activities as prescribed by the Banking Law and operating entirely in the Republic of China. The Bank has no single customer that accounts for 10% or more of the Bank's operating revenues. Accordingly, no segment and geographic information is required to be disclosed.

V. CPA-Audited Consolidated Financial Statements for the Past Year:None

VI. Review and Analysis of Financial Conditions and Operating Results

1. Review and Analysis of Capital Expenditures and Sources of Capital

a. Major Capital Expenditures and Sources of Capital:

Unit: NIS in thousand

| Items | Real or Anticipated Source of Funds | Real or Anticipated Date of Completion | Total Amount of Funds Required | Real or Anticipated Use of Funds | | | | | | |
|---------------------------|-------------------------------------|--|--------------------------------|----------------------------------|------------|------------|-----------|------------|------------|------|
| | | | | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 |
| Machineries and Equipment | Working Capital | 2003.12 | \$ 1,222,628 | \$ 138,765 | \$ 232,877 | \$ 108,685 | \$ 89,400 | \$ 162,918 | \$ 489,983 | \$ - |
| Transportation Equipment | Working Capital | 2003.12 | 97,703 | 12,426 | 21,757 | 11,463 | 7,027 | 9,129 | 35,901 | - |
| Other Equipment | Working Capital | 2003.12 | 786,982 | 295,709 | 117,617 | 74,143 | 85,988 | 35,916 | 177,609 | - |
| Land | Working Capital | 2003.12 | 930,150 | 41,219 | 130,342 | 758,589 | - | - | - | - |
| Premises | Working Capital | 2003.12 | 278,951 | 52,844 | 199,834 | 25,591 | - | 682 | - | - |

b. Anticipated Benefits

(1) Expected increase in production, sales, and gross margins: Not applicable.

(2) Other expected benefits

- i. Computerization of business operations: raise the efficiency of computer-processed operations, simplify processing procedures, and increase service quality.
- ii. Building new client base and developing new financial services: develop new kinds of consumer finance, trust, and foreign exchange products and services while improving operating efficiency and profits. Moreover, the voice banking system will be enhanced and a customer-oriented management information system will be established to provide a stable infrastructure for information processing, enabling the implementation of customer-differentiated services by exploiting our extensive client database.

2. Liquidity Analysis

Liquidity Analysis for the Past Two Years

| Item | Year | 2002 | 2001 | Change in % |
|------------------------------|------|--------|--------|-------------|
| Cash Flow Ratio (%) | | 65.23 | 57.42 | 13.60 |
| Cash Flow Adequacy Ratio (%) | | 375.85 | 231.29 | 62.50 |
| Cash Reinvestment Ratio (%) | | 6.35 | 8.28 | (23.31) |

Analysis of ratio fluctuation:
Cash flow to dividends and expenditures ratio in 2002 was higher than that in 2001 mainly as a result of a decrease in the purchase of marketable securities and an increase in the allocation for loan-loss reserves, both of which led to a decline in net cash outflow in operating activities. In addition, no cash dividend was paid out in 2002.

Financial Highlights

Cash Flow Analysis for the forthcoming year

Unit: NI\$ in thousand

| Beginning Cash Balance (1) | Estimated Net Cash Flows from Operating Activities (2) | Estimated Cash Inflow/ (Outflow) (3) | Estimated Cash Surplus (Deficit) (1) + (2) + (3) | Remedies for Insufficient Cash | |
|-------------------------------|---|--|--|--------------------------------|-------------------------|
| | | | | Investment Activities | Financing Activities |
| 7,697,876 | -13,913,876 | 10,503,491 | 4,287,491 | - | - |

3. Analysis of Operating Performance

Unit: NI\$ in thousand

| | 2002 | 2001 | Increase (Decrease) | Change (%) |
|--------------------------------------|----------------------|-------------------|----------------------|------------|
| Operating Revenue | \$10,845,698 | \$ 13,798,762 | (\$2,953,064) | (21.40) |
| Operating Expense | <u>11,940,901</u> | <u>13,653,150</u> | <u>(1,712,249)</u> | (12.54) |
| Operating Income (Loss) | (1,095,203) | 145,612 | (1,240,815) | (852.14) |
| Non-Operating Income | 193,061 | 63,955 | 129,106 | 201.87 |
| Non-Operating Expense | <u>526,576</u> | <u>151,506</u> | <u>375,070</u> | 247.56 |
| Earnings Before Income Tax (Loss) | (1,428,718) | 58,061 | (1,486,779) | (2,560.72) |
| Income Tax Gain | <u>67,433</u> | <u>11,428</u> | <u>56,005</u> | 490.07 |
| Net Income (Loss) | <u>(\$1,361,285)</u> | <u>\$69,489</u> | <u>(\$1,430,774)</u> | (2,058.99) |

Notes on changes:

1. The decline in operating income in 2002 can be primarily attributed to a rise in various provisions and reserves.
2. Non-operating income and non-operating expense were up in 2002 as a result of increased gains from the sales of acquired collateral.
3. The income tax gains in 2002 were up from 2001 due to an increase in net deferred income tax asset derived from operating loss carryforward.

Special Disclosures

I. Information on Affiliated Enterprises

A. Organization Chart of Affiliated Enterprises (as of December 31, 2002)



Special Disclosures

B. Profiles of Affiliated Enterprises

Unit:NT\$ in thousand
(as of 2002.12.31.)

