

First Financial Holding 2003 ANNUAL REPORT



第一金融集團

第一金融控股股份有限公司  
First Financial Holding Co., Ltd.

2003 ANNUAL REPORT

First Financial Holding

第一金控

First Financial Holding



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##### **Mingtai Fire & Marine Insurance Co., LTD.**

Address: 1 Jen Ai Rd., Sec.4, Taipei, Taiwan (Head Office)  
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Web Site: <http://www.mingtai.com.tw>

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Tel: 886-2-2504-1000  
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#### **III. Share Registrar**

##### **First Commercial Bank (Trust Department Custody Center Stock Registration Div.)**

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#### **IV. Rating Agency**

##### **Standard & Poors**

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#### **V. Auditor Report**

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Exchange Market: Luxemburg  
Web Site: <http://mops.tse.com.tw>

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# Letter to shareholders



Chairman  
*Steve S.F. Shieh*

**O**n January 2, 2003, First Financial Holding Co., Ltd. was established through a "share swap" with its core subsidiary, "First Commercial Bank Co., Ltd" (hereinafter referred to as the "First Bank") in accordance with the Financial Holding Company Act.

Looking back over year 2003, although the economy was depressed as a result of the setbacks of the US-Iraq war in the beginning of the year and SARS epidemic in the second quarter, our company continued with major revolutionary plans according to our original goals and objectives. Our company officially acquired three subsidiaries on July 31, 2003: First Taisec Securities Inc. (hereinafter referred to as "First Taisec Securities"), Mingtai Fire & Marine Insurance Co., Ltd. (hereinafter referred to as "Mingtai Insurance") and National Investment Trust Co., Ltd.(hereinafter referred to as "NITC"). Our group is one of the largest financial conglomerates in the country with total asset more than NT\$ 1.4787 trillion. Our subsidiary businesses range from banking, insurance, securities and assets management.

On August 1, 2003, in order to strengthen the capital base of our company and First Bank (our



subsidiary), we pioneered domestic financial institutions and issued Global Depositary Receipts through 1 billion new shares. With total amount of NT\$ 17.3 billion raised, NT\$ 14 billion was used to recap First Bank and NT\$ 938 million was used to recap First Taisec Securities. To attract foreign investment institutions, our company strived to enhance the financial condition and transparency by implementing practical actions and concrete blueprints which complies with international standards on corporate governance and information disclosure. Apart from boosting international awareness, we also endeavored to solidify our fundamentals which transform First Financial Holding Company to an international financial institution.

As the subsidiary bank - First Bank accelerated disposals of bad loans to strengthen its business operations and wrote off bad debts substantially in 2003, our company, by equity method, thus reported a loss on long-term investment of NT\$ 12.49319 billion. Net loss after tax was NT\$ 12.78406 billion and loss per share was NT\$ 2.57. Although we suffered a loss during the fiscal year, the NPL ratio was reduced to 1.46% by the end of 2003. We aim to achieve optimal performance, enhance shareholders' value and maintain clean balance sheet while pursuing business and earning growth. Our current paid-in capital is around NT\$ 55.5 billion. We aim to utilize our capital more efficiently and integrate our subsidiary businesses including banking, securities, insurance and assets management to develop comprehensive financial products and seamless services that meet the needs of our customers.

In terms of business operations of each subsidiary in 2003, First Bank reported a net loss of NT\$ 13.3 billion after the write-off of NT\$ 39.4 billion dollars of bad debts in order to accelerate the clearing of non-performing loans. Loss per share was NT\$ 3.32. In the meantime, the bank's NPL ratio was reduced to 1.46%, which was far below the average NPL ratio of 4.33% in the industry. The financial transparency and asset quality were greatly enhanced as a result.



# Letter to shareholders



President  
*Jer-Shyong Tsai*

In December 2003, the First Taisec Securities merged with the securities brokerage sales outlets of First Bank and increased to 23 branches, resulting in an increase of its average market share to 0.8% in 2003 from 0.67% in 2002. The operating revenue and net income after tax both surged in 2003 compared to that in 2002 and reached NT\$ 1,552 million and NT\$559 million respectively. Earnings per share was NT\$ 2.43.

The gross written premium of Mingtai Insurance was NT\$ 9.9 billion in 2003. Mingtai insurance had a market share of 9.12% and maintained its position as the second biggest property and casualty insurance company in the country. Net income after tax was NT\$ 398 million and earnings per share was NT\$ 1.99.

The total assets under management of NITC reached NT\$ 97 billion, grew by 14% from 2002. NITC was ranked 11<sup>th</sup> among 43 investment trust companies.

In terms of performances of our subsidiaries, it is evident that they have been growing steadily towards our original planned goals. A lot of efforts have been made to enhance their financial transparency and profitability. They aim to provide better services and the maximum profits to their customers and shareholders with the aid of abundant resources and integration capability of parent holding company.

First Financial Holding Company and its subsidiaries will continue to introduce new products, businesses, services and information technology to meet the challenges in today's business environment. In this regard, we hope to maximize our profits by satisfying customers' needs, capturing market trends and taking the lead. As world-renowned financial groups are well-equipped with a comprehensive range of financial products, high-end expertise information technology and extensive distribution channels and service network to create synergies and boost profits. The major tasks on R & D of our company and subsidiaries include innovation of products and business, construction of a common platform for cross-sale, formulation of a comprehensive risk management policy, objective and early warning system, enhancement of information technology capability, migration of new IT system that covers customer relationship management and decision analysis management. In addition, each subsidiary continues to conduct research projects, based on its business needs, the development of economic and financial trends, and policy, regulation and industry dynamics that not only upgrade our capability on research and development, but also enhance the quality of operation and customer services. We can then gain a competitive edge and franchised position to become leader among the peers.





# Letter to shareholders

In order to increase our economies of scale rapidly, diversify our business operations and enhance the overall competitiveness of our corporation, action plans and strategies have been set out below for the coming year:

1. Expand our market share and leverage synergies in the financial group.
2. Strengthen professional management to upgrade the overall operational efficiency.
3. Reduce funding cost effectively and improve the efficiency of capital allocation.
4. Nurture professional management and provide an environment of self-development for employees.

Our main goals this year include continually expanding our business scope, effectively integrating and managing the resources and businesses of our subsidiaries that would significantly produce operating synergies. In compliance with our strategies to further acquire other subsidiaries, we constantly review the organization structure, operations of the various committees and management performance of our subsidiaries in hope for strengthening the process and quality of management by objective (MBO) toward our subsidiaries.

To enhance the efficiency of operations and utilize the resources, we will intensify the integration of corporate finances, personal finances and wealth management businesses under the financial holding company umbrella. We can thus provide comprehensive financial services to different groups of customers within the group. In order to cut down cost, we re-assessed the resources of support units in each subsidiary, streamlined operations of similar nature, re-allocated manpower to improve efficiency. At the same time, in order to strengthen our risk management and information technology functions, we have established an "information technology integration taskforce" to build up enterprise-wide risk management system.

Furthermore, in coordination with the corporate development strategy, we will deliberately evaluate

suitable targets for merge and acquisition to expand our financial operations in due course. We seek to achieve diversified growth, enhance our operational efficiency and strengthen our competitiveness. We will continue our dialogue with investor community and compile external feedbacks to the top management. A website with comprehensive information and communication platform targeted at specific institutional or individual investors will also be in place.

For the year 2004, we are keen to offer full-fledged financial services through expanding our business scope, intensifying cross-sale activities and enhancing risk management. At the same time, facing the competitive and rapidly changing environment, we acknowledge the necessity of adjusting our organizational goals and business strategies in order to maintain our competitiveness. Base on the reorganized framework, our dedicated sales team will concentrate their time and energy on highly value added activities such as promotions and customer relationship management, which will top First Financial one of the most competitive financial service providers in Taiwan.

The support and encouragement extended from shareholders in the past year has greatly driven us to pursue growth in the choppy and competing markets. Going forward, we are committed to providing radical business strategies, increasing services quality and enhancing operating performance. Any inspiration and comments shall be highly valued and welcomed by us as usual.

Chairman  
*Steve S.F. Shieh*





# Company Overview

## ( I ) Company profile and history

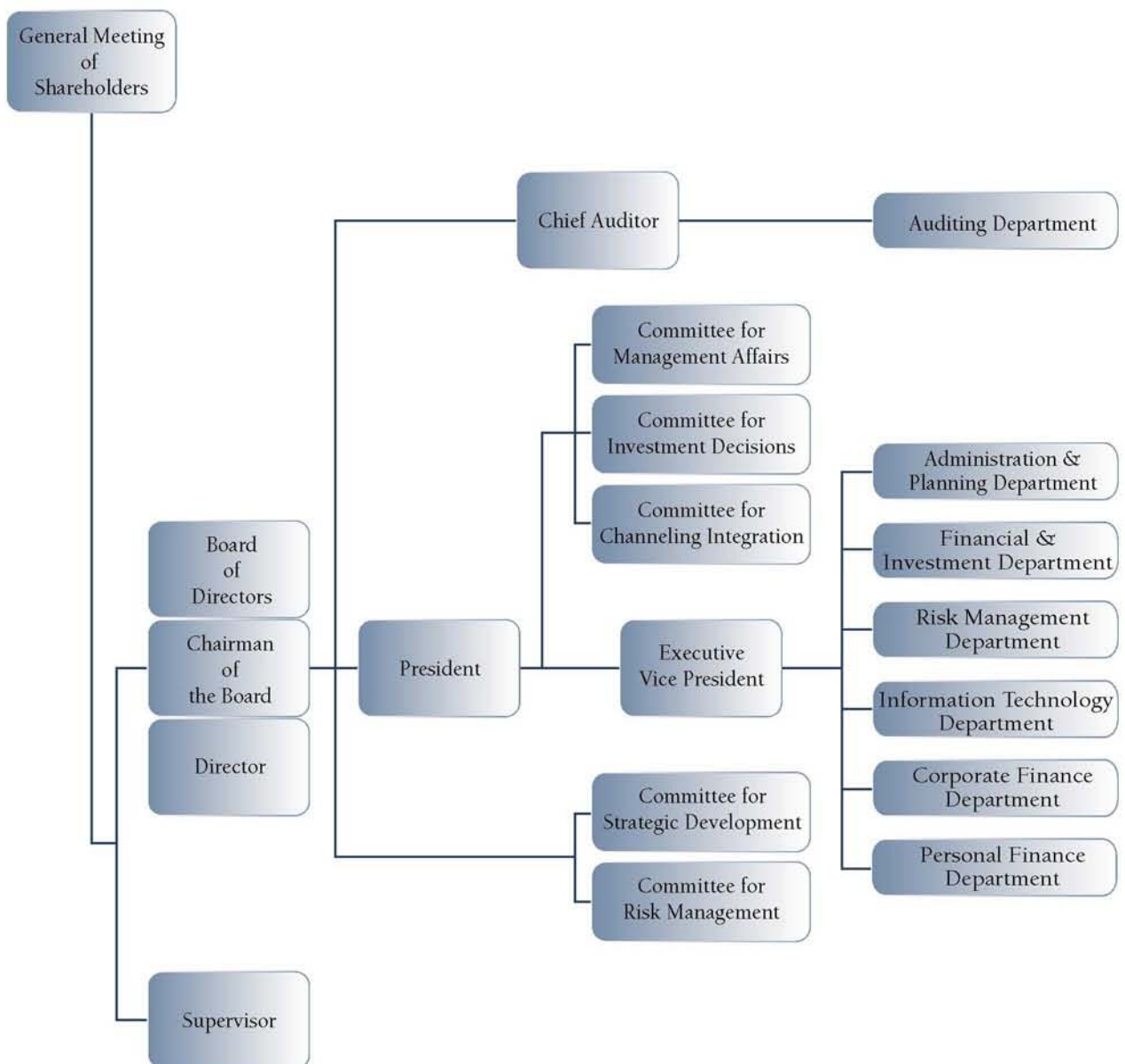
First Financial Holding Co., Ltd. (hereinafter referred to as the "company") was established through preparation initiated on November 27, 2001. On January 2, 2003, the company was officially founded through "share swap" with First Commercial Bank (hereinafter referred to as "First Bank") under Financial Holding Company Act and other related regulations. The company's shares were listed on the same day after receiving approval from the Securities and Futures Commission under Ministry of Finance. Under the conversion scheme, First Bank then became a wholly owned subsidiary of our company. On July 31, 2003, the company further acquired First Taisec Securities Inc., Mingtai Fire & Marine Insurance Co., Ltd. and National Investment Trust Co., Ltd to expand as an integrated financial holding group with a paid-in capital of NT\$ 55.5 billion covering banking, securities, insurance, and assets management businesses. Through the establishment of financial holding company, we aim to improve the overall productivity, enlarge our scope of economies, carry out cross sale campaign and resource sharing, and allocate manpower more effectively to achieve the combined synergies in diversified areas.