| Enterprise | Date of Establishment | Address | Paid-in Capital | Scope of Business |
|--|-----------------------|---|--|--|
| Union Bank of Taiwan | 1991.12.31. | 105, Sec. 1, Chengteh Rd., Taipei, Taiwan | 14,889,264 | Acceptance of deposits, extension of loans, discounting of bills, remittances, acceptance of commercial bills, guarantees, issuance of letter of credit, trading of short-term bills, investment, FX business, savings business, trust services, and agency services. |
| Union Bills Finance Company | 1995.7.19 | 15F, 109, Sec. 3, Minsheng E. Rd., Taipei, Taiwan | 2,960,000 | <ol style="list-style-type: none"> 1. Brokerage and dealing of short-term bills. 2. Underwriting, certifying, and endorsing (as guarantor) of commercial notes. 3. Brokerage and dealing of government bonds. 4. Certification, underwriting, brokerage and dealing of financial debentures. |
| Union Finance & Leasing (International) Corp | 1996.11.11. | 8F, 109, Sec. 3, Minsheng E. Rd., Taipei, Taiwan | 1,000,100 | <ol style="list-style-type: none"> 1. Leasing and dealership of machineries and transportation equipment. 2. Leasing and re-leasing of VCRs and refrigerators, etc. 3. Leasing of artworks. 4. Factoring (FX business excluded). |
| Unionbank Futures Corporation | 1994.7.3. | 3F-1, 137, Sec. 2, Nanking E. Rd., Taipei, Taiwan | 600,000 | Commodity futures trading |
| Union Finance International (HK) Ltd. | 1996.4.23. | Unit C & D, 8F, Entertainment Building, 30, Queen's Road Central, Hong Kong | HKD 30,000,002 (2002.12.31, R=4.4595) | Trade finance |
| Union Securities Investment Trust Corporation | 1998.12.22. | 14F, 101, Fuhsing N. Road, Taipei, Taiwan | 300,000 | Securities investment trust |
| Union Securities Investment Consulting Corporation | 1999.12.14. | 8F-7, 101, Fuhsing N. Road, Taipei, Taiwan | 10,000 | Securities investment consulting |
| Union Insurance Broker Corp. | 1997.8.4. | 1F, 21, Alley 6, Lane 113, Sec. 3, Minsheng E. Road, Taipei, Taiwan | 28,000 | Life insurance agency service |
| Union Information Technology Corp. | 1998.8.20. | 8F, 109, Sec. 3, Minsheng E. Rd., Taipei, Taiwan | 129,600 | Systems development and computer software and hardware dealership |
| Union Capital (Cayman) Corp. | 1997.7.23. | P.O.Box 1034, George Town, Grand Cayman, Cayman Islands, British West Indies. | USD 50,000 (2002.12.31, R=34.78) | Overseas trade and general leasing business |

C. Relationships between Business Operations of Affiliated Enterprises - None

D. Chairmen, Directors, Supervisors, and Presidents of Affiliated Companies

Unit: Shares, %
(as of 2002.12.31.)

| Enterprise | Title | Name (Representative) | Shares Held | |
|---|----------------------|---|--------------|-----------|
| | | | No of Shares | Holding % |
| Union Bank of Taiwan | Chairman | C.C. Huang | 1,032,247 | 0.07% |
| | Managing Director | Zhen-Xong Jiang | 3,979,367 | 0.27% |
| | Managing Director | Yu-Pang Co., Ltd. (Representative: Jia-Yi Wang) | 16,373,448 | 1.10% |
| | Director & President | Shiang-Chang Lee | 872,207 | 0.06% |
| | Director | Union Enterprise Construction Co., Ltd. (Representative: Jeff Lin) | 61,896,601 | 4.16% |
| | Director | Chung-Li Investment Co., Ltd. (Representative: Jin-Fu Liu) | 30,613,388 | 2.06% |
| | Director | Chung-Li Investment Co., Ltd. (Representative: Yao-Nan Lai) | | |
| | Director | Union Entertainment Enterprise Co., Ltd. (Representative: Sue-ere C. Lin) | 22,948,877 | 1.54% |
| | Director | Si-Yong Lin | 14,622,349 | 0.98% |
| | Supervisor | Yu-Quan Development Co., Ltd. (Representative: Yu-Quan Lee) | 8,682,889 | 0.58% |
| | Supervisor | Zhen-Lu Lin | 248,080 | 0.02% |
| | Supervisor | Ming Hsing Ho | 1,814 | 0.00% |
| | - | Yao-Nan Lai | 643,019 | 0.04% |
| | - | Sue-ere C. Lin | 66,734,211 | 4.48% |
| | - | Yu-Quan Lee | 3,505,303 | 0.24% |
| Union Bills Finance Company | Chairman | Union Bank of Taiwan (Representative: Kuo-Chang Lee) | 126,576,000 | 42.76% |
| | Managing Director | Union Bank of Taiwan (Representative: Jeff Lin) | | |
| | Director | Union Bank of Taiwan (Representative: Shiang-Chang Lee) | | |
| | Director | Union Bank of Taiwan (Representative: Hao-Sen Lee) | | |
| | Supervisor | Union Bank of Taiwan (Representative: Zhen-Xong Jiang) | | |
| | Supervisor | Union Bank of Taiwan (Representative: Chung-Chieh Huang) | | |
| | Managing Director | Ertie Commercial Bank (Representative: Zhen-Shiang Chan) | 63,288,000 | 21.38% |
| | Director | Ertie Commercial Bank (Representative: Bao-Yong Chen) | | |
| | Director | Ertie Commercial Bank (Representative: Zhen-Teh Liu) | | |
| | Director | Union Enterprise Construction Co., Ltd. (Representative: Hong-Yao Lin) | 12,404,448 | 4.19% |
| | Director | Hong-kuo Construction Co., Ltd. (Representative: Ya-Jean Lin) | 12,404,448 | 4.19% |
| | Supervisor | Yu-Pang Co., Ltd. (Representative: Wen-Ming Lee) | 12,404,448 | 4.19% |
| | President | Ming Hsing Ho | 88,000 | 0.03% |
| | - | Kuo-Chang Lee | 20,000 | 0.01% |
| | - | Shiang-Chang Lee | 126,576 | 0.04% |
| - | Zhen-Xong Jiang | 1,075,000 | 0.36% | |
| - | Chung-Chieh Huang | 107,500 | 0.04% | |
| Union Finance & Leasing (International) Corp. | Chairman | Union Bank of Taiwan (Representative: Yi-Ben Liao) | 100,000,000 | 99.99% |
| | Director | Union Bank of Taiwan (Representative: Jeff Lin) | | |
| | Director | Union Bank of Taiwan (Representative: Shiang-Chang Lee) | | |
| | Supervisor | Union Bank of Taiwan (Representative: Hao-Sen Lee) | | |
| | President | Yi-Ben Liao | 1,000 | 0.001% |

Special Disclosures

Unit: Shares, %
(as of 2002.12.31.)

| Enterprise | Title | Name (Representative) | Shares Held | |
|--|-------------------------|--|--------------|------------|
| | | | No of Shares | Holding % |
| | — | Shiang-Chang Lee | 1,000 | 0.001% |
| | — | Hao-Sen Lee | 1,000 | 0.001% |
| Unionbank Futures Corporation | Chairman | Union Bank of Taiwan (Representative: Chi-Chang Chen) | 59,439,650 | 99.07% |
| | Director | Union Bank of Taiwan (Representative: Jeff Lin) | | |
| | Director | Union Bank of Taiwan (Representative: Sue-ere C. Lin) | | |
| | Director | Union Bank of Taiwan (Representative: Yao-Nan Lai) | | |
| | Director | Union Bank of Taiwan (Representative: Shiang-Chang Lee) | | |
| | Director | Union Bank of Taiwan (Representative: Jin-Fu Liu) | | |
| | Director | Union Bank of Taiwan (Representative: Zhen-Xong Jiang) | | |
| | Director | Union Bank of Taiwan (Representative: Si-Yong Lin) | | |
| | Director | Union Bank of Taiwan (Representative: Zhen-Lu Lin) | | |
| | Director | Union Bank of Taiwan (Representative: Chung-Chieh Huang) | | |
| | Director | Union Bank of Taiwan (Representative: Tarsicio Tong) | | |
| | Supervisor | Union Bank of Taiwan (Representative: Chuan-Zhong Chang) | | |
| | Supervisor | Union Bank of Taiwan (Representative: Yu-Quan Lee) | | |
| | President | Yuei-Kuei We | | |
| | — | Yao-Nan Lai | 24,500 | 0.04% |
| | — | Sue-ere C. Lin | 55,370 | 0.09% |
| | — | Shiang-Chang Lee | 20,000 | 0.03% |
| | — | Zhen-Lu Lin | 24,500 | 0.04% |
| | — | Si-Yong Lin | 55,370 | 0.09% |
| | — | Jin-Fu Liu | 55,370 | 0.09% |
| — | Zhen-Xong Jiang | 24,500 | 0.04% | |
| — | Yu-Quan Lee | 55,370 | 0.09% | |
| — | Chuan-Zhong Chang | 55,370 | 0.09% | |
| Union Finance International (HK) Ltd. | Director | Union Bank of Taiwan (Representative: Jeff Lin) | 30,000,000 | 99.999994% |
| | Director | Union Bank of Taiwan (Representative: Roger Wang) | | |
| | Director | Union Bank of Taiwan (Representative: Patrick Jean) | | |
| | Director | Shiang-Chang Lee | 1 | 0.000003% |
| | Director & President | Huo-shan Dai | 1 | 0.000003% |
| Union Securities Investment Trust Corp. | Chairman | Kuen-er Investment Co., Ltd. (Representative: Cheng-Zhu Hsieh) | 2,500,000 | 8.30% |
| | Director | Kuen-er Investment Co., Ltd. (Representative: Hsiao-Yi Tsai) | | |
| | Director | Kuen-er Investment Co., Ltd. (Representative: Wen-Min Lee) | | |
| | Director | Kuen-er Investment Co., Ltd. (Representative: Chi-Hao Yuei) | | |
| | Supervisor | Kuen-er Investment Co., Ltd. (Representative: Yi-Ben Liao) | | |
| | Supervisor | Kuen-er Investment Co., Ltd. (Representative: Chiao-Chuan Tsai) | 1,500,000 | 5.00% |
| | Director | Hong-Yi Investment Co., Ltd. (Representative: Min-Yi Io) | | |
| | Director | Goldsun Computer Communication Co., Ltd. (Representative: Hong-Min Hsiao) | | |
| President | Chin-Shuan Hsu | — | — | |
| Union Securities Investment Consulting Corp. | Chairman & President | Union Bank of Taiwan (Representative: Victor Chu) | 994,000 | 99.40% |
| | Director | Union Bank of Taiwan (Representative: Tsai-Lin Liao) | | |
| | Director | Union Bank of Taiwan (Representative: Yu-Lin Kuo) | | |
| | Supervisor | Union Bank of Taiwan (Representative: Cynthia Shu) | | |
| | — | Victor Chu | 1,000 | 0.10% |
| | — | Cynthia Shu | 1,000 | 0.10% |

Unit: Shares, %
(as of 2002.12.31.)

| Enterprise | Title | Name (Representative) | Shares Held | |
|------------------------------------|----------------------|---|--------------|-----------|
| | | | No of Shares | Holding % |
| Union Insurance Broker Co., Ltd. | Chairman & President | Union Bank of Taiwan (Representative: Chien-Kuo Kuei) | 2,522,000 | 90.07% |
| | Director | Union Bank of Taiwan (Representative Shiang-Chang Lee) | | |
| | Director | Union Bank of Taiwan (Representative Chung-Chieh Huang) | | |
| | Supervisor | Union Bank of Taiwan (Representative Hao-Sen Lee) | | |
| | — | Chien-Kuo Kuei | 14,000 | 0.50% |
| | — | Shiang-Chang Lee | 14,000 | 0.50% |
| | — | Chung-Chieh Huang | 13,000 | 0.46% |
| Union Information Technology Corp. | Chairman & President | Union Bank of Taiwan (Representative: Qin-Ming Huang) | 12,950,000 | 99.92% |
| | Director | Union Bank of Taiwan (Representative: Hao-Sen Lee) | | |
| | Director | Union Bank of Taiwan (Representative: John Lee) | | |
| | Supervisor | Union Bank of Taiwan (Representative: Cynthia Shu) | | |
| | — | Qin-Ming Huang | 2,000 | 0.0154% |
| Union Capital (Cayman) Corp. | Director | Union Finance & Leasing (International) Corp. (Representative: Yi-Ben Liao) | 50,000 | 100.00% |
| | Director | Union Finance & Leasing (International) Corp. (Representative: Shiang-Chang Lee) | | |