## ( II ) Organization

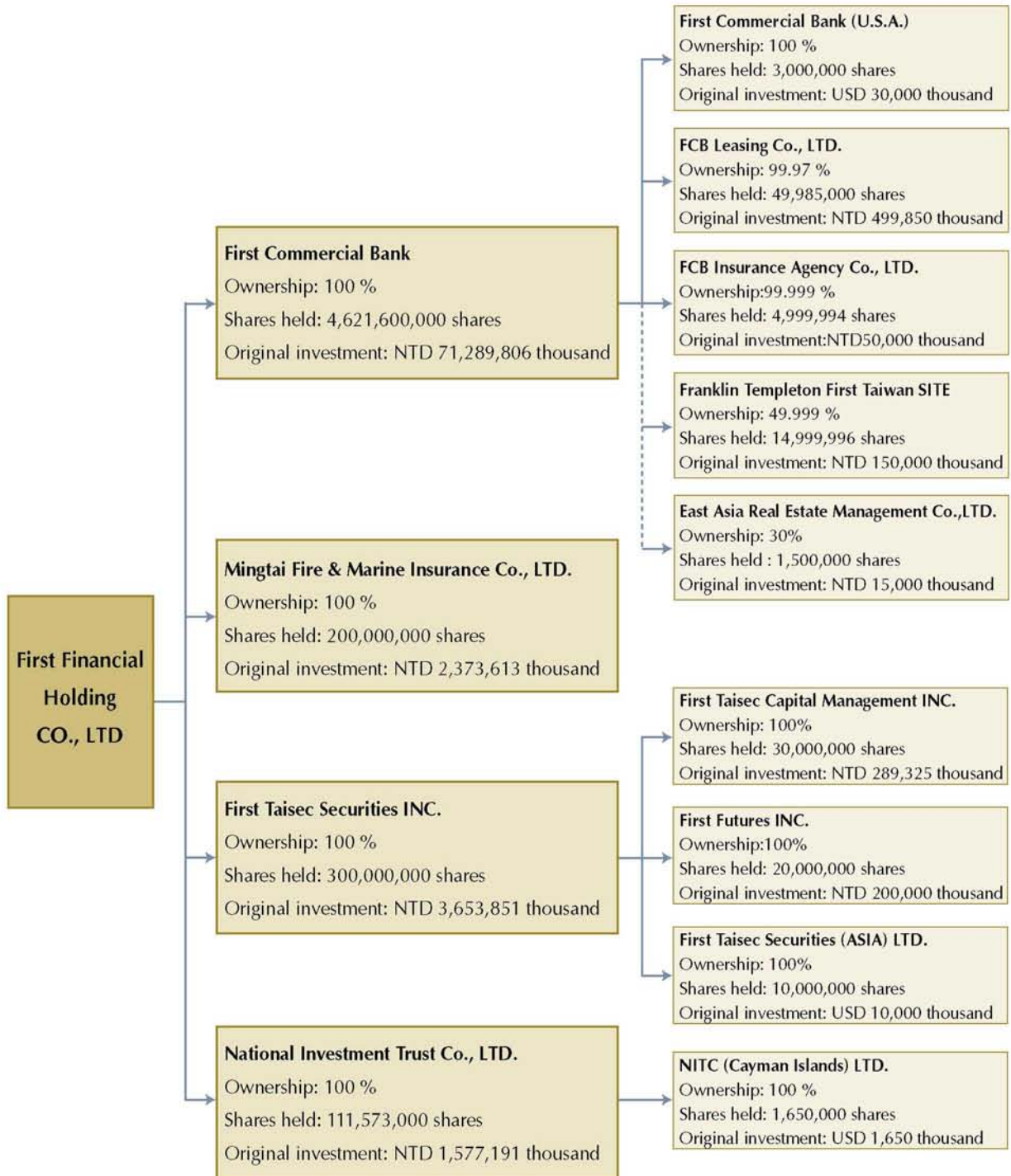
### 1.Organization Chart





# Company Overview

## 2. Group Chart(2003.12.31)









# Company Overview

## 4. Major Institutional Shareholders (2003.12.31)

Name of Institutional Investor	Major Institutional Shareholder (First level)	Major Institutional Shareholders (Second level)
Ministry of Finance	-	-
Bank of Taiwan	Ministry of Finance	-
Hua Nan Commercial Bank Co., Ltd.	Hua Nan Financial Holdings Co., Ltd.	Bank of Taiwan, First Commercial Bank, Ministry of Finance
Jin Yuan Investment Co., Ltd.	Tien-Yuan Chen, Shu-Chen Chen-Chiang, Yuan-Sheng Chen	-

Remark: Representatives of institutional shareholders shall indicate the name of the institutional shareholder and the names of top 10 shareholders or shareholders with more than 10%

## 5. Capital Stock, Corporate Bonds, and Treasury Stocks

### (1) Capital Stock:

Unit: 1000 shares/thousand dollars

Time	Issued Price	Authorized Capital		Paid-in Capital		Description		
		Number of Shares	Dollar Amount	Number of Shares	Dollar Amount	Source of Capital	Use assets other than cash to pay for the shares	Others
2003.01	10	10,000,000	100,000,000	3,821,600	38,216,000	Remark 1	-	-
2003.07	10	10,000,000	100,000,000	4,382,474	43,824,742	Remark 2	-	-
2003.08	10	10,000,000	100,000,000	4,551,504	45,515,044	Remark 3	-	-
2003.08	10	10,000,000	100,000,000	5,551,504	55,515,044	Remark 4	-	-
2003.12	10	10,000,000	100,000,000	5,549,075	55,490,750	Remark 5	-	-

Remark 1: Distributed new shares worth NT\$38,216,000 thousand dollars on January 2, 2003, the share swap date of the First Commercial Bank Co. Ltd. Approved by the Securities and Futures Commission Letter Tai-Tsai-Jen Ruling No. 0910165654 on December 13, 2002.

Remark 2: Distributed new shares worth NT\$5,808,742 thousand dollars on July 31, 2003, the share swap date of First Taisec Securities Inc. and Mingtai Fire & Marine Insurance Co., Ltd. Approved by the Securities and Futures Commission Letter Tai-Tsai-Jen Ruling No. 0920134111 on July 28, 2003.

Remark 3: Distributed new shares worth NT\$1,690,302 thousand dollars on July 31, 2003, the share swap date of National Investment Trust Co., Ltd. Approved by the Securities and Futures Commission Letter Tai-Tsai-Jen Ruling No. 0920128927 on July 7, 2003.

Remark 4: Capital increase by cash of 10,000,000 thousand dollars, distributed 1,000,000,000 new shares and Global Depository Receipts on July 28, 2003. The stock price is NT\$10 dollars per share. Approved by the Securities and Futures Commission Letter Tai-Tsai-Jen Ruling No. 0920123723 on July 3, 2003.

Remark 5: November 25 2003 is the date of cancellation of treasury stock for decapitalization. A total of NT\$24,294 thousand dollars worth of issued stocks was cancelled. Approved by the Bureau of Monetary Affairs Letter Tai-Tsai-Rong Ruling No. 0920046197 on October 8, 2003.

### (2) Shareholder Structure:

Date: April 12, 2004

Shareholder Structure Quantity	Government Agencies	Financial Institutions	Other Institutional Shareholders	Individuals	Foreign Institutions and Foreigners	Total
No. of Persons	7	38	569	219,211	300	220,125
Number of Common Shares Held	1,125,866,519	1,045,774,437	563,798,753	2,301,828,411	511,806,860	5,549,074,980
Percentage of Shareholding(%)	20.29	18.85	10.16	41.48	9.22	100.00

**(3) Name list of Major Shareholders:**

Date: April 12, 2004

Names of Major Shareholders	No. of Common Shares Held	Percentage of Shareholding (%)
Ministry of Finance	827,246,844	14.91
Bank of Taiwan	449,640,825	8.10
Hua Nan Commercial Bank Co., Ltd.	164,827,624	2.97
Civil Servants' Retirement Fund Management Committee	158,526,207	2.86
Shin Kong Life Insurance Co., Ltd.	100,269,000	1.81
Chunghwa Post Co., Ltd.	93,317,559	1.68
Financial Services Co., Ltd. (HK) registers as the representative of depositary receipt and appointee of the depositary institutions according to the agreement established by the depositary institutions, Citibank N.A. and First Financial Holding Co., Ltd. on July 28, 2003.	92,560,360	1.67
Mass Mutual Mecuries Life Insurance Co., Ltd.	54,365,000	0.98
Bureau of Labor Insurance	50,747,040	0.91
National Financial Stability Fund Management Committee	50,016,150	0.90

**(4) Market price, net value, profit, dividend and relevant information of stocks in the recent two years:**

Item	Year	January 2 to December 31, 2003	January 1 to December 31, 2002	
Market Price	High	29.0	Remark 1	
	Low	18.1	"	
	Mean	22.17	"	
Book Value per share	Before allocation	12.32	"	
	After allocation	Remark 2	"	
Earnings per share	Outstanding Weighted Average Shares (Unit: thousand shares)	4,965,742	"	
	Loss per share	2.57 Remark 2	"	
Dividend	Cash dividend	-	-	
	Stock dividend	Appropriated from retained earnings	-	-
		Appropriated from capital surplus	-	-
	Accumulated unappropriated dividend (Unit: dollars)	-	-	

Remark 1: Our Company was established on January 2, 2003 by the share swap of the First Commercial Bank Co. Ltd. The company stocks was approved by the Securities and Futures Commission and listed on the same day. Thus, there is no information on the market price of stocks in 2002.

Remark 2: As of the date of the audit report, loss offset for 2003 has yet to be resolved by the shareholders' meeting.

**(5) Stock Dividend Policy:**

In order to maintain continuous expansion and enhance profitability, as well as in observation of related regulations, our company adopts the residuary stock dividend policy. Condition, timing, and amount of distribution are set as follows: if a fiscal year ends up with surplus, after paying income tax, deducting prior year's losses and setting aside any legal and special reserve, 0.02% to



# Company Overview

0.16% of the remaining portion of our net income shall be distributed to employee as bonuses; amongst which, the remuneration to directors and supervisors may not exceed 1%. The remainder, together with the retained earnings of the previous year may be distributed as shareholder's dividends and bonuses.

According to the company's business plan, part of the dividends may be distributed in stock to retain available funds, while the remaining portion may be distributed in the form of cash dividends. However, the ratio of cash dividends shall cap at 30%. Should the cash dividend payable per share be less than \$0.10, it will be withheld unless otherwise resolved by the general meeting of shareholders.

**(6) Distribution of special stocks:** None.

**(7) Outstanding corporate bonds (including foreign corporate bonds):** None.

**(8) Repurchase of shares by company:** None.

**(9) Participation in the distribution of global depositary receipts:**

Issued Date	2003.7.28	Total Issue Amount	USD 503.02 million
Place of Offering	Luxembourg Stock Exchange	Price Per Unit	USD 10.30
Source of Underlying Shares	Common Stock of First Financial Holding Co.	Total Issue Units	48,837,080
Amount of Underlying Shares	20 Shares	Amount not Converted <sup>(Remark)</sup>	8,215,518
Trustee	Not applicable	Rights and Duties of Depositary Reciept Holder	Similar to Common Shareholders
Depositary Institution	Citibank Corp.	Custodian Institution	Trust Department of First Commercial Bank
Relevant Expenses During the Issuance and Duration Period	Our company shall pay for the relevant expenses during the issuance and duration of the depositary receipts	Important stipulations in the depositary and custodian agreement	None
Market Price Per Unit (USD)	2003 Highest	2003 Lowest	2003 Average
	14.58	10.59	12.42
Market Price Per Unit (USD)	Highest as of March 15 2004	Lowest as of March 15 2004	Average as of March 15 2004
	17.70	14.65	15.89

Remark: As of December 31 2003.

Source of market price information is extracted from the GDR ISSUER website of the depositary bank (Citibank).



# Overview of Business Operations

## (I) First Commercial Bank

### 1. Savings deposits

The average savings deposit of the bank in 2003 was NT\$ 1036.5 billion, or 101.12% of its annual target. This figure rose by 4.43% and increased by NT\$ 44 billion from 2002.

### 2. Loans

The average amount of loan granted in 2003 was NT\$ 801.7 billion, or 95.44% of its annual target. This figure rose by 1.13% and increased by NT\$ 8.9 billion from 2002.

### 3. Foreign exchange

The total volume of foreign exchange in 2003 was USD 133.7 billion, or 118.12% of its annual target. This figure advanced 31.26% and increased by USD 31.8 billion from 2002.

### 4. Trust

The total volume of mutual fund business (including local and off-share mutual funds and foreign marketable securities) was NTD 207.7 billion with an achievement rate of 120.76%. This figure climbed 35.86% and surged by NT\$ 54.8 billion from 2002. The balance of fund custody business at the end of 2003 was NTD 418 billion with an achievement rate of 104.48%. This figure ended 23.82% higher and increased by NT\$80.4 billion from 2002.

### 5. Securities brokerage

The total amount of securities brokerage business in 2003 was NT\$ 190.3 billion with an achievement rate of 67.96%. This figure dropped by 13.00% and decreased by NT\$ 28.4 billion from 2002.

### 6. Non performing loans

To accelerate the disposals of overdue loans and strengthen the business structure, the amount of bad debts written off in 2003 was NT\$ 39.4 billion. Although this resulted in an annual loss for the company, but the NPL ratio has been reduced to 1.46% at the end of 2003 as compared to 3.77% in 2002. This figure was much lower than the average NPL ratio of 4.33% in the industry as announced by the Bureau of Monetary Affairs of the Ministry of Finance at the end of 2003.

### 7. Profit and loss

The total revenue of First Commercial Bank was NT\$ 48.2 billion in 2003. The total cost and expense was NTD 67.1 billion with a pretax loss of NTD 18.9 billion. With income tax rebate amounted to NTD 5.6 billion, net loss after tax was NTD 13.3 billion, after-tax loss per share was NTD 3.32, total return on asset was -0.97% and the return on equity was -23.10%.



# Overview of Business Operations

## (II) First Taisec Securities

### 1. Brokerage business

In 2003, Chungshan and Minchuan branch offices were added to the original 8 branch offices. A total of 10 branch offices were established. The company further merged the brokerage outlets of First Commercial Bank in December and ended up with 23 sites in total. Revenue from brokerage has increased from NT\$ 361 million in 2002 to NT\$ 365 million in 2003. The market share of the company also rose from 0.67% in 2002 to 0.8% in 2003.

### 2. Proprietary business

In 2003, the total profits from trading gains in marketable securities reached NT\$283 million based on its sectoral research and directional play; jumped 26.75% from a year earlier.

### 3. Underwriting business

In 2003, the company arranged a total of 16 IPO, SPO and ECB deals, indicating growth from the previous years. The total annual revenue from the underwriting business reached NT\$71 million, 37.49% higher from a year earlier. Profit from liquidating underwritten position was NT\$35 million.

### 4. Other businesses

The trading volume for fixed income trading volume in 2003 including NT\$7.957 billion for RP and NT\$5.54 billion for RS. 24 accounts were served in the stock transfer agency business and the revenue hit NT\$ 10.1 million, 39.85% higher than the year earlier.

### 5. Profit and loss

The total revenue in 2003 was NT\$1,552 million, total expense was NT\$ 1.035 billion, pretax income was NT\$ 517 million, income tax benefit was NT\$ 42 million, net income after tax was NT\$559 million and earnings per share was NT\$2.43. Return on asset was 4.08% and return on equity was 16.60%. The revenue and profit after tax surged by 65.64% and 163.68% respectively in 2003 as compared to that of 2002.





### (III) Mingtai Fire & Marine Insurance Co., Ltd.

#### 1. Gross Written Premium

Gross premium written for 2003 was more than NT\$9.9 billion, 7.56% above the previous year's total, allowing it to retain its number two position in the domestic insurance industry with a market share of 9.12%.