E. Operating Performance of Affiliated Enterprises

Unit: NT\$ in thousand

| Enterprise | Paid-in Capital | Total Assets | Total Liabilities | Net Value | Operating Revenue | Operating Profit | Net Earnings (after tax) | Earnings per Share (dollar) (after tax) | Notes |
|---|-----------------|--------------|-------------------|-----------|-------------------|------------------|--------------------------|---|--|
| Union Bills Finance Co., Ltd. | 2,960,000 | 5,672,178 | 3,202,609 | 2,469,569 | 646,332 | (648,211) | (710,664) | (2.40) | |
| Union Finance & Leasing (International) Co., Ltd. | 1,000,100 | 4,599,447 | 3,930,764 | 668,683 | 551,431 | 321,475 | 133,073 | 1.33 | |
| Unionbank Futures Co., Ltd. | 600,000 | 1,055,851 | 418,211 | 637,640 | 235,616 | 15,343 | 47,781 | 0.80 | |
| Union Finance International (HK) Ltd. | 106,589 | 923,180 | 737,166 | 186,014 | 45,518 | 14,752 | 15,683 | 0.12 | HKD exchange rate was 4.4595 on Dec. 31, 2002; HKD annual average exchange rate was 4.4324 |
| Union Securities Investment Trust Co., Ltd. | 300,000 | 339,575 | 27,311 | 312,264 | 110,342 | 27,982 | 25,265 | 0.84 | |
| Union Securities Investment Consulting Co., Ltd. | 10,000 | 9,278 | 935 | 8,343 | 5,856 | 907 | 110 | 0.11 | |
| Union Insurance Broker Co., Ltd. | 28,000 | 68,259 | 13,573 | 54,686 | 115,785 | 30,831 | 24,059 | 8.59 | |
| Union Information Technology Co., Ltd. | 129,600 | 180,658 | 89,967 | 90,691 | 165,398 | 18,265 | (79) | (0.006) | |
| Union Capital (Cayman) Corp. | 1,644 | 788,304 | 359,973 | 428,331 | 15,132 | 14,876 | 14,214 | 8.22 | USD exchange rate was 34.78 on Dec. 31, 2002; USD annual average exchange rate was 34.57 |

F. Consolidated Financial Statement for Affiliated Enterprises: None

G. Enterprise Relationship Report: None

II. Dividend Policy and Status of Execution

A. Dividend policy:

Any earnings posted at the end of the fiscal year will be subject to income tax submissions as required by relevant laws, followed by compensations to recover any losses occurred in previous years. Thirty percent of the remaining earnings will then be allocated to legal reserves of retained earnings with another portion allocated to special reserves of retained earnings. The dividend will be determined after all of the above allocations have been assigned. If there are any residual earnings after dividend distribution, 10% or more of which will be paid as employee bonuses with the rest added to the retained earnings accrued from previous years and paid to the following parties in proportions indicated below:

- (1) 95% as bonuses to shareholders
- (2) 5% as commissions to directors and supervisors

The cash dividend distribution shall not exceed 15% of the bank's total capital unless the amount of legal reserves of retained earnings has reached total capital.

Special reserves of retained earnings shall be allocated from the after-tax earnings of the current year and retained earnings accrued over previous years for an amount equivalent to any subtractions to owners' equity (such as unrealized losses from long term equity investments or translation adjustment, etc.) recorded during the current year.

The above-mentioned special reserves of retained earnings shall not be applied towards dividend payout unless there is a reversion to any previous subtractions to owners' equity where the reverted amount is available for dividend payout.

Dividend distribution and the kinds of shareholder bonuses are determined at the discretion of the board of directors who will take into account the current financial conditions, future profitability prospects and our capital budgeting plans in their determination of cash and stock dividends and their respective proportions. Our bank is presently undergoing the "start-up" and "growth" period and thus most dividends are likely to be paid out in the form of cash for the next three years with stock dividend as the minor option. Any dividend payout will be subject to the approval from General Meeting of Shareholders. Cash dividends will be paid out after such approval is granted whereas the stock dividends will be paid out after relevant approvals are also obtained from regulatory authorities.

B. Influence of Stock and Cash Dividends Distribution on Operating Performance, Earnings per Share, and Rate of Return on Owners' Equity for the Last Two Years

Unit: NI\$ in thousand

| Item | Year | | |
|--|---|--|-------------------------------|
| | 2001 | 2002 | 2003 (estimated) Note 4 |
| Paid-in Capital at year-start | 14,889,264 | 14,889,264 | - |
| Stock or Cash Dividend Paid | Cash Dividend per Share | 0.2 | 0 |
| | Stock Dividend per Share from Capitalization of Retained Earnings | 0 | 0 |
| | Stock Dividend per Share from Capitalization of Capital Surplus | 0 | 0 |
| Changes in Operating Performance | Operating Income | 145,612 | -1,095,203 |
| | % Increase (Decrease) in Operating Income | -74.08% | -852.14% |
| | After-Tax Earnings | 69,489 | -1,361,285 |
| | % Increase (Decrease) in After-Tax Earnings | -83.61% | -2,058.99% |
| | Earnings per Share (NI\$) | 0.05 | -0.94 |
| | % Increase (Decrease) in EPS | -82.14% | -1,980.00% |
| | Average Annual Rate of Return (Reciprocal of Average Annual Price Earnings Ratio) | 0.79% | -657.53% |
| Pro forma EPS and P/E ratio | If stock dividends from capitalization of retained earnings were replaced by cash dividends | Pro forma EPS (NI\$) | - |
| | | Pro forma Average Annual Rate of Return | - |
| | If capitalization of capital surplus were not executed | Pro forma EPS (NI\$) | - |
| | | Pro forma Average Annual Rate of Return | - |
| | If capitalization of capital surplus were not executed and stock dividends from capitalization of retained earnings were replaced by cash dividends | Pro forma EPS (NI\$) | - |
| | | Pro forma Average Annual Rate of Return | - |

Note:

- The basis used for the estimation and statement of pro forma information should be elaborated and consulted with auditors for opinions.
- Pro forma Earnings per Share if capitalization of retained earnings were replaced by cash dividends

$$= \frac{[\text{After-Tax Earnings} - \text{Estimated Interest Expense for Cash Dividend}] \times (1 - \text{Tax Rate})}{(\text{Weighted Average Number of Shares} - \text{Shares distributed for Capitalization of Retained Earnings}^{**})}$$

* Estimated Interest Expense for Cash Dividend = Shares distributed for Capitalization of Retained Earnings x 1 year loan interest rate

** Shares distributed for Capitalization of Retained Earnings: the issuance of shares as a result of stock dividend payout for capitalization of retained earnings in previous year.
- Average Annual Price Earnings Ratio = Average Annual Stock Price per Share / Earnings per Share as stated on annual financial report.
- We did not perform financial forecasts for fiscal year 2003 and therefore were not required to disclose such information.

III. Implementation of Internal Control

Statement of Internal Control

Union Bank of Taiwan Co., Ltd.
Statement of Internal Control

Date: March 20, 2003

According to self evaluation of the internal control system of Union Bank of Taiwan Co., Ltd. for the period from January 1, 2002 to December 31, 2002, we declare the following statements:

1. We acknowledge that the board of directors and management are solely responsible for the establishment, implementation, and maintenance of the internal control system. We stated herein that we have established and implemented such internal control system. The intention of the internal control system is to reasonably ensure the effectiveness and efficiency of business operations (including profits, performance and safeguard of assets), integrity of financial statements, and compliance with relevant laws and regulations.
2. Internal control system has its inherent limitations. No matter how well designed, an effective internal control system can only provide reasonable assurance for the accomplishment of the above three objectives. Moreover, with variations in the external environment and circumstances, the effectiveness of the internal control system may also vary accordingly. Nevertheless, our internal control system is incorporated with self-monitoring measures so that whenever errors or faults are identified, corresponding rectifications will be made immediately.
3. We evaluated the effectiveness of the design and execution of our internal control system based on the respective evaluation criteria set forth in the "Guidelines for Establishment of Internal Control Systems by Public Companies" and "Guidelines for Establishment of Internal Control Systems in Securities and Futures Service Enterprises" (referred to as "guidelines" hereafter) promulgated by Securities and Futures Commission of the Ministry of Finance. The evaluation criteria as stipulated under the guidelines are categorized into five major components to reflect the process of management control, namely: (1) control environment, (2) risk assessment, (3) control activities, (4) information and communications, and (5) monitoring. Each component in turn consists of a number of sub items as specified in the guidelines.
4. We have conducted self-evaluation on the effectiveness of the design and execution of our internal control system pursuant to the above mentioned internal control evaluation criteria.
5. Based on the results of self-evaluation, we consider the design and execution of our internal control system, including the effectiveness and efficiency of business operations, integrity of financial statements, and compliance with relevant laws and regulations, was effective for the period stated above. Our internal control system was able to reasonably ensure the accomplishment of above-mentioned objectives.
6. This statement will constitute a major part of our Annual Report and Prospectus, and will be published for public information. If the above mentioned public information contains misrepresentations, fraud, illegal omissions, or other violations, such will be subject to liabilities specified in Articles 20, 32, 171, and 174 of the Securities and Exchange Law.
7. This statement was unanimously approved by the three directors present in the Board of Directors meeting held on March 19, 2003.

UNION BANK OF TAIWAN

Chairman: C. C. Huang

President: Shiang-Chang Lee



IV. Penalties Resulted from Infliction of Laws and Regulations & Major Acts of Negligence and Respective Rectifications in Last Two Years