#### 2. Claims Payment and Loss Ratio

In 2003, claims payments (including claims processing expenses) totaled NT\$3.943 billion, reducing the overall loss ratio by 8.98% below the 2002 figure of 48.81%. The loss ratio for major Motor Insurance was 57.34%, 2.32% higher than the average loss ratio for 2002. Next are Casualty and Marine insurances, with average loss ratios of 41.85% and 35.53% for the year, respectively. The remaining insurance lines had loss ratios below the 2002 figures due to good risk management and a fortunate lack of domestic catastrophes.

#### 3. Profit and loss

In 2003, the total revenue was NT\$19.054 billion, total expense was NT\$ 18.539 billion, pretax income was NT\$ 515 million, income tax expense was NT\$117 million and net income after tax was NT\$ 398 million. After-tax earnings per share was NT\$ 1.99, total return on asset was 2.96% and total return on equity was 15.15%. Profit after tax increased by NT\$ 243 million in 2003 compared to that of 2002 and achieved a growth rate of 157%. Return on asset and return on equity also surged in 2003 from prior year.

### (IV) NITC

#### 1. Total Assets under Management and Beneficiary Accounts

As of December 2003, Total assets under management reached NT\$97 billion, grew by 11.8 billion and up 14% from the year earlier. The company was ranked 11th among the overall 43 investment trust companies. Equity funds including balanced funds exceeded NT\$15.3 billion in assets, up 37% from 2002; Bond funds topped out at NT\$81.6 billion in assets, up 10% over the same period. Total asset size of its discretionary asset management business kept at NT\$400 million in 2003 equivalent to that of 2002. Its Hong Kong affiliate's total assets under management reached NT\$11.7 billion, up 7% year on year.

Aggregate beneficiary accounts slipped 5% from the year earlier to 86,131 while total Dollar Cost Averaging Investment accounts dropped 22% to 11,076 in 2003.





# Overview of Business Operations

## 2. Fund Sales

Total subscriptions of NITC funds equaled NT\$246.3 billion in 2003 while total redemptions of NITC funds reached NT\$238.0 billion. Total management fees reached NT\$396 million or 98% of our 2003 target. Total front-end fees were NT\$7 million in 2003, for 56% of our annual target.

## 3. Profit and loss

In 2003, total revenue reached NT\$ 427 million, while total expense was NT\$ 329 million, pre-tax income was NT\$ 98 million, tax expense was NT\$ 41 million and net income after tax was NT 57 million. After-tax earnings per share were NT\$ 0.51, total return on asset was 3.44% and total return on equity was 3.70%.

## (V) Pros and Cons for Group Visions

### 1. Pros

(1) The subsidiaries under FFHC act solely as the premier player in their respective fields and specialize in their niche markets. With the sizeable 5 million customer base, the group is well positioned to optimize its cross-selling synergy by means of implementation of data-driven marketing and customer relationship management.



- (2) Nation-wide branch offices amongst First Commercial Bank and other subsidiaries form an extensive business and customer service network that offer comprehensive and diversified financial products in an easy access.
- (3) With sufficient capital base, our company can then enhance efficiency of capital allocation by means of consolidating resources within the group, which place us at an advantageous stance in confronting strong competition from international financial groups.
- (4) While facing the rapidly changing and competitive financial environment, on the basis of solid and distinct franchise, our company moved aggressively toward product innovation and business reform. The proven track records of large-scale NPL clean and corporate restructuring did improve our corporate image and boost overall competitiveness.

## 2. Cons

- (1) As the core asset built-up mainly lied on banking sector, there is still plenty room for further growth in securities and insurance businesses.
- (2) The comparative weak position in the consumer finance has led to the result that our profits were mainly generated from interest income, however the fee based revenue was still relatively low. We plan to improve our service quality and operational efficiency after the establishment of renewed, customer-oriented corporate structure.

## (VI) Employees

The number of employees of First Financial Group as of first quarter of 2004

Date: 2004.3.31

	Transferred within the group	Newly-hired	Sub-total	Remarks
First Financial Holding	33	7	40	Transferred from First Bank
First Bank	0	6700	6700	
First Leasing	3	35	38	Transferred from First Bank
First Insurance Agency	5	24	29	Transferred from First Bank
Franklin Templeton First Taiwan SITE	0	27	27	
FCB(USA)	4	56	60	Transferred from First Bank
First Taisec Securities	0	738	738	
Mingtai	0	1311	1311	
NITC	0	139	139	
TOTAL		9037		

Remark: The headcount at each affiliate includes employees transferred to other units.



# Risk management

## (I) Risk management policy

Establishing risk management system including risk identification, assessment, monitor and control for our company and subsidiaries stands for the center of risk management policy of our company, which allows us to optimize the risk-reward target amid adequate capital base within acceptable risk-appetite.

## (II) Risk management organization

### 1. First Financial Holding Co., Ltd.

According to the organizational framework of risk management committee along with the policy and guideline for risk management of our company, the duties of our corporate risk management organization shall be as follows:

(1) Board of Directors

The top risk governance unit of our company. Responsible for the approval of risk management principles, policies and monitoring indicators of our company and subsidiaries.

(2) Risk Management Committee

Responsible for the establishment of risk management principles, policies and monitoring indicators of our company and subsidiaries. Coordinate and supervise issues related to risk management of each subsidiary.

(3) Risk Management Department

Responsible for the supervision and assessment of risk management policies and procedures, construction of composite risk factors and analysis of main operational risks. Also in charge of the supervision and management of the internal control system of our company and subsidiaries.

### 2. First Commercial Bank Co., Ltd.

(1) Board of Directors

The top authority of corporate risk management.

(2) Risk Management Committee

Conduct reviews and discussions or resolve risk management issues authorized by the Board.

(3) Risk Management Department

Responsible for the planning, promotion and coordination of comprehensive risk management policy and management processes, together with the establishment of relevant regulations.



**3. First Taisec Securities Inc.**

(1) Board of Directors

Approve various business operations and total limit for portfolio, risk management system, policies and guidelines.

(2) Risk Management Committee

Responsible for the establishment of basic policy and assessment guidelines of risk management, risk management evaluation system, supervision and evaluation of implementation. Review and dispose of issues that breach risk management policy, standards, regulations and indicators

(3) Risk Management Unit

Responsible for the supervision, implementation and control of the risk management system. Report the implementation results regularly to the Risk Management Committee.

**4. Mingtai Fire & Marine Insurance Co., Ltd.**

To implement the risk management system effectively, the "Risk Management Committee" was established to carry out comprehensive supervision, prevention and control of risk management operations. This is to ensure that risk management measures are implemented effectively.

**5. National Investment Trust Co., Ltd.**

The "Risk Management Committee" was established to strengthen corporate risk management. Regular meetings shall be held quarterly. The committee shall supervise the quality and exposure of the risk management process to ensure the effective implementation of risk management and control policy.





## (III) Assessment and control methods of risk management

### 1. First Financial Holding Co., Ltd.

Apart from reviewing risk management conditions of various subsidiaries on a regular basis, our company also established "Group Risk Management Project Team" according to the "policy and guideline of risk management". The project team is responsible for the building of various risk-bearing limits and assessment indicators of the corporation to strengthen corporate risk management. The project team is also responsible for the construction of an appropriate risk supervision and control system.

### 2. First Commercial Bank Co., Ltd.

Build a more economical business model which ensures both security and efficiency requirements at the same time by analyzing the main risks faced by various businesses in terms of credit, market, operations, liquidity and off-balance. Also develop more advanced and sensitive supervision, evaluation and risk control procedures and standards in compliance with Basle II principles beyond the original control standards and regulations.

Main risk control methods include the following: control of loan and investment limits of different industry and groups, risk concentration control, control of transactional limit and loss limit, interest rate sensitivity management, country limit management and so on.

### 3. First Taisec Securities Inc.

Adopt a cautious and diversified control model and conduct concrete and quantifiable control for all businesses that may be exposed to risk in the evaluation and control of risk management. Following is the key summaries of the above:

#### (1) Set out ceiling for limit authorization

We set limits on amount of authorization in underwriting primary deals, proprietary trading in the secondary market, issuance and transaction of derivatives and operation of other businesses. Specific guidance including limit on total investment amount, limit on single stock investment, limit on liquidity risk in a specific market, limit on credit risk to counterparts, and trading limit for each trader etc..

#### (2) Multi-dimensional Regulations on Risk Management

Any business plans must not initiate unless approved through the internal approval process.

The items for approval process include information management system and risk management regulations of the planned business. The risk management regulations shall envelop all relevant risks.

(3) System of delegation of authority

The decisions to fill various level of transaction according to the exposure involved shall be adjusly made by authorized supervisors from appropriate divisions and departments. Any transaction decision shall be made by various supervisors according to and within the approval authorities that empower to them.

(4) Independent Risk Control Unit

To strengthen the overall risk management efficiency of our company, an independent risk management unit was established under the Chief Executive Officer. This unit is responsible for overseeing daily market risks, credit risks and liquidity risks that all business units might be exposed to, evaluating and reassessing the execution of risk management guidelines, monitoring the stop-loss and progress of establishment of various risk management information system.

(5) Establishment of the risk management system

We have planned and established risk management information systems to monitor real time transactions, integration of inter-department and compound risk management reports and so on. We effectively monitor all features of risks through information system.

**4. Mingtai Fire & Marine Insurance Co., Ltd.**

We are in the process of revising the risk management regulations and guidelines for the company in order that not only comply with the regulatory requirements but also establish measurements to assess the potential loss.

(1) Market risk

Monitor the input ratio for funds on stocks, corporate bonds, mutual funds, beneficiary certificate and foreign investments and establish the stop-loss mechanism.

(2) Credit risk

Monitor the credit rating status of reinsurers and investment targets.

(3) Liquidity risk

Set limit on allocation and transfer of fund to ensure the liquidity of funds.





# Risk management

## (4) Underwriting risk

Monitor the process of underwriting and retained portion

## (5) Operational risk

Establish operation control process and conduct regular inspections.

(6) Submit daily, monthly and quarterly reports to management according to different needs.

## 5. National Investment Trust Co., Ltd.

The market risk, credit risk and liquidity list is relatively low in NITC. The major concern of NITC lies in operational risk.

### (1) Credit risk

Establish a systematic method in portfolio management to evaluate the credit risk of counterparties and their portfolio.

### (2) Market and interest rate risk

Under the principles of security, liquidity and profitability, we have constantly monitored risks in relation to price, exchange rate and interest rate volatility toward on- and off-balance sheet assets. We also establish guidelines to monitor investment in compliance with requirements from regulatory agency and parent holding company.

### (3) Liquidity risk

We have constantly reviewed most updated regulatory requirements and monitor funding liquidity risk.

### (4) Operational risk

An operational risk management process has been developed to ensure that operational risks in internal process, authorities and documentation are properly monitored in compliance with regulatory requirements.



# Market Outlook and Business Plan for 2004

## (I) Market outlook

The economic recovery was slow in the first half of last year due to the impacts of the US-Iraq war and SARS epidemic. The SARS epidemic weakened the domestic demand and productivity and resulted in poor economic growth. Starting from second half of 2003, the global economy rebounded gradually as the two factors mentioned above evaporated along with the expansional fiscal policies adopted by most countries and relatively low rate environment. The import and export trades turned buoyant and underpinned the economic upturn. In the third and fourth quarter, the economic growth rate soared 4.18% and 5.17% respectively. The overall growth reached 3.24%.

Looking forward to 2004, the scope of trade business may further expand following strong recovery of the global economy, continue growth in international trade and deepening of industry specialization crossed the straits. Domestic demand shall be fueled by the wealth effect derived from recovery in the stock and real estate market. Consumer spending will also be boosted by the stimulating effects on the job recovery initiative and the expansion of public infrastructure projects. In overall, the economic outlook this year is predicted to be better than that of last year. Financial sector shall thus benefit from the upswing.

In terms of commodity prices, the annualized consumer price index (CPI) dropped by 0.28% due to fierce competition in the domestic retail market which prevents prices from rising and leads to a decline of rental cost. Even though the international commodity prices remain strong this year, given that ongoing open policy for domestic market and inability for manufacturers to pass on their cost to end users, the annualized CPI is expected to rise only slightly to 0.48%.

In addition, since the promulgation of Financial Holding Company Act, players in the financial industry tend to establish conglomerate comprising various sectors for cross-selling and enhance operating efficiency. Currently there are fourteen financial holding companies in the industry that form an extremely competitive market condition. The profitability of the entire industry is hindered given the overbanked market and comparatively small scale for domestic financial institution vs. multinationals. Therefore, it is inevitable that the island's financial sector shall encounter another wave of consolidation eventually.





# Market Outlook and Business Plan for 2004

## (II) Business plan for 2004

### 1. First Financial Holding Co., Ltd.

For the coming year, our company will strive to expand our operating scale and integrate the resources within the group effectively to expedite the strengths of our conglomerate. The main business strategy and plan includes: reviewing organization structure and management of subsidiaries regularly, integrating businesses and resources of subsidiaries, strengthening risk management and IT functions, evaluating potential targets for investment and M&A carefully based on group's development strategy that enlarge business scope, improving disclosure and communication with investors.

We will review and amend business plans according to the organization structure of our subsidiaries to upgrade our service quality and offer more convenient services to our customers. To leverage the joint-force of co-branding, we are keen to align strategic partnership that expands our market presence and awareness. This will be the key factor to outperform in today's competitive financial market for our company. Set out below are the underlying business plans:

#### (1) Integrate innovative financial products within the group

Our company will strengthen our innovation capability and develop new financial products covering banking, securities and insurance that facilitates customers to fill multiple transactions simultaneously. In the meanwhile, we will also introduce complementary businesses, advanced management tool and bundled products by way of agency agreements and strategic alliances to deepen and widen our financial services and products, with a hope to achieve our vision of becoming a "universal financial service provider".





## (2) Explore potential customers

Two geographic zones formulate our further beyond: one in Taiwan, from Keelung in the north down to Hengchun in the south; the second one originates from Greater China region, from Shanghai, Hangzhou, Shenzhen, Dongguan stretching towards Hanoi, Ho Chi Minh, Cambodia and Singapore. We plan to attract quality customers applying our strong financial services and recognized label to broaden our business profile.

## (3) Strategic alliances

By forming strategic alliances with foreign financial institutions, we can introduce new technology swiftly to enhance our innovation capability, speed up product design and accelerate the process of globalization. Through strategic alliances with different sectors, we can extend our services to non-financial products including manpower, accounting and financial advisory services, logistics management etc. to meet the various needs of customers. We hope to intensify customers' loyalty and achieve a win-win objective.

**2. The subsidiaries**

## (1) First Commercial Bank

A. Increase the proportion of electronic banking services. Accelerate the transformation of branch channel, enhance marketing and promotion mechanism and provide comprehensive financial services for our customers.

a. Improve the efficiency of automated services to increase the proportion of electronic banking businesses and reduce processing costs.

b. Streamline operational system in regional centers. Migrate branch offices into points of sales to enhance the efficiency of product sales and customer service quality.

c. Strengthen customer relationship management and marketing capabilities and capture market pulse in a timely manner through joint sales team consisting of relation managers, financial planners and account officers.

B. In compliance with the government policies on upgrading industry, globalization of corporations and cross-straits financial developments to satisfy the various funding demands of corporate clients, and act as the priority bank for Taiwan businesses.

a. Adjust loan portfolio and promotion strategies. Promote trade financing and self-refinancing transactions actively and assist companies in expanding trade related business.



# Market Outlook and Business Plan for 2004

- b. Introduce a supply-chain e-loan system to meet the funding demand arose from offshore deployment of Taiwan's multinationals.
- c. Plan and construct the "corporate-wide cash management system" to enhance the service of money transfer on corporate internet banking, which can provide our customers with flexible application to reduce operating costs.
- d. Seize the opportunities amid opening up of financial and trade industry across the straits. Expand the core business in cross-straits region with local expertise from our Shanghai rep-office, Ho Chih Min city, Hong Kong and OBU by force of overseas account-officers.
- C. Embracing market trend of diversified wealth management for individuals, we aim to enhance our innovative capability in consumer banking products, and lift the percentage of personal finance.
  - a. Continue to develop customized financial products. Expand our wealth management product lines and provide financial advisory and asset management services through marketing campaigns.
  - b. Develop and improve unsecured personal loans products in response to the growing demands to attract more customers and increase profit.
  - c. Become the leading brand in the market via multi-channel media and marketing events to enhance sales promotion.
  - d. In coordination with the plan to issue chip card, upgrade bankcards to chip cards. Develop more products such as chip-based storage cards to meet the diversified needs of customers.
- D. Upgrade sales promotion capability and strengthen risk management function by way of application of technology to increase overall competitiveness.
  - a. Plan and construct a new core banking system. Improve the operating procedures, accelerate the development of new products and provide KPI to top management through the integration of powerful and flexible IT system.
  - b. Build up global network which provides internet service of cash management to further intensify global competitiveness.
  - c. Construct an integrated risk management platform together with tools and modules for quantitative assessment to enhance the supervision and management of various risk factors.

- E. Enhance professional expertise of employees. Promote sales culture throughout the entire bank. Lower impaired loan ratio and better utilize bank's idle premises and vacant property.
- a. In coordination with the needs to expand business, strengthen professional training in areas such as corporate banking, wealth management, foreign exchange, channels management and treasury to increase the professional expertise and service quality of employees.
  - b. Infuse sales driven and performance based corporate culture. Rollout reasonable incentive program to spur employees' morale and create sales culture within the bank.
  - c. Centralize the collection of overdue loan and actively write off bad debts to reduce the non-performing loan ratio.
  - d. Enhance the management of bank's idle premises and foreclosed property by means of sale, rental or cooperative development to increase asset-related income and reduce tax expenses.

(2) First Taisec Securities

A. Company overview

- a. Continue to add on and increase excellent locations to raise our market share.
- b. Prepare and establish the underwriting sub-division to complete the service network for publicly listed companies.
- c. Strengthen product designs to satisfy customers' needs.
- d. Differentiate investment purposes into value and market trend type to mitigate investment risks.







# Market Outlook and Business Plan for 2004

- B. Brokerage business
  - a. Establish six regional centers in Southern Taipei, Northern Taipei, Taoyuan-Hsinchu-Miaoli, Taichung, Yunlin-Chiayi and Kaohsiung.
  - b. Conduct organizational restructuring and improve five main functions including planning, administration, risk management, marketing services and sales to cope with the development of business scale.
  - c. Fully utilize the existing retail channels of subsidiaries under holding company umbrella, improve the communication and coordination between staff and salespeople to smooth product sales.
  - d. Increase deployment of more financial planners to enhance the promotion of cross-sale products and sale of financial derivatives products.
  - e. Establish the controlling guidelines, procedures and mechanism in monitoring the transaction risks associated with stock-brokerages and margin trading business.
  - f. Promote internet transaction effectively via three-phase implementation inclusive of staff training programs, online trading system and aligned website strategy.
- C. Underwriting business
  - a. Increase other income by engaging in investment on unlisted companies appropriately.
  - b. Expand the service scope of the underwriting team to cooperate with sister companies like bank to leverage their distribution channels.
  - c. Work with financial holding companies to launch integrated products and services: CB/ECB business opportunities, such as asset swap, CB/ECB financing by shareholders' and staff subscription, special financing projects such as mergers and acquisitions financing, stock subscriptions (staff subscription of recapitalization by cash, staff subscription of treasury stocks, execution of warrant by staff, etc.) and liability insurance of Directors and Officers.
  - d. Retain existing customer base while continue to explore new customers.
  - e. Develop USD-denominated RP business and participate in the trading of overseas financial products in the secondary market.

- D. Fixed income business
    - a. Prompt yield enhancement of government bond portfolio.
    - b. Enlarge the market share of bond trading.
    - c. Acquire the license to sell derivative products.
    - d. Construct a complete sales channel of financial products.
  - E. Derivative business
    - a. Acquire all licenses needed to conduct stock derivatives approved by the competent government agency.
    - b. Issue 4 warrants.
    - c. The issuance of structured notes is targeted at NT\$500 million.
    - d. Sell off bond position originated from CB SWAP deals and long warrant position to eliminate associated risk.
    - e. Launch principal guaranteed funds for discretionary trading.
  - F. Proprietary business
    - a. Increase industry knowledge by interacting with senior analysts.
    - b. Build up specific trading modules on the basis of individual sectors.
    - c. Strengthen analysis of turning point, experience and quantitative data.
    - d. Concentrate on the trading of underlying target derived from the corporate resources.
    - e. Adopt strategies that increase turnover volume and follow Q1 market trend to achieve our profitability goal.
- (3) Mingtai Fire & Marine Insurance
- A. New products:
    - a. In response to the demand on bancassurance products from the bank's retail channels, redesign personal and commercial insurance products that are adequate to be distributed through the bank's retail network to fully leverage the synergy of the cross-sale.
    - b. In coordination with the market needs, introduce professional liability insurance policies to boost the proficiency image of the company.
    - c. Segregate target markets. Develop car insurance sub-policies to avoid price competition and satisfy the needs of different customers.



# Market Outlook and Business Plan for 2004

- d. Focus on the research and development of health insurance product, which is going to be opened up into the market, to capture the early-bird opportunities.
- B. Underwriting:
  - a. Provide regular review on loss ratio and fee schedules for various types of insurance. These will serve as references to decision-making for operation, underwriting and claims that allow the company to face the changing market conditions effectively.
  - b. Select quality cases, control loss ratio strictly, take precautions against moral hazards and save costs of different channels to boost the company's profitability.
  - c. Implement an authorization system for underwriting operations. Build up a uniform window for price quotations to avoid redundant manpower with repeated efforts.
  - d. Investigation officers shall fully understand the insured such as the production and business conditions to prevent any possible moral hazards.
  - e. Implement the "Volume management of targeted business". Enhance the flexibility of underwriting operations based on the static indicators like rate of quotation, successful or failed cases.
  - f. Trace and analyze the extension rate of various insurance policies regularly to increase the stability of the company's business.
- C. Business operations:
  - a. Offer the best insurance services and external business development opportunities in coordination with relevant businesses and outlets of the group (banking, securities, etc.). Establish a window responsible for joint marketing and sales efforts to accelerate the promotion of insurance products.





- b.Promote personalized insurance products such as casualty insurance, homeowner's insurance and student insurance to satisfy the market needs and increase sources of earnings.
  - c.Team up dedicated service workforce targeting large corporate clients to offer professional risk management knowledge and damage prevention services. These service teams can help to acquire and maintain good customer relationships and reduce loss ratio.
  - d.Engage co-insurance opportunities for large scale and fronting business to sustain the premium rates and market share of the company.
  - e.Enhance the efficiency of marketing staff and launch attractive incentive programs of personal insurance products to strengthen the development of external organization.
- D. Reinsurance:
- a.Increase the retention ratio of various types of insurance.
  - b.Increase the fraction of surplus reinsurance to break through the bottleneck faced by the proportional reinsurance.
  - c.Adopt the proportional reinsurance for the entire or part of risk concentrated or riskier businesses which helps to reduce the loss rate of the agreement, increase revenue from reinsurance commission and maintain company competitiveness.
- E. Claims:
- a.Establish case study data base for references to assist all departments reduce loss ratio when handling claims.
  - b.Study the feasibility of computerization of claims process and make use of Internet transmission to review small claims or trivial cases. This helps to improve the efficiency of the claims process and customers' satisfaction.
- F. Fund management:
- a.Increase staff and equipment for professional fund management that increase the flexibility of capital employment to diversify investment risk and maximize returns.
  - b.Quantify the performance of fund management staff and adopt a performance-based incentive program.



# Market Outlook and Business Plan for 2004

## G. Education and training:

- a. Implement various education and training programs to enhance employees' professional knowledge with the help of a professional certification system.
- b. Enhance risk management knowledge and implement internal audit and control concepts of employees to improve the operational efficiency and reduce business risk of the company.
- c. Educate so-called jack-of-all-trade. Implement job rotation system to enhance the professional knowledge of employees and encourage employees to develop their extra expertise. Improve the service quality and depth.

## (4) National Investment Trust

### A. Fund raising for new mutual funds:

- a. Raise "National Greater China region Balanced Fund" in the first quarter of this year to seek long term, stable performance for investors between the stock and bond market.
- b. Evaluate the feasibility of issuance of structured funds, principal guaranteed mutual funds, foreign bond funds or other types of mutual funds. Appropriate products also will be launched that meet market demands in a timely manner.

### B. Promotion of existing mutual funds:

- a. In terms of fixed-income products, we have established the goal to enlarge the scale of bond funds by NT\$14 billion this year. Furthermore, the balanced fund, Guangfu mutual fund, has been targeted to increase by 6 billion dollars.
- b. In terms of equity funds, we set the goal of a net sale of NT\$5 billion this year (including new funds raised) thanks to strong economic recovery.

### C. Leverage synergy of cross-sale:

- a. National Investment Trust has joined the First Financial Group in July last year. Therefore, integrating sales capability and executing cross-selling among the subsidiaries now rank top priority that create synergies.
- b. National Investment Trust has planned and initiated a series of education and training programs at the beginning of this year to assist three other sister companies to become familiar with our mutual fund products. In this way, we hope to escalate the sale of our mutual funds.

**(III) Capital allocation plan for 2004**

Plan	Source of Capital Estimation	Expected Acquiring Date	Expected Acquisition Price (thousand dollars)	Possible Effects
Investment project of First Venture Capital Co., Ltd.	Reduction of capital of subsidiary -- National Investment Trust Co., Ltd.	Jun-04	300,000	<ol style="list-style-type: none"> <li>1. Offer more comprehensive financial services for corporate clients</li> <li>2. Assist subsidiaries in developing potential customers, maintaining existing customers to fully display the results of integrated marketing.</li> </ol>
Investment project of First Financial Management and Consulting Co., Ltd.	Reduction of capital of subsidiary -- National Investment Trust Co., Ltd.	Jun-04	20,000	<ol style="list-style-type: none"> <li>1. Offer more comprehensive financial services for corporate clients</li> <li>2. Assist subsidiaries in developing potential customers, maintaining existing customers to fully display the results of integrated marketing.</li> </ol>
Investment project of First Financial Asset Management Co., Ltd.	Capital increase by cash and issuance of depositary receipts in 2003	Jun-04	250,000	<ol style="list-style-type: none"> <li>1. Utilize the company's capital effectively to increase the profits</li> <li>2. A platform to integrate poorly managed assets</li> <li>3. Offer new financial products such as asset securitization or financing business</li> <li>4. Learn professional management and assessment techniques of NPL.</li> </ol>
Capital raising for First Taisec Securities Inc.	Issue corporate junk bonds	Jul-04	1,650,000	<ol style="list-style-type: none"> <li>1. Utilize company's capital effectively to increase profits</li> <li>2. Build service network for securities of financial holdings</li> <li>3. Strengthen the capital adequacy ration of subsidiaries to help in business development</li> </ol>
Investment project of First P & C Insurance Agency Co., Ltd.	Paid for by the profits of subsidiaries in 2003	Sep-04	3,000	<ol style="list-style-type: none"> <li>1. A platform integrating property insurance of the group</li> </ol>
Investment project of First Insurance Agency Co., Ltd.	Paid for by the profits of subsidiaries in 2003	Sep-04	50,000	<ol style="list-style-type: none"> <li>1. Provides insurance business for the group</li> </ol>
Investment project of First Financial Direct Marketing Co., Ltd.	Paid for by the profits of subsidiaries in 2003	Dec-04	100,000	<ol style="list-style-type: none"> <li>1. Utilize the company's capital effectively to increase profits</li> <li>2. A platform integrating the group's directing marketing efforts</li> <li>3. Create professional direct marketing channels</li> </ol>



# Financial Reports



# Financial Reports

## REPORT OF INDEPENDENT ACCOUNTANTS

TO: The Board of Directors and Stockholders of First Financial Holding Co., Ltd.

We have audited the accompanying non-consolidated balance sheets of First Financial Holding Co., Ltd. as of December 31, 2003 and 2002, and the related non-consolidated statements of operations, changes in stockholders' equity, and cash flows for each of the years then ended. These non-consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of certain investee companies accounted for under the equity method, including First Taisec Securities Inc., Mingtai Fire & Marine Insurance Co., Ltd., and National Investment Trust Co., Ltd. for each of the years then ended. Those financial statements were audited by other auditors whose reports have been forwarded to us and our opinion expressed herein, insofar as it related to these amounts included for these subsidiaries, is based solely on the reports of those other auditors.

We conducted our audits in accordance with the "Rules Governing Auditing and Certification of Financial Statements by Certified Public Accountants" and generally accepted auditing standards 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 misstatements. 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.