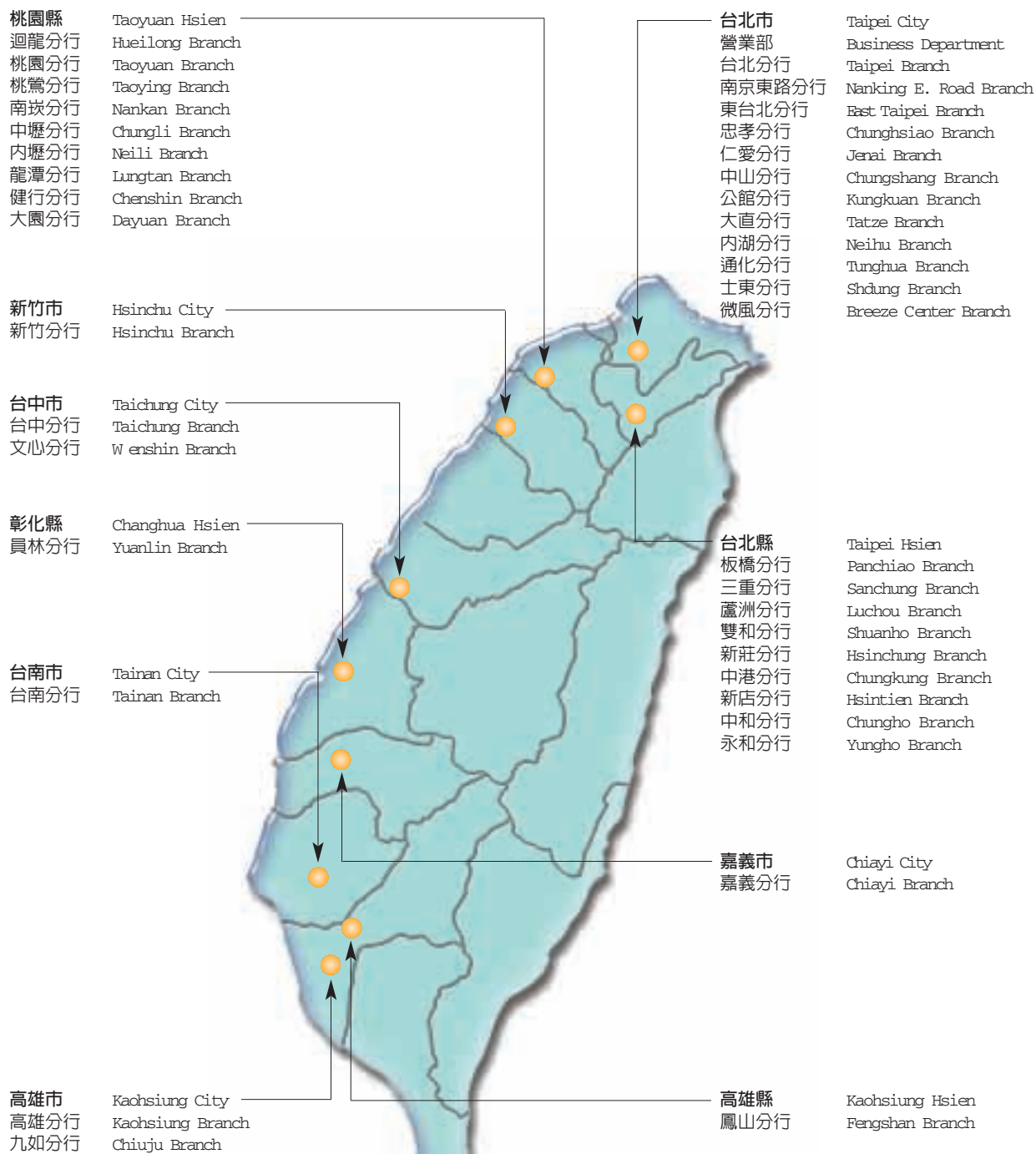
| Regulations Concerned | Major Acts of Negligence | Respective Rectifications |
|--|---|---|
| Any criminal charges pressed by prosecutors against the Chairman or employees during the past two years. | None | |
| Any penalties and fines resulted from violating the Banking Law during the past two years. | A number of top executives of our bank were concurrently sitting on board of directors or supervisors of affiliated financial or securities companies in absence of gaining approval from regulatory authorities; A statement was issued by regulatory authorities advising our violations to the "Guidelines on General Qualifications of Bank Executives" and relevant fines were collected according to the Banking Law. | Filed for approval as requested by regulations. |
| Any major acts of negligence during the past two years for which MOF issued instructions for corrective actions. | Collaterals acquired from clients Lai Chun-Chong and Taidin Ltd. through foreclosure of mortgage or pledge were not disposed of within four years of the date of acquisition as required by Article 76 of the Banking Law and application for granting an extension was not filed within the allowed time period. A statement requesting rectifications was issued by regulatory authorities. | Regulatory authorities granted our application for an extension after we had provided a collateral disposition prospectus and related analysis reports. |
| Any occurrence of fraud, significant events (robbery, burglary, fire disaster, or damages by other detrimental forces), or losses as a result of failure to meet with safety standards set forth in financial institutions safety regulations during the past two years, and relevant annual aggregate loss in damages reaching NID50 million or over. | None | |
| Other disclosures as requested by MOF | None | |