In our opinion, based on our audits and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of First Financial Holding Co., Ltd. as of December 31, 2003 and 2002, and the results of its operations and its cash flows for each of the years then ended in conformity with the "Guidelines Governing the Preparation of Financial Reports by Financial Holding Companies", "Guidelines Governing the Preparation of Financial Reports by Securities Issuers" and generally accepted accounting principles in the Republic of China.

We have also audited the consolidated financial statements of First Financial Holding Co., Ltd. and subsidiaries as of and for the year ended December 31, 2003 and our report dated February 27, 2004 expressed a modified unqualified opinion thereon.



February 27, 2004

The accompanying financial statements are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than the Republic of China. The standards, procedures and practices utilized in the Republic of China to audit such financial statements may differ from those generally accepted in countries and jurisdictions other than the Republic of China. Accordingly, the accompanying financial statements and audit report of independent accountants are not intended for uses by those who are not informed about the accounting principles or auditing standards generally accepted in the Republic of China, and their applications in practice.





# Financial Reports

**FIRST FINANCIAL HOLDING CO., LTD.**  
**BALANCE SHEETS**  
 DECEMBER 31, 2003 AND 2002  
 (EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

ASSETS	2003		2002(Development stage)	
	Amount	%	Amount	%
<b>CURRENT ASSETS</b>				
Cash and cash equivalents (Note 4(1))	\$ 2,134,484	3	\$ 34,690	58
Receivables	1,468	-	-	-
Prepayments	477	-	361	-
Total current assets	2,136,429	3	35,051	58
<b>LONG-TERM INVESTMENTS (Note 4 (2))</b>				
Long-term investments accounted for under the equity method	66,171,470	97	-	-
Long-term investments accounted for under the cost method	20,000	-	-	-
Total long-term investments	66,191,470	97	-	-
<b>PROPERTIES AND EQUIPMENTS (Note 4(3))</b>				
Machinery and equipment	3,351	-	-	-
Transportation equipment	350	-	350	-
Other equipment	22,217	-	21,527	36
Leasehold improvements	5,270	-	4,143	7
Subtotal	31,188	-	26,020	43
Less: Accumulated depreciation	( 5,782)	-	( 977)	( 1)
Properties and equipments - net	25,406	-	25,043	42
<b>INTANGIBLE ASSETS</b>				
Intangible assets	1,145	-	-	-
<b>OTHER ASSETS</b>				
Guarantee deposit-out	30	-	-	-
<b>TOTAL ASSETS</b>	<b>\$ 68,354,480</b>	<b>100</b>	<b>\$ 60,094</b>	<b>100</b>



LIABILITIES AND STOCKHOLDERS' EQUITY	2003		2002(Development stage)	
	Amount	%	Amount	%
<b>CURRENT LIABILITIES</b>				
Payables	\$ 10,623	-	\$ 97,702	162
<b>LONG-TERM INVESTMENT</b>				
Accrued pension liabilities (Note 4(4))	4,455	-	-	-
<b>OTHER LIABILITIES</b>				
Guarantee deposit-in	538	-	539	1
Total liabilities	15,616	-	98,241	163
<b>STOCKHOLDERS' EQUITY</b>				
Common stocks(Note 4(5))	55,490,750	81	-	-
Additional paid-in capital (Note 4(6))	24,223,244	36	-	-
Retained Earnings				
Legal reserve	698,553	1	-	-
Special reserve	274,018	-	-	-
Accumulated deficits (Note 4(8))	( 12,287,532)	( 18)	( 38,147)	( 63)
Unrealized loss on long-term equity investments (Note 4(2))	( 63,324)	-	-	-
Cumulative translation adjustment (Note 4(2))	60,635	-	-	-
Net loss not recognized as pension cost (Note 4(2))	( 57,480)	-	-	-
Total stockholders' equity	68,338,864	100	( 38,147)	( 63)
<b>Commitments and contingent liabilities (Note 7)</b>				
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 68,354,480</b>	<b>100</b>	<b>\$ 60,094</b>	<b>100</b>

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



# Financial Reports

## FIRST FINANCIAL HOLDING CO., LTD. STATEMENTS OF OPERATIONS

FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002  
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS, EXCEPT FOR LOSS PER SHARE)

	2003		2002(Development Stage)	
	Amount	%	Amount	%
<b>Operating revenues</b>				
Other operating revenues	\$ 4,665	100	\$ -	-
<b>Operating costs</b>				
Loss from long-term investments accounted for under the equity method (Note 4(2))	( 12,328,699)	( 264,281)	-	-
Gross loss	( 12,324,034)	( 264,181)	-	-
<b>Operating expenses</b>				
Administrative expenses (Note 4(11))	( 168,158)	( 3,605)	( 38,198)	-
Other operating expenses	( 996)	( 21)	-	-
Total operating expenses	( 169,154)	( 3,626)	( 38,198)	-
Operating loss	( 12,493,188)	( 267,807)	( 38,198)	-
Non-operating income	6,112	131	48	-
Non-operating expenses	( 296,988)	( 6,366)	-	-
Loss before income taxes and net loss (Note 4(12))	<b>(\$ 12,784,064)</b>	<b>( 274,042)</b>	<b>(\$ 38,150)</b>	-
	<b>Before tax</b>	<b>After tax</b>	<b>Before tax</b>	<b>After tax</b>
Loss per share (Note 4(13))	<b>(\$ 2.57)</b>	<b>(\$ 2.57)</b>	<b>\$ -</b>	<b>\$ -</b>

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

**FIRST FINANCIAL HOLDING CO., LTD.**  
**STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**

FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002  
 (EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

	Common stocks	Additional paid-in capital	Retained Earnings			Unrealized loss on long-term equity investments	Cumulative translation adjustment	Net loss not recognized as pension cost	Treasury stocks	Total
			Legal reserve	Special reserve	Accumulated deficits					
<b>2002</b>										
Balance, January 1, 2002	\$ -	\$ -	\$ -	\$ -	\$ 3	\$ -	\$ -	\$ -	\$ -	\$ 3
Net loss	-	-	-	-	( 38,150)	-	-	-	-	( 38,150)
Balance, December 31, 2002	\$ -	\$ -	\$ -	\$ -	( \$ 38,147)	\$ -	\$ -	\$ -	( \$ 38,147)	
<b>2003</b>										
Balance, January 1, 2003	\$ -	\$ -	\$ -	\$ -	( \$ 38,147)	\$ -	\$ -	\$ -	( \$ 38,147)	
Issuance of common stocks in exchange of shares with the subsidiary	38,216,000	19,073,806	-	-	-	-	-	-	-	57,289,806
Issuance of new stocks for acquisition of subsidiaries	7,299,044	( 2,022,978)	698,553	274,018	586,154	( 97,817)	12,617	( 7,542)	(75,026)	6,667,023
Issuance of GDR	10,000,000	7,300,408	-	-	-	-	-	-	-	17,300,408
Remuneration to Directors and Supervisors and bonuses to employees allocated by subsidiaries	-	-	-	-	( 22,830)	-	-	-	-	( 22,830)
Adjustment of additional paid-in capital accounted for under the equity method	-	( 136,995)	-	-	-	-	-	-	-	( 136,995)
Adjustment of unrealized loss on long-term equity investments accounted for under the equity method	-	-	-	-	-	34,493	-	-	-	34,493
Adjustment of net loss not recognized as pension cost accounted for under the equity method	-	-	-	-	-	-	( 49,938)	-	( 49,938)	
Adjustment of cumulative translation accounted for under the equity method	-	-	-	-	-	-	48,018	-	-	48,018
Retirement of treasury stocks by subsidiary accounted for under the equity method	( 24,294)	( 22,087)	-	-	( 28,645)	-	-	75,026	-	-
Gain on the disposal of the Company's shares by subsidiary classified as additional paid-in capital	-	31,090	-	-	-	-	-	-	-	31,090
Net loss	-	-	-	-	( 12,784,064)	-	-	-	-	( 12,784,064)
Balance, December 31, 2003	\$ 55,490,750	\$ 24,223,244	\$ 698,553	\$ 274,018	( \$ 12,287,532)	( \$ 63,324)	\$ 60,635	\$ -	( \$ 57,480)	\$ 68,338,864

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





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## FIRST FINANCIAL HOLDING CO., LTD. STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002  
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

	2003	2002(Development Stage)
<b>Cash flows from operating activities</b>		
Net loss	(\$ 12,784,064)	(\$ 38,150)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation	4,805	977
Amortization	311	-
Loss from long-term investments accounted for under the equity method	12,328,699	-
Cash dividends from subsidiaries accounted for under the equity method	298,130	-
Changes in assets and liabilities		
Receivables	( 1,468)	-
Prepayments	( 116)	( 361)
Payables	( 87,079)	91,702
Accrued pension liabilities	4,455	-
Net cash (used in) provided by operating activities	( 236,327)	54,168
<b>Cash flows from investing activities</b>		
Increase in long-term equity investments	( 14,957,632)	-
Increase in intangible assets	( 1,456)	-
Purchase of properties and equipments	( 5,168)	( 26,020)
Increase in guarantee deposit-out	( 30)	-
Net cash used in investing activities	( 14,964,286)	( 26,020)
<b>Cash flows from financing activities</b>		
Increase (decrease) in guarantee deposit-in	( 1)	539
Issuance of common stocks for cash	17,300,408	-
Net cash provided by financing activities	17,300,407	539
Increase in cash and cash equivalents	2,099,794	28,687
Cash and cash equivalents at beginning of the period	34,690	6,003
Cash and cash equivalents at end of the period	<b>\$ 2,134,484</b>	<b>\$ 34,690</b>
<b>Supplemental disclosures of cash flow information:</b>		
Cash paid for interest during the period	<b>\$ 959</b>	<b>\$ -</b>
Cash paid for income taxes during the period	<b>\$ 513</b>	<b>\$ 3</b>

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

**FIRST FINANCIAL HOLDING CO., LTD**  
**NOTES TO THE FINANCIAL STATEMENTS**

DECEMBER 31, 2003 AND 2002  
 (IN THE DEVELOPMENT STAGE AS OF AND FOR  
 THE YEAR ENDED DECEMBER 31, 2002)

(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS, EXCEPT OTHERWISE INDICATED)

### 1. Organization and business

First Financial Holding Co., Ltd. (the "Company" or "FFHC") commenced the preparation for its incorporation on November 27, 2001. On January 2, 2003, the Company was established through the exchange of shares with First Commercial Bank Co., Ltd. ("FCB") in accordance with the Financial Holding Company Act and other related regulations, whereby FCB has become its wholly-owned subsidiary, and with the approval from the Securities and Futures Commission ("SFC"), the Company was listed on the Taiwan Stock Exchange ("TSE") on the same date. On July 31, 2003, the Company acquired First Taisec Securities Inc. ("FTSI"), Mingtai Fire & Marine Insurance Co., Ltd. ("MFMI") and National Investment Trust Co., Ltd. ("NITC") as wholly-owned subsidiaries.

The Company engages in the investments and managements of financial institutions as approved by the authorities. Prior to January 1, 2003, the Company was in the development stage and is devoted primarily to the planning of the Company's financial and investment activities. Currently, the Company has 51 employees.

### 2. Summary of significant accounting policies

The financial statements are prepared in conformity with "Guidelines Governing the Preparation of Financial Reports by Financial Holding Companies", "Guidelines Governing the Preparation of Financial Reports by Securities Issuers" and generally accepted accounting principles in the Republic of China. The significant accounting policies are summarized as follows:

#### (1) Preparation of pro forma financial statements

In accordance with the SFC Tai-Tsai-Jen Ruling No.175974 in 2001, a financial holding company established through business combinations or exchange of shares under the provision of Financial Holding Company Act, should disclose the comparative pro forma financial statements in the year that the combination or exchange of shares is completed and the immediate succeeding year in its notes as supplementary information.

#### (2) Current and non-current assets and liabilities

Current assets are cash and cash equivalents and other assets that are expected to be converted into cash, sold or consumed within one year. Others are classified as non-current assets. Current liabilities are payables and other obligations to be settled with current assets within one year. Others are classified as non-current liabilities.

#### (3) Long-term investments

A. In accordance with the Accounting Research and Development Foundation of R.O.C Explanation No. 182 on October 29, 2001, when a financial holding company is formed through the exchange of shares, it should record as the financial holding company's paid-in capital based on the book value differences between assets and liabilities of the investee acquired through the exchange. The par value of stocks issued by the financial holding company for the exchange of shares is recorded as capital stocks, and the value in excess of the par value of the stocks issued is recorded as additional paid-in capital.

B. The Company acquired FTSI, MFMI and NITC as wholly-owned subsidiaries through the exchange of shares. These investments are accounted for under the pooling of interest method.

C. Investments that the Company owns more than 50% of the investees' common stocks or meets the criteria set forth in Article 4 Paragraph 4 of the Financial Holding Company Act are accounted for under the equity method. The difference between cost and net book value is amortized under the straight-line method over five years. In addition, if the investees are public companies, the long-term equity investment income or loss recognized in the Company's financial statements and its semi-annual financial statements is based on the investees' audited financial statements for the same period, while the long-term equity investment income or loss recognized in the Company's first and third quarter financial statements is based on the investees' financial statements that have been reviewed by independent accountants for the same period.

D. Investments that the Company owns at least 20% but not more than 50% of the investees' common stocks or has significant influence over the investees, are accounted for under the equity method and the difference between cost and net book value is amortized under the straight-line





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method over five years. Except for the presentation of the first quarter financial statements whereby the equity method is not applied, and for the presentation of the third quarter financial statements whereby the long-term equity investment income or loss recognized is based on the investees' audited or unaudited financial statements for the six-month period ended June 30.

- E. Investments that the Company owns less than 20% of the common stocks of a listed company and has no significant influence over the investees, are stated at the lower of cost or market value. Any unrealized loss is recorded as a reduction in the stockholders' equity. The rest of equity investments for unlisted companies are stated at cost. In the event of a permanent decline in the value of the unlisted companies, the book value of the investments is written down to their new value and a realized loss is recognized in the current period.
- F. The translation adjustment resulted from the translation of the investees' foreign long-term equity investments accounted for under the equity method is recognized proportionally in the stockholders' equity account based on the percentage of investees' ownerships held by the Company.
- G. When disposing long-term equity investments, the cost is calculated using the weighted average method and any gain or loss is charged to current operations.

#### (4) Properties and equipments

- A. Properties and equipments are stated at cost. Depreciation is provided on a straight-line basis over the estimated service lives of the assets plus an additional year as salvage value, except for leasehold improvements which are depreciated over the leasing periods of the lease agreements or 5 years. The service lives of major properties and equipments are 3-10 years.
- B. Major renewals and improvements, which are incurred to increase the future economic benefits of the assets, are capitalized and depreciated. Routine maintenance and repairs are expensed as incurred.
- C. When assets are sold or abandoned, the cost and accumulated depreciation are removed from the respective accounts and the resultant gain or loss is included in current operating results.

#### (5) Intangible assets

Computer software is stated at cost and amortized under the straight-line method over 3 years.

#### (6) Retirement plan

The Company adopts the provisions of Statement of Financial Accounting Standards No.18, "Accounting for Pensions" and recognizes the excess of accumulated benefit obligation over the fair value of plan assets as minimum pension liability. In interim financial statements, minimum pension liability is adjusted for the difference between net periodic pension costs and appropriated funds. The net periodic pension costs, which include service cost, interest cost, expected return on plan assets, amortization of unrecognized net transition asset or obligation, amortization of gains or losses of pension and amortization of prior period service cost, are recognized based on an actuarial report.

#### (7) Treasury stocks

Effective from 2002, the Company adopted Statement of Financial Accounting Standards No. 30, "Accounting for Treasury Stocks", to account for the treasury stocks as follows:

- A. The reacquired costs of outstanding shares are recorded under the treasury stocks which are presented as a separate deduction from in the stockholders' equity.
- B. When the treasury stocks are disposed of at a price in excess of the par value, the difference is recorded as an addition in additional paid-in capital - treasury stocks. In the event that the reissuance price is lower than the par value, the difference is recorded as a reduction in the additional paid-in capital account resulted from the same category of treasury stocks, and any deficiency is charged to retained earnings.
- C. The par value of treasury stocks is calculated using the weighted average method.
- D. The Company's capital stocks held by subsidiaries are accounted for as treasury stocks.



**(8) Income taxes**

- A. The Company has adopted the Statement of Financial Accounting Standards No. 22, "Accounting for Income Taxes" whereby taxes are provided based on accounting income after adjusting for permanent differences and inter-period and intra-period allocations. The income tax effects of taxable temporary differences are recorded as deferred tax liabilities; the income tax effects of deductible temporary differences, losses available for carryforward and income tax credits are recorded as deferred tax assets whose realization is valued at the balance sheet date and any unrealizable portion is accounted for as a valuation allowance. Deferred tax assets or liabilities are classified as current items or non-current items according to the related asset and liability classifications or the expected realization period of temporary differences.
- B. The Company adopted the Statements of Financial Accounting Standards No. 12, "Accounting for Income Tax Credits", whereby income tax credits from purchase of equipment, research and development expenditures, employee training and investments in equity stocks are recognized as incurred.
- C. The 10% surtax on the Company's undistributed current earnings, on the tax basis, is recorded as income tax expense in the year that the earnings appropriation is approved at the Stockholders' Meeting.

**(9) Use of Estimates**

In preparing the financial statements in conformity with generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as of the date of financial statements, and reported amounts of revenues, costs of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**3. Changes in accounting principles**

None.

**4. Summary of significant accounts****(1) Cash and cash equivalents**

	December 31	
	2003	2002
Petty cash	\$ —	\$ 20
Demand deposits	434,484	34,670
Time deposits	1,700,000	—
Total	<b>\$ 2,134,484</b>	<b>\$ 34,690</b>

The time deposits as of December 31, 2003 bore interest at annual rates ranging between 0.5%–0.7%.

**(2) Long-term investments**

	December 31, 2003	
	Amount	Percentage of ownership
<b>Equity method:</b>		
FCB	\$ 57,901,195	100
FISI	4,019,308	100
MFMI	2,748,698	100
NITC	1,502,269	100
Subtotal	66,171,470	
<b>Cost method:</b>		
Debt Instruments Depository and Clearing Co., Ltd. Taiwan	20,000	0.99
Total	<b>\$ 66,191,470</b>	



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The valuation of the long-term equity investments accounted for under the equity method is based on the investees' audited financial statements for 2003. The investment loss, unrealized loss on long-term equity investments, cumulative translation adjustment, and net loss not recognized as pension cost accounted for under the equity method are as follows:

	<b>2003</b>
Investment loss	(\$ 12,328,699)
Unrealized loss on long-term equity investments	( 63,324)
Cumulative translation adjustment	60,635
Net loss not recognized as pension cost	( 57,480)

### (3) Properties and equipments-net

	<b>December 31, 2003</b>		
	<b>Cost</b>	<b>Accumulated Depreciation</b>	<b>Book Value</b>
Machinery and equipment	\$ 3,351	(\$ 463 )	\$ 2,888
Transportation equipment	350	( 68 )	282
Other equipment	22,217	( 4,007 )	18,210
Leasehold improvements	5,270	( 1,244 )	4,026
	<b>\$ 31,188</b>	<b>(\$ 5,782 )</b>	<b>\$ 25,406</b>

	<b>December 31, 2002</b>		
	<b>Cost</b>	<b>Accumulated Depreciation</b>	<b>Book Value</b>
Transportation equipment	\$ 350	(\$ 10 )	\$ 340
Other equipment	21,527	( 737 )	20,790
Leasehold improvements	4,143	( 230 )	3,913
	<b>\$ 26,020</b>	<b>(\$ 977 )</b>	<b>\$ 25,043</b>

### (4) Pension plan

- The Company has non-contributory pension plan covering all regular employees in accordance with the Labor Standards Law. Employees are eligible for retirement and severance benefits based on years of service.
- In accordance with the Statement of Financial Accounting Standards No. 18 "Accounting for Pensions", funded status and accrued pension liabilities as of December 31, 2003, which are based on independent actuarial report, are presented as follow:

	<b>December 31, 2003</b>
Vested benefit obligation	\$ 1,643
Nonvested benefit obligation	2,298
Accumulated benefit obligation	3,941
Additional benefits based on future salaries	994
Projected benefit obligation	4,935
Fair value of plan assets	—
Funded status	4,935
Unrecognized net transition obligation	( 480)
Accrued pension cost	<b>\$ 4,455</b>
<b>Actuarial assumptions used:</b>	
Discount rate	3.00%
Increase Rate of future compensation	2.00%
Expected rate of return on plan assets	3.00%

### (5) Common stocks

The initial capital was \$38,216,000 on January 2, 2003 when the Company was officially incorporated. The Company acquired FTSI,



MFMI and NITC as wholly owned subsidiaries through the issuing of new shares of \$7,299,044 to exchange the acquirees' stocks on July 31, 2003. In accordance with the approval of Tai-Tsai-Jen Ruling No. 0920123723 by the SFC on July 3, 2003, the Company issued 48,837,080 units of global depository receipts (GDRs), which were equivalent to 976,742 thousand common shares and were listed on the Luxembourg Stock Exchange. In addition, the Company issued 23,258 thousand shares subscribed by employees and other designated individuals. On July 31, 2003, the Board of Directors resolved August 1, 2003 as value date to issue one billion shares of common stocks at \$17.75 New Taiwan dollars per share, totaling \$17,300,408, for the shares of GDRs and the aforementioned subscriptions. The Company's stocks held by subsidiaries are accounted for as treasury stocks, and all treasury stocks were reissued or retired in 2003. The total amount of common stocks retired was \$24,294. As of December 31, 2003, the approved and issued capitals were \$100,000,000 and \$55,490,750, respectively. Total issued and outstanding shares are 5,549,075 thousand shares with par value of \$10 New Taiwan dollars per share.

#### (6) Additional paid-in capital

- A. In accordance with Financial Holding Company Act Article 47 and Tai-Tsai-Jen Ruling No.0910003413, the retained earnings of the financial institution is recorded as capital reserves, namely additional paid-in capital, in the financial holding company's book after the transformation, and the restrictions under the Company Law Article 241, Paragraph 1, shall not be applicable to the distribution of cash dividends. In addition, these capital reserves can also be converted to stocks during the same year and are not subject to the restrictions of capitalized ratios prescribed in Article 41, Paragraph 2 of Securities and Exchange Law and Article 8 of Securities and Exchange Law Enforcement Rules. According to Tai-Tsai-Jung Ruling No.0910016280, the aforementioned capital reserves are not generated from the business operation of the financial holding company, and can not be used for the distribution of remunerations to Directors and Supervisors or bonuses to employees.
- B. The R.O.C. Securities & Exchange Law and Company law require that capital reserves, namely additional paid-in capital, resulting from price received in excess of par value of the issuance of stocks and donation income received can be used exclusively to recover losses or to increase the capital of the company subject to a maximum limit of 10% of total capital per year while the company has no accumulated deficits. The capital reserves can not be used to recover losses unless the special reserves and legal reserves are insufficient to recover the accumulated deficits.
- C. As of December 31, 2003, the Board of Directors of FCB has adopted the resolution to use legal reserve, special reserve and capital reserve, namely additional paid-in capital, of \$15,268,422, \$3,695,364, and \$4,075,242, respectively, to recover the accumulated deficits effective on June 20, 2003. After the recovering of accumulated deficits, the Company only has the additional paid-in capital of \$247,091 which is the equivalent resulting from FCB's cumulative translation adjustment while the Company was established through the swap of share with FCB.
- D. As subsidiaries disposed of and retired treasury stocks in 2003, the net increase in additional paid-in capital of the company is \$9,003.

#### (7) Treasury stocks

##### A. MFMI

MFMI purchased the Company's stocks for short-term investment purposes. With the Company acquiring MFMI as the wholly-owned subsidiary on July 31, 2003, the Company's shares held by MFMI were accounted for as treasury stocks. As of December 31, 2003, MFMI sold out all shares of the Company, and the Company accounted for the gain in the amount of \$31,090 as additional paid-in capital. As of December 31, 2003, MFMI does not hold any shares of the Company.

##### B. NITC

Under Securities and Exchange Law, a company is not allowed to repurchase more than 10% of its issued and outstanding common stocks. In addition, the total amount of stocks repurchased may not exceed the sum of the





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retained earnings, issued capital in excess of par value, and realized additional paid-in capital. The treasury stocks cannot be pledged or hypothecated, and they are banned from exercising stockholder's rights before reissued. As of July 31, 2003, NITC has repurchased 1,627 thousand shares of its own stocks as treasury stocks for the employee stock option plan. After the Company acquired NITC as the wholly-owned subsidiary via the stock exchange ratio of 1:1.4932, the stocks repurchased by NITC were converted to 2,429 thousand shares of the Company with cost of \$75,026 and such treasury stocks were retired in 2003. Accordingly, the Company's common stocks and additional paid-in capital were decreased by \$24,294 and \$22,087, respectively. As of December 31, 2003, NITC does not hold any shares of the Company.

## (8) Accumulated deficits

- A. As stipulated in the Company's Articles of Incorporation, the annual net income after income taxes should be first used to offset accumulated deficits, and remaining amount should then be set aside as legal reserve and special reserve in accordance with provisions under the applicable laws and regulations. The remaining earnings are then to be distributed as follows: (1) 0.02% to 0.16% as bonuses to employees (2) not more than 1% as remunerations to Directors and Supervisors, and (3) dividends to stockholders as proposed by the Board of Directors and approved by the Ordinary Stockholders' Meeting.
- B. In order to ensure that there is adequate working capital available for expansions of the Company's operations and so as to increase its profitability, the Company may distribute stock dividends to retain working capital.
- C. The distribution of cash dividends shall be capped at 30% of the total dividends declared. If the cash dividend is less than \$0.1 per share, the distribution will be suspended unless it is approved by the Ordinary Stockholders' Meeting.

## (9) Income taxes

The Company's operating revenues for 2003 mainly consisted of long-term investment income recognized under the equity method, which are non-taxable income. Accordingly, no income tax expenses are recorded during the period.

## (10) Operating expenses during development stage

	January 1, 2003	November 27, 2001 to January 1, 2003
Tax and registration fee	\$ —	\$ 30,921
Rental	—	4,667
Others	—	2,559
Net Loss during development stage	\$ —	\$ 38,147

## (11) Personnel, depreciation and amortization expenses

	For the year ended December 31,	
	2003	2002
Personnel expenses	\$ 53,920	\$ —
Salaries	43,721	—
Labor and health insurances	2,032	—
Pension cost	4,455	—
Others	3,712	—
Depreciation	4,805	977
Amortization	311	—

## (12) Non-operating expenses

	For the year ended December 31,	
	2003	2003
Exchange loss	\$ 296,022	\$ —
Interest expenses	959	—
Others	7	—
Total	\$ 296,988	\$ —

(13) Loss per share

For the year ended December 31, 2003					
	Amount		Adjusted weighted average outstanding common stocks (in thousand shares)	Loss per share (in dollars)	
	Before tax	After tax		Before tax	After tax
Net loss	(\$12,784,064)	(\$12,784,064)	4,965,742	(\$ 2.57)	(\$ 2.57)

For the year ended December 31, 2002					
	Amount		Adjusted weighted average outstanding common stocks (in thousand shares)	Loss per share (in dollars)	
	Before tax	After tax		Before tax	After tax
Net loss	(\$ 38,150)	(\$ 38,150)	—	(\$ —)	(\$ —)

(14) Capital adequacy ratio

- A. A financial holding company is required to maintain a minimum group capital adequacy ratio of 100% on a consolidated basis in accordance with Financial Holding Company Act and related regulations. If the Company's group capital adequacy ratio falls below 100%, the competent authorities may restrict the Company to distribute earnings or may impose penalties or other restrictions that it deemed necessary.
- B. The group capital adequacy ratio of the Company on a consolidated basis was 105.74% as of December 31, 2003.
- C. The capital adequacy ratio of the Company was 103.20% as of December 31, 2003.
- D. The capital adequacy ratio of FCB was 8.96% as of December 31, 2003.
- E. The capital adequacy ratio of FTSI was 188.95% as of December 31, 2003.