V. Major Corporate Resolutions (None)

VI. Other Necessary Supplementary Statements (None)

本行營業單位分布圖

Branch Distribution Map



越南辦事處
Ho Chi Minh Representative Office

香港辦事處
Hong Kong Representative Office

本行總行及營業單位名稱、地址及電話

Directory of Head Office and Branches

本公司發言人

Spokesman
姓名：黃俊杰
Name: Mr. Chun-Chieh Huang

職稱：副總經理
Title: Senior Executive Vice President
Tel: (886) (2) 2718-0001

代理發言人

Second Spokesman
姓名：蔡漢朝
Name: Mr. Hann-Tsau Tsai

職稱：經理
Title: Department Manager
Tel: (886) (2) 2718-0001

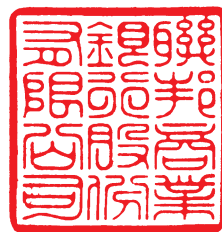
| 總行及各營業單位 Head Office/ Domestic Branch | 地址 Address | 電話 Tel/Fax | 總行及各營業單位 Head Office/ Domestic Branch | 地址 Address | 電話 Tel/Fax |
|---|---|--|---|--|--|
| 總行暨管理單位 Head Office | 台北市民生東路三段109號3樓 3F, 109, Minsheng E. Rd., Sec. 3, Taipei, Taiwan | Tel: (886) (2) 2718-0001 Fax: (886) (2) 2717-2894 | 國際金融業務分行 Offshore Banking Branch | 台北市民生東路三段109號二樓 2F, 109, Minsheng E. Rd., Sec. 3, Taipei, Taiwan | Tel: (886) (2) 2718-0001 Fax: (886) (2) 2713-7515 Telex: 26354UBTWIBD SWIFT: UBOTTTWP |
| 行銷企劃部 Product | 台北市中山北路二段83號七樓 7F, 83, Chungshan N. Rd., Sec. 2, Taipei, Taiwan | Tel: (886) (2) 2536-9999 Fax: (886) (2) 2531-3030 | 南京東路分行* Nanking E. Road Branch | 台北市南京東路二段137號 137, Nanking E. Rd., Sec. 2, Taipei, Taiwan | Tel: (886) (2) 2515-1333 Fax: (886) (2) 2516-0742 SWIFT: UBOTTTWTPX005 |
| Development & Marketing Department | | | | | |
| 信託部 Trust Department | 台北市南京東路二段137號三樓 3F, 137, Nanking E. Rd., Sec. 2, Taipei, Taiwan | Tel: (886) (2) 2507-4066 Fax: (886) (2) 2507-4333 | 東台北分行* East Taipei Branch | 台北市南京東路五段217號 217, Nanking E. Rd., Sec. 5, Taipei, Taiwan | Tel: (886) (2) 2753-0900 Fax: (886) (2) 2766-4954 SWIFT: UBOTTTWTPX009 |
| 證券金融部 Securities Finance Department | 台北市南京東路二段137號2樓 2F, 137 Nanking E. Rd., Sec. 2, Taipei, Taiwan | Tel: (886) (2) 2504-0066 Fax: (886) (2) 2517-1241 | 忠孝分行 Chunghsiao Branch | 台北市忠孝東路四段223巷5號 二樓 2F, 5, Lane 223, Chunghsiao E. Rd., Sec. 4, Taipei, Taiwan | Tel: (886) (2) 2773-3456 Fax: (886) (2) 2773-6365 |
| 仁愛證券分公司 Jenai Securities Branch | 台北市仁愛路四段403號B1 B1, 403 Jenai Rd., Sec. 4, Taipei, Taiwan | Tel: (886) (2) 2771-0999 Fax: (886) (2) 2721-9411 | 仁愛分行 Jenai Branch | 台北市仁愛路四段401號 401, Jenai Rd., Sec. 4, Taipei, Taiwan | Tel: (886) (2) 2781-3366 Fax: (886) (2) 2778-0842 |
| 三重證券分公司 Sanchung Securities Branch | 台北縣三重市重新路三段10號 4樓 4F, 10, Chungsin Rd., Sec. 3, Sanchung City, Taipei Hsien, Taiwan | Tel: (886) (2) 2979-2299 Fax: (886) (2) 2979-2266 | 中山分行 Chungshang Branch | 台北市中山北路二段83號 83, Chungshang N. Rd., Sec. 2, Taipei, Taiwan | Tel: (886) (2) 2571-7890 Fax: (886) (2) 2531-5201 |
| 雙和證券分公司 Shuanho Securities Branch | 台北縣永和中正路222號2樓 2F, 222, Chungcheng Rd., Yung Ho City, Taipei, Taiwan | Tel: (886) (2) 2948-3668 Fax: (886) (2) 2947-6753 | 公館分行 Kungkuang Branch | 台北市羅斯福路三段272號 272, Roosevelt Rd., Sec. 3, Taipei, Taiwan | Tel: (886) (2) 2369-2678 Fax: (886) (2) 2369-2679 |
| 嘉義證券分公司 Chiayi Securities Branch | 嘉義市中山路285號5樓 5F, 285, Chungshan Rd., Chiayi, Taiwan | Tel: (886) (5) 223-2121 Fax: (886) (5) 229-4893 | 大直分行 Tatze Branch | 台北市明水路649號 649, Mingshuei Rd., Taipei, Taiwan | Tel: (886) (2) 2532-3836 Fax: (886) (2) 2533-6095 |
| 高雄證券分公司 Kaohsiung Securities Branch | 高雄市光華一路208號1樓 1F, 204, Kuanghua 1st Rd., Kaohsiung, Taiwan | Tel: (886) (7) 226-2118 Fax: (886) (7) 226-0118 | 內湖分行 Neihu Branch | 台北市瑞光路513巷22弄5號 5, Alley 22, Lane 513, Jiukuang Rd., Taipei, Taiwan | Tel: (886) (2) 2658-6121 Fax: (886) (2) 2658-6122 |
| 國外部* International Banking Department | 台北市民生東路三段109號二樓 2F, 109, Minsheng E. Rd., Sec. 3, Taipei, Taiwan | Tel: (886) (2) 2718-0001 Fax: (886) (2) 2713-7515 Telex: 26354UBTWIBD SWIFT: UBOTTTWP | 通化分行 Tunghua Branch | 台北市通化街74號 74, Tunghua St., Taipei, Taiwan | Tel: (886) (2) 2739-5888 Fax: (886) (2) 2739-7399 |
| 消費金融部 Consumer Banking Department | 台北市南京東路二段137號八樓 8F, 137, Nanking E. Rd., Sec. 2, Taipei, Taiwan | Tel: (886) (2) 2515-5756 Fax: (886) (2) 2502-7673 | 士東分行 Shung Branch | 台北市士東路91巷1-1號 1-1, Shung Rd., Taipei, Taiwan | Tel: (886) (2) 2875-6161 Fax: (886) (2) 2875-5151 |
| 信用卡中心 Credit Card Center | 台北市復興北路201號四樓 4F, 201, Fuhsing N. Rd., Taipei, Taiwan | Tel: (886) (2) 2545-5168 Fax: (886) (2) 2713-9409 | 微風分行 Breeze Center Branch | 台北市復興南路一段39號2樓 2F, 39, Fuhsing S. Rd., Sec. 1, Taipei, Taiwan | Tel: (886) (2) 8772-2858 Fax: (886) (2) 8772-5058 |
| | 台北市復興北路201號四樓 4F, 201, Fuhsing N. Rd., Taipei, Taiwan | Tel: (886) (2) 2545-5168 Fax: (886) (2) 2713-9409 | 板橋分行 Panchiao Branch | 台北縣板橋市民權路226號 226, Minchuan Rd., Panchiao City Taipei Hsien, Taiwan | Tel: (886) (2) 2965-6600 Fax: (886) (2) 2965-6877 |
| | 高雄市光華一路206號四樓之2 4F-2, 206, Kuanghua 1st Rd., Kaohsiung, Taiwan | Tel: (886) (7) 226-9393 Fax: (886) (7) 226-3488 | 三重分行 Sanchung Branch | 台北縣三重市重新路三段10號 10, Chungsin Rd., Sec. 3, Sanchung City, Taipei Hsien, Taiwan | Tel: (886) (2) 2977-7666 Fax: (886) (2) 2977-8234 |
| 營業部* Business Department | 台北市承德路一段105號 105, Chengteh Rd., Sec. 1, Taipei, Taiwan | Tel: (886) (2) 2556-8500 Fax: (886) (2) 2556-7405 SWIFT: UBOTTTWTPX001 | 蘆洲分行 Luchou Branch | 台北縣蘆洲市中正路80號 80, Chungcheng Rd., Luchou City, Taipei Hsien, Taiwan | Tel: (886) (2) 2848-5577 Fax: (886) (2) 2848-2290 |
| 台北分行 Taipei Branch | 台北市民生東路三段109號 109, Minsheng E. Rd., Sec. 3, Taipei, Taiwan | Tel: (886) (2) 2718-0001 Fax: (886) (2) 2713-7506 | 雙和分行 Shuanho Branch | 台北縣永和中正路222號 222, Chungcheng Rd., Yung Ho City, Taipei Hsien, Taiwan | Tel: (886) (2) 2945-9898 Fax: (886) (2) 2948-4267 |