5. Related party transactions

Names of related parties	Nature of relationship
The Ministry of Finance, R.O.C.	The ultimate contracting entity controller of the Company
FCB	Subsidiary of the Company
FTSI	Subsidiary of the Company
MFMI	Subsidiary of the Company
NITC	Subsidiary of the Company

(2) Major transactions with the related parties

A. Cash and cash equivalents

	December 31, 2003		December 31, 2002	
	Amount	Percentage	Amount	Percentage
FCB	\$ 2,133,090	100	\$ 34,670	100

The terms and conditions of the related party transactions are not significantly different as compared with transactions with third parties. The interest income received was \$6,091 in 2003.

B. Agency service fees

	For the year ended December 31,			
	2003		2002	
	Amount	Percentage	Amount	Percentage
FCB	\$8,136	5	\$ -	-

Determination of prices and collection term are based on the relevant contract. Up to December 31, 2003, paid and unpaid agency service fees are \$7,440 and \$696, respectively.





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C. Rental	For the year ended December 31,			
	2003		2002	
	Amount	Percentage	Amount	Percentage
FCB 9F & 18F, No.30, Sec.1 Chung King South Road, Taipei, Taiwan	\$ 12,355	8	\$ 4,667	12

Tenancy is from April 10, 2002 to March 11, 2008. The rental is determined based on the market price and paid monthly.

### (3) Related party transactions of subsidiaries for amounts over \$100 millions

A. The list of related parties of FCB and the summary of FCB's related party transactions for amounts over \$100 millions are as follows:

#### a. Details of the related parties of FCB for transaction amounts over \$100 millions

Names of related parties	Nature of relationship
First Financial Holding Co., Ltd. (FFHC)	Parent company of FCB
Bank of Taiwan	The company's representative is a Director of FFHC
Hua Nan Commercial Bank, Ltd. (Hua Nan Bank)	The company's representative is a Director of FFHC
FCB Leasing Co., Ltd. ( "FCBL" )	Subsidiary of FCB
Central Bills Finance Corporation ( "CBFC" )	FCB's Investee accounted for under the equity method (Note 1)
East-Asia Real Estate Management Co., Ltd ( "EAREM" )	FCB's Investee accounted for under the equity method
Franklin Templeton First Taiwan Securities Investment Trust Enterprise ( "FTFT" )	FCB's Investee accounted for under the equity method
FTSI	Sister company in the group
MFMI	Sister company in the group

Note 1: CBFC no longer acted as a related party to FCB since December 26, 2002.

#### b. Major transactions with the related parties for amounts over \$100 millions

##### A) Due from Banks

	From January 1, 2003 to December 31, 2003			
	Highest balance	Ending balance	Interest Income	Interest rate (%)
Bank of Taiwan	\$ 10,644,120	\$ 1,025,417	\$ 27,155	0.040-1.410
Hua Nan Bank	4,015,339	1,714,725	20,448	0.050-5.230
		<b>\$ 2,740,142</b>	<b>\$ 47,603</b>	

	From January 1, 2002 to December 31, 2002			
	Highest balance	Ending balance	Interest Income	Interest rate (%)
Bank of Taiwan	\$ 9,000,000	\$ 1,391,200	\$ 17,896	1.410-2.195
Hua Nan Bank	7,000,000	521,700	29,564	1.410-2.305
CBFC	200,000	—	45	1.935-2.150
		<b>\$ 1,912,900</b>	<b>\$ 47,505</b>	

The terms and conditions of the related party transactions are not significantly different as compared with transactions with third parties.

##### B) Due to Banks

	From January 1, 2003 to December 31, 2003			
	Highest balance	Ending balance	Interest expenses	Interest rate (%)
Bank of Taiwan	\$ 7,600,000	\$ 1,200,000	\$ 12,244	0.950-1.300
Hua Nan Bank	5,700,000	341,806	4,222	0.720-5.060
		<b>\$ 1,541,806</b>	<b>\$ 16,466</b>	



	From January 1, 2002 to December 31, 2002			
	Highest balance	Ending balance	Interest expenses	Interest rate (%)
Bank of Taiwan	\$ 5,000,000	\$ —	\$ 4,369	1.650~2.300
Hua Nan Bank	2,500,000	—	5,101	1.450~2.300
		<b>\$ —</b>	<b>\$ 9,470</b>	

The terms and conditions of the related party transactions are not significantly different as compared with transactions with third parties.

#### C) Deposits

	December 31, 2003		December 31, 2002	
	Ending balance	Percentage	Ending balance	Percentage
FFHC	\$ 2,133,090	0.19	\$ 34,670	0.00
EAREM	585,191	0.05	696,780	0.06
FTSI	279,285	0.02	104,641	0.01
FTFT	189,366	0.02	219,107	0.02
MFMI	130,186	0.01	137,223	0.01
Others	5,132,833	0.45	6,459,422	0.57
	<b>\$ 8,449,951</b>	<b>0.74</b>	<b>\$ 7,651,843</b>	<b>0.67</b>

None of the transactions with the related parties exceeded 10% of each respective account. Hence the transactions are not listed individually in details. The interest rates of deposits applied to the related parties are the same as those offered to other customers.

#### D) Loans

	December 31, 2003		December 31, 2002	
	Ending balance	Percentage	Ending balance	Percentage
FCBL	\$ 6,952,800	0.80	\$ 7,921,400	0.97
FTSI	1,243,000	0.14	25,000	0.00
Others	6,380,405	0.73	15,146,121	1.86
	<b>\$ 14,576,205</b>	<b>1.67</b>	<b>\$ 23,092,521</b>	<b>2.83</b>

None of the transactions with the related parties exceeded 10% of each respective account. Hence the transactions are not listed individually in details. The interest rates of loans applied to the related parties are the same as those offered to other customers.

#### E) Transfer of operations

On August 18, 2003, the FCB and FTSI made a business transfer agreement. Under the agreement, FCB sold its fixed assets, business license and business contracts and related computer software of the securities brokerage department to FTSI with the effective date of December 1, 2003, for a total amount of \$127,044. FCB recognized a gain of \$7,872 on the disposal of properties and equipments and \$3,373 as other income. In addition, the margin loan business is transferred at the book value of \$1,545,077 on the first day after the effective date. Accordingly, no gain or loss was recognized. The amount was received in full as of December 31, 2003.

B. The list of related parties of FTSI and the summary of FTSI's related party transactions for amounts over \$100 millions are as follows:

##### a. Details of the related parties of FTSI for transaction amounts over \$100 millions

Names of related parties	Nature of relationship
FCB	Sister company in the group
NITC	Sister company in the group
First Taisec Securities (ASIA) Limited (FTS-Asia)	FTSI's Investee accounted for under the equity method



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## b. Major transactions with the related parties for amounts over \$100 millions

### A) Bank deposits and short-term borrowings

Details of bank deposits with FCB as of December 31, 2003 and December 31, 2002 are as follows:

	December 31, 2003		December 31, 2002	
	Ending balance	Percentage	Ending balance	Percentage
Demand deposits including securities brokerage settlement account	\$ 5,776	8	\$ 83,682	28
Foreign currency deposits	161	—	—	—
Time deposits	20,000	36	—	—
Pledged time deposits	248,600	31	20,959	6
- short-term borrowings guarantee				
Pledged time deposits	4,748	1	—	—
- refundable deposits for office leasing				
	<b>\$ 279,285</b>		<b>\$ 104,641</b>	

Interest revenues arisen from deposits with FCB were \$504 in 2003 and were accounted as non-operating income. The balances of outstanding short-term borrowings from FCB at the end of 2003 and 2002 were \$1,243,000 and \$25,000, respectively. The undrawn portion of short-term borrowings commitments at the end of 2003 and 2002 were \$137,000 and \$75,000, respectively.

### B) Government bonds with repurchase agreements

Name of related parties	For the year ended December 31, 2003	
	Interest Expenses	Bonds with repurchase agreements payable
Funds under NITC	\$ 194	\$ 303,513

Name of related parties	For the year ended December 31, 2002	
	Interest Expenses	Bonds with repurchase agreements payable
Funds under NITC	\$ 15	\$ 366,071

The interest rates were based on market rates.

### C) Sale of trading securities

To promote foreign securities business in 2003 and 2002, the underwriting department sold its ECB of Walsin Technology Corporation with carrying value of \$2,020 thousand US dollars and \$2,000 thousand US dollars, respectively, to FTS-Asia. The sale price was \$70,215 and \$69,400 for 2003 and 2002, respectively, with the same cost of \$70,310 for 2003 and 2002. FTSI's realized loss was \$95 and \$910 in 2003 and 2002, respectively.

### D) Transaction of properties

FTSI and FCB made a business transfer agreement in 2003. Under the agreement, FCB sold securities brokerage department, including fixed assets for operation and margin loan business for \$1,672,121, with the effective date of December 31, 2003. The proceeds were received in full as of December 31, 2003.

C. The list of related parties of MFMI and the summary of MFMI's related party transactions for amounts over \$100 millions are as follows:

#### a. Details of the related parties of MFMI for transaction amounts over \$100 millions

Name of related parties	Nature of relationship
FCB	Sister company in the group
Bank of Taiwan	The company's representative is a Director of FFHC
Hua Nan Bank	The company's representative is a Director of FFHC



b. Major transactions with the related parties for amounts over \$100 millions

A) Deposits and interest income

		December 31, 2003		December 31, 2002	
	Item	Ending balance	Interest income	Ending balance	Interest income
FCB	Checking deposits	\$ 228	\$ —	\$ 956	\$ —
	Demand deposits	15,858	27	9,767	65
	Time deposits	114,100	2,257	126,500	2,519
Bank of Taiwan	Demand deposits	3,763	12	2,526	17
	Time deposits	8,900	117	6,000	321
Hua Nan Bank	Checking deposits	237	—	325	—
	Demand deposits	15,287	23	10,413	110
	Time deposits	82,100	1,806	101,000	3,291
		<b>\$ 240,473</b>	<b>\$ 4,242</b>	<b>\$ 257,487</b>	<b>\$ 6,323</b>

As of December 31, 2003 and 2002, the deposit balances account for 4.25% and 5.57% of the cash and cash equivalent balances, respectively.

D. As of December 31, 2003, NITC has no major transactions with the related parties for amounts over \$100 millions.

## 6. Pledged assets

Details of pledged assets are as follows:

	December 31, 2003	December 31, 2002	Purpose of pledged assets
Guarantee deposit-out	\$ 30	\$ —	Refundable deposit of leasing a safety box with Central Trust of China for storage of back-up CD

## 7. Commitments and contingent liabilities

(1) As of December 31, 2003, the estimated future minimum lease commitments are as follows:

Fiscal Year	Amount
2004	\$ 13,722
2005	13,722
2006	13,722
2007 and after	7,339
Total	<b>\$ 48,505</b>

(2) Commitments and contingent liabilities of subsidiaries

A. FCB

As of December 31, 2003 and 2002, FCB has the following commitments and contingent liabilities:

a. Major commitments and contingent liabilities

	December 31, 2003	December 31, 2002
Unused loan commitments	\$ 23,616,229	\$ 22,783,481
Unused credit commitments for credit cards	67,065,833	61,762,747
Unused letters of credit issued	34,448,737	24,860,274
Guarantees	36,809,890	33,961,090
Collections receivables for customers	152,354,593	150,053,573
Collections payable for customers	10,294,063	10,122,225
Travelers' checks consignment-in	788,948	762,999
Payables on bills guaranteed	31,960,658	28,938,103
Trust assets	187,063,769	137,326,669
Customers' securities under custody	663,053,881	516,671,143
Government bonds under management	91,166,100	53,085,700
Repurchase commitments	25,586,918	28,133,182
Resale commitments	—	308,666





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- b. The Trust Department of FCB engages in planning and managing of trust businesses under the Banking Law and Trust Business Law. In addition, it provides customers with the investments of domestic and overseas mutual funds and custodian service. As of December 31, 2003 and 2002, the investment details of trust assets are listed as follows:

December 31, 2003			
Balance Sheet of Trust Account			
Trust assets		Trust liabilities and equities	
Cash and bank deposits	\$ 1,202,043	Payables	\$ 833
Short-term investments	183,704,866	Other liabilities	2,059,412
Receivables	2,113,575	Trust capital	185,003,524
Real Estates	43,285		
<b>Total</b>	<b>\$ 187,063,769</b>	<b>Total</b>	<b>\$ 187,063,769</b>

Property list of Trust Accounts			
Trust assets			
Cash and bank deposits	\$ 1,202,043		
Short-term investments			
Common stocks	3,066,836		
Bonds	24,850,534		
Mutual funds	155,787,496		
Real estates	43,285		
<b>Total</b>	<b>\$ 184,950,194</b>		

December 31, 2002			
Balance Sheet of Trust Account			
Trust assets		Trust liabilities and equities	
Cash and bank deposits	\$ 666,966	Payables	\$ 1,460
Short-term investments	133,816,490	Other liabilities	2,409,866
Receivables	2,843,213	Trust capital	134,915,343
<b>Total</b>	<b>\$ 137,326,669</b>	<b>Total</b>	<b>\$ 137,326,669</b>

Property list of Trust Accounts			
Trust assets			
Cash and bank deposits	\$ 666,966		
Short-term investments			
Common stocks	4,486,492		
Bonds	20,836,635		
Mutual funds	108,493,363		
<b>Total</b>	<b>\$ 134,483,456</b>		

- c. Given the collapse of the Tung Xin building caused by the major earthquake on September 21, 1999, the residents filed a legal claim of loss of personal properties against Hong Cheng Building Co., Ltd., Hong Ku Construction Co. Ltd., (including its Directors and Supervisors), Dah Lin Architect Co. and FCB. As of December 31, 2003, the case is still pending under the Taipei District Court. However, FCB's attorney believes that FCB will prevail in the case, for there was no evidence found between the cause of collapse and the FCB's maintenance construction work, nor was any malicious misconduct or negligence on the part of FCB. Accordingly, no provision was made for the contingent liability in the FCB's financial statements.
- d. As of December 31, 2003, the estimated future minimum lease commitments for FCB are as follows:

Fiscal Year	Amount
2004	\$ 499,426
2005	405,994
2006	315,093
2007	221,831
2008 and after	225,431
	<b>\$ 1,667,775</b>

## e. Others

- A) As of December 31, 2003, FCB has made construction contracts in the amount of \$115,586 of which \$63,851 was paid. It is recorded under "construction in process and prepayments for equipment" account.
- B) The MOF approved the establishment of FFHC on December 31, 2001. FCB has become the wholly-owned subsidiary of FFHC since the share exchange completed on January 2, 2003. FTSI, MFMI and NITC have also become subsidiaries of FFHC since the completion of share exchange on July 31, 2003.
- C) In order to leverage the synergies of a financial holding company, the Board of Directors of FCB resolved to transfer the 16 securities brokerage branches to FTSI. Please refer to Note 5 (3) A. b. E) "Transfer of operations" for details.
- D) FCB is dedicated to carry out "client-oriented" business philosophy and accountability culture to create new business models to meet the market challenges. The Board of Directors has resolved to adopt a new organization chart and FCB's is currently undergoing organization restructure.