本行總行及營業單位名稱、地址及電話

Directory of Head Office and Branches

| 總行及各營業單位 Head Office/ Domestic Branch | 地址 Address | 電話 Tel./Fax | 總行及各營業單位 Head Office/ Domestic Branch | 地址 Address | 電話 Tel./Fax |
|---|---|---|--|---|---|
| 新莊分行 Hsinchung Branch | 台北縣新莊市思源路601號 601, Shihyuan Rd., Hsinchung City, Taipei Hsien, Taiwan | Tel: (886) (2) 8522-7799 Fax: (886) (2) 8522-7171 | 嘉義分行 Chiayi Branch | 嘉義市中山路285號 285, Chungshan Rd., Chiayi, Taiwan | Tel: (886) (5) 228-5908 Fax: (886) (5) 228-5903 |
| 中港分行 Chungkung Branch | 台北縣新莊市中港路308號 308, Chungkung Rd., Hsinchung City, Taipei Hsien, Taiwan | Tel: (886) (2) 2276-9678 Fax: (886) (2) 2276-9982 | 台南分行 Tainan Branch | 台南市西門路四段271號 271, Shimen Rd., Sec. 4, Tainan, Taiwan | Tel: (886) (6) 251-3377 Fax: (886) (6) 251-7399 |
| 新店分行 Hsintien Branch | 台北縣新店市民權路100號 100, Mingchuang Rd., Hsintien City, Taipei Hsien, Taiwan | Tel: (886) (2) 2219-9989 Fax: (886) (2) 2219-5151 | 高雄分行* Kaohsiung Branch | 高雄市光華一路204號 204, Kuanghwa 1st Rd., Kaohsiung, Taiwan | Tel: (886) (7) 226-5353 Fax: (886) (7) 226-0732 SWIFT: UBOTIWTWTPX010 |
| 中和分行 Chungho Branch | 台北縣中和市建一路150號 150, Chenyi Rd., Chungho City, Taipei Hsien, Taiwan | Tel: (886) (2) 8226-5168 Fax: (886) (2) 8226-5678 | 九如分行 Chiuju Branch | 高雄市九如二路495號 495, Chiuju 2nd Rd., Kaohsiung, Taiwan | Tel: (886) (7) 311-8871 Fax: (886) (7) 311-8872 |
| 永和分行 Yungho Branch | 台北縣永和市永和路二段137號 137, Yungho Rd., Sec. 2, Yungho City, Taipei Hsien, Taiwan | Tel: (886) (2) 8660-0808 Fax: (886) (2) 8923-2345 | 鳳山分行 Fengshan Branch | 高雄縣鳳山市凱旋路224號 224, Kaihsuan Rd., Fengshan City, Kaohsiung Hsien, Taiwan | Tel: (886) (7) 763-8185 Fax: (886) (7) 763-8129 |
| 迴龍分行 Hueilong Branch | 桃園縣龜山鄉萬壽路一段253號 253, Wanso Rd., Sec. 1, Kueishan, Taoyuan Hsien, Taiwan | Tel: (886) (2) 8209-0808 Fax: (886) (2) 8209-1818 | 越南辦事處 Ho Chi Minh Representative Office | 越南胡志明市第一郡阮惠大道 8號OSIC大樓12樓e室 OSIC Building, 12F, Unit E, 8, Nguyen Hue St., Dist. 1, Ho Chi Minh City, Vietnam | Tel: (848) 825-0407 (848) 825-0408 Fax: (848) 825-0686 |
| 桃園分行* Taoyuan Branch | 桃園縣桃園市縣府路332號 332, Hsienfu Rd., Taoyuan City, Taoyuan Hsien, Taiwan | Tel: (886) (3) 339-5300 Fax: (886) (3) 339-5277 SWIFT: UBOTIWTWTPX003 | 香港辦事處 Hong Kong Representative Office | 香港中環皇后大道中30號娛樂 行8樓D室 8F, Unit D, Entertainment Building, 30, Queen's Road Central, Hong Kong | Tel: (852) 2521-1678 Fax: (852) 2521-1799 Telex: 78450 UFIHK HX |
| 桃鶯分行 Taoying Branch | 桃園縣桃園市桃鶯路343號 343, Taoying Rd., Taoyuan City, Taoyuan Hsien, Taiwan | Tel: (886) (3) 377-9797 Fax: (886) (3) 377-5511 | *為外匯指定單位 Appointed Foreign Exchange Offices | | |
| 南崁分行 Nankan Branch | 桃園縣蘆竹鄉中正路137號 137, Chungcheng Rd., Luchu Hsiang, Taoyuan Hsien, Taiwan | Tel: (886) (3) 322-9699 Fax: (886) (3) 352-1354 | 股票過戶機構 Stock Registration Office | | |
| 中壢分行 Chungli Branch | 桃園縣中壢市中央西路一段62號 62, Chungyang W. Rd., Sec. 1, Chungli City, Taoyuan Hsien, Taiwan | Tel: (886) (3) 426-5111 Fax: (886) (3) 426-5121 | 聯邦商業銀行股份有限公司總務部 General Service Department Union Bank of Taiwan 台北市民生東路三段109號2樓 2F, 109, Minsheng E. Rd., Sec. 3, Taipei, Taiwan Tel: (886) (2) 2718-0001 Fax: (886) (2) 2717-2894 | | |
| 內壢分行 Neili Branch | 桃園縣內壢市中華路一段258號 258, Chunghua Rd., Sec. 1, Chungli City, Taoyuan Hsien, Taiwan | Tel: (886) (3) 435-1288 Fax: (886) (3) 435-1488 | 信用評等機構 Credit Ratings Institution 中華信用評等公司 Taiwan Ratings Corp. 台北市羅斯福路2段100號23樓 23F, 100, Roosevelt Rd., Sec 2, Taipei, Taiwan Tel: (886) (2) 2368-8277 | | |
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