## B. FTSI

- a. For the period ended December 31, 2003 and 2002, FTSI entered into an agreement to purchase fixed assets in the amount of \$76,319, and \$24,859, respectively, and had paid \$44,440 and \$18,020, respectively.
- b. For the period ended December 31, 2003 and 2002, there were 335,302 thousand and 63,201 thousand shares of client's stocks under the custody of FTSI as a result of margin loan activities. In addition, FTSI has also lent 10,161 thousand and 1,486 thousand shares to its clients as a result of short-selling and lending activities and has received sufficient guarantee deposits for the activities.
- c. As of December 31, 2003, the amount of notes payable issued for leasing offices amounted \$16,430.
- d. In November 1993, a client of FTSI, First Steamship Co., Ltd, filed a lawsuit against First Steamship Co., Ltd.'s former Chairman Lin Zhi Yi, Managing Director Chen Fu Cheng, and Director Wang Yong Nian for unauthorized sale of 2,884 thousand shares of Tai Feng Co., Ltd.'s stocks. At the same time, First Steamship Co., Ltd. filed a criminal charge against FTSI's manager of operating department Hsieh Yung Chuen, settlement supervisor Liao Shuh Ren, and general manager Shih Wen Cha for assisting in the unauthorized stock sales. In 1993, the court rendered a judgment that Wang Yong Nian had lent those stocks to First Steamship Co, Ltd. represented by the former Chairman Lin Zhi Yi. After the Chairman was replaced, Wang Yong Nian did not agree to continue to lend those stocks and had sold the stocks. As a result, the court ruled that there were no unauthorized sales and Wang Yong Nian, Shih Wen Cha, Liao Shuh Ren, and Hsieh Young Chuen were declared not guilty. The case was returned to retrial by the high court in June 1999. As of December 31, 2003, the litigation of Shang Geng Invading Case No.360 is currently in process.
- According to the opinion of the legal counsel, the court focuses on whether the Managing Director Chen Fu Cheng sold the stocks of Tai Feng Co., Ltd. without authorization in May 1990, and whether First Steamship Co., Ltd. borrowed the stocks from Wang Yong Nian to cover the shortage in June 1990. After the court checked the number of the stocks, it was proved that Wang Yong Nian indeed lent the stocks of Tai Feng Co., Ltd. to First Steamship Co., Ltd.. Since the court viewed FTSI's general manager Shih Wen Cha, settlement supervisor Liao Shuh Ren, and manager of operating department Hsieh Yung Chuen in the case as incidental action, this case has no relevance to FTSI.
- e. A client of FTSI, Lin Sheng, Jeng purchased stocks of Guo Feng Co., Ltd., Nan Gan Co., Ltd and Ya Tie Co., Ltd. totaling 4,846 thousand shares, 2,200 thousand shares, and 1,355 thousand shares, respectively, and the settlement amount of \$147,252 was not settled by the deadline. FTSI apprised the Taiwan Securities Exchange of the incident and sold part of the stocks for \$25,320. FTSI requested Lin Sheng Jeng to pay approximately \$121,932 to cover FTSI's losses, which was recorded as other receivables under other current assets, and had set aside allowance for bad debt of \$120,376. FTSI made a reconciliation agreement with Lin Jeng Sheng in October 2001 for repayment of \$48,000 in installments from 2001 to 2007. As of December 31, 2003 and 2002, FTSI received the settlement amounts of \$12,000 and \$2,000 for the default, respectively, which was recorded as other revenues.

## C. MFMI

As of December 31, 2003, there are no significant commitments and contingent liabilities for MFMI.





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## D. NITC

As of December 31, 2003, there are no significant commitments and contingent liabilities for NITC.

## 8. Significant losses from natural disasters

(1) The Company: None.

(2) Subsidiaries: None.

## 9. Significant subsequent events

(1) The Company: None.

(2) Subsidiaries: None.

## 10. Others

### (1) Derivative financial instruments

The Company did not enter into any derivative contracts for the period ended December 31, 2003 and 2002. The information of derivative contracts undertaken by the subsidiaries refers to Note 11(1) "Derivative financial instruments".

### (2) Fair value of financial instruments

	December 31, 2003		December 31, 2002	
	Book value	Fair value	Book value	Fair value
<b>Financial assets</b>				
Financial assets with book value equaling fair value	\$ 2,135,982	\$ 2,135,982	\$ 34,690	\$ 34,690
Long-term investments	66,191,470	66,191,470	—	—
	<b>\$ 68,327,452</b>	<b>\$ 68,327,452</b>	<b>\$ 34,690</b>	<b>\$ 34,690</b>
<b>Financial liabilities</b>				
Financial liabilities with book value equaling fair value	\$ 11,161	\$ 11,161	\$ 98,241	\$ 98,241
Accrued pension liabilities	4,455	4,935	—	—
	<b>\$ 15,616</b>	<b>\$ 16,096</b>	<b>\$ 98,241</b>	<b>\$ 98,241</b>

The methods and assumptions used in calculation of the fair value of financial instruments are summarized as follows:

- As the instruments are close to maturity, the fair values of short-term financial instruments are approximately equal to their carrying values as stated on the balance sheets. This method is applicable to cash, and cash equivalents, account receivable, refundable deposits, payables, and guarantee deposit-in.
- Long-term investments are valued at market prices when market prices are readily available; otherwise fair values are estimated based on financial statements or other information.
- The fair values of accrued pension liabilities are estimated based on the amount of pension plan funded status to be provided as defined in the relevant actuarial report on December 31, 2003.

### (3) Details of allocation of expenses to subsidiary

The details of expenses allocated from January 1, 2003 to December 31, 2003 are as follows:

Expenses	Allocated party	Amount of Allocation	Method of Allocation
Rentals	FCB	\$ 12,355	Rental contracts are made, and expenses are allocated based on usage of space
Utility fees	FCB	1,334	Based on usage of space and utilities
Building management fees	FCB	864	Expenses are allocated based on usage of space pursuant to leasing contracts



## (4) Condensed balance sheets and statements of operations of subsidiaries

## A. FCB

**FCB**  
**Condensed Balance Sheet**

December 31, 2003  
(Expressed in thousands of New Taiwan dollars)

Assets	Amount	Liabilities & Stockholders' Equity	Amount
Cash, due from Central Bank and due from banks	\$ 361,052,133	Due to Central Bank and due to banks	\$ 124,149,358
Marketable securities and trading securities	73,736,804	Payables	56,267,605
Receivables-net	38,410,907	Collections in advance	1,688,745
Prepayments	2,327,707	Deposits and remittances	1,137,152,238
Loans, bills purchased and discounted	853,011,903	Financial bonds payable	55,300,000
Funds and long-term investments	56,974,837	Long-term liabilities and other liabilities	13,052,025
Properties and equipments-net	25,427,654	Funds borrowed from Central Bank and other banks	176,965
Other assets	34,746,186	Total liabilities	1,387,786,936
		Common stocks	46,216,000
		Additional paid-in capital	24,683,945
		Retained earnings	( 13,306,619)
		Translation adjustment	307,869
		Total stockholders'equity	57,901,195
Total assets	<b>\$ 1,445,688,131</b>	Total liabilities and stockholders' equity	<b>\$ 1,445,688,131</b>

**FCB**  
**Condensed Statement of Operations**

For the year ended December 31, 2003  
(Expressed in thousands of New Taiwan dollars)

Account	Amount
<b>Operating revenues</b>	
Interest income	\$ 37,099,908
Gain on securities-net	4,795,778
Service income	3,462,206
Other operating revenues	1,371,497
Sub-total	46,729,389
<b>Operating costs</b>	
Interest expenses	( 15,747,804)
Service charges	( 594,189)
Provisions	( 37,116,048)
Other operating costs	( 318,243)
Sub-total	( 53,776,284)
Gross loss	( 7,046,895)
Operating expenses	( 12,951,871)
Operating loss	( 19,998,766)
Non-operating income	1,529,461
Non-operating expenses	( 415,578)
Loss before income taxes	( 18,884,883)
Income tax benefits	5,578,264
Net loss	<b>(\$ 13,306,619)</b>



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B. FTSI

**FTSI**

## Condensed Balance Sheet

December 31, 2003  
(Expressed in thousands of New Taiwan dollars)

<b>Assets</b>	<b>Amount</b>	<b>Liabilities &amp; Stockholders' Equity</b>	<b>Amount</b>
Current assets	\$ 16,111,419	Current liabilities	\$ 12,610,467
Funds and long-term investments	1,277,573	Long-term liabilities	1,892,511
Properties and equipments-net	372,599	Other liabilities	134,411
Intangible assets	22,574	Security brokerage credit accounts-net	3,498
Other assets	876,030	Total liabilities	14,640,887
		Common stocks	3,000,000
		Additional paid-in capital	5,600
		Retained earnings	1,015,449
		Translation adjustment	( 1,741)
		Total stockholders' equity	4,019,308
<b>Total assets</b>	<b>\$ 18,660,195</b>	<b>Total liabilities and stockholders' equity</b>	<b>\$ 18,660,195</b>

**FTSI**

## Condensed Statement of Operations

For the year ended December 31, 2003  
(Expressed in thousands of New Taiwan dollars)

<b>Account</b>	<b>Amount</b>
Operating revenues	\$ 1,552,278
Operating expenses	( 1,035,022)
Income before income taxes	517,256
Income tax benefits	42,000
<b>Net income</b>	<b>\$ 559,256</b>

C. MFMI

**MFMI**

## Condensed Balance Sheet

December 31 2003  
(Expressed in thousands of New Taiwan dollars)

<b>Assets</b>	<b>Amount</b>	<b>Liabilities &amp; Stockholders' Equity</b>	<b>Amount</b>
Current assets	\$ 8,724,899	Current liabilities	\$ 2,065,756
Funds and long-term investments	2,521,538	Long-term liabilities	832,460
Properties and equipments-net	1,671,093	Operation and liabilities reserves	8,052,461
Intangible assets	65,630	Other liabilities	151,764
Other assets	867,979	Total liabilities	11,102,441
		Common stocks	2,000,000
		Additional paid-in capital	76,359
		Retained earnings	793,143
		Unrealized loss on long-term equity investments	( 63,324)
		Net loss not recognized as pension cost	( 57,480)
		Total stockholders' equity	2,748,698
<b>Total assets</b>	<b>\$ 13,851,139</b>	<b>Total liabilities and stockholders' equity</b>	<b>\$ 13,851,139</b>

**MFMI**  
**Condensed Statement of Operations**

For the year ended December 31, 2003  
(Expressed in thousands of New Taiwan dollars)

Account	Amount
Operating revenues	\$ 19,039,295
Operating costs	( 16,800,447)
Gross profit	2,238,848
Operating expenses	( 1,734,653)
Operating income	504,195
Non-operating income	15,175
Non-operating expenses	( 4,374)
Income before income taxes	514,996
Income tax expenses	( 117,195)
Net income	<b>\$ 397,801</b>

D. NITC

**NITC**  
**Condensed Balance Sheet**

December 31 2003  
(Expressed in thousands of New Taiwan dollars)

Assets	Amount	Liabilities & Stockholders' Equity	Amount
Current assets	\$ 758,837	Current liabilities	\$ 76,306
Long-term investments	65,873	Other liabilities	50,569
Properties and equipments-net	601,881	Total liabilities	126,875
Other assets	202,553	Common stocks	1,115,730
		Additional paid-in capital	444
		Retained earnings	384,497
		Translation adjustments	1,598
		Total stockholders' equity	1,502,269
Total assets	<b>\$ 1,629,144</b>	Total liabilities and stockholders' equity	<b>\$ 1,629,144</b>

**NITC**  
**Condensed Statement of Operations**

For the year ended December 31, 2003  
(Expressed in thousands of New Taiwan dollars)

Account	Amount
Operating revenues	\$ 403,245
Operating expenses	( 325,165)
Operating income	78,080
Non-operating income	24,071
Non-operating expenses	( 3,667)
Income before income taxes	98,484
Income tax expenses	( 41,472)
Net income	<b>\$ 57,012</b>





# Financial Reports

## (5) Disclosures of major financial and operating information of FCB

### A. Capital adequacy

	December 31, 2003	December 31, 2002
Net eligible capital	79,458,107	74,246,527
Total risk-weighted assets	886,846,219	826,250,916
Capital adequacy ratio (%) (Note)	8.96	8.99
The ratio of debt to equity (%)	2,396.82	2,186.59

Note: Capital adequacy ratio = Net eligible capital / Total risk-weighted assets. Capital adequacy ratio is calculated in accordance with the Article 44 of the Banking Law of the Republic of China, and Tai-Tsai-Jung Ruling No.0090345106 dated October 16, 2001 at the end of every June and December, and the ratios disclosed in the first and third quarter financial reports are the latest ratios computed at the end of June and December, respectively.

### B. Assets quality

	December 31, 2003	December 31, 2002
Non-performing loans (including non-accrual loans) (Note 1)	12,666,724	32,236,461
Non-accrual loans	13,759,455	38,854,392
Non-performing loans ratio (%) (Note 2)	1.46	3.77
Surveiled loans (Note 3)	8,623,020	17,518,115
Surveiled loans / gross loans	0.99	2.05
Provision for loans and non-accrual loans	4,939,654	7,035,722
Write-off amounts for doubtful accounts (Note 4)	39,387,379	18,505,075

Note 1: The amounts of non-performing loans (NPLs) (including non-accrual loans) shall be calculated in accordance with Tai-Tsai-Jung Ruling No.832292834 dated February 16, 1994 and Tai-Tsai-Jung Ruling No.86656564 dated December 1, 1997.

Note 2: Non-performing loans ratio = non-performing loans (including non-accrual loans) / (gross loans + non-accrual loans)

Note 3: Surveiled loans are as follows:

- (i) Mid-term and long-term installment loans which principals or interests are more than three months (inclusive) but less than six months overdue;
- (ii) Other loans which principal are less than three months overdue and the interest are more than three months (inclusive) but less than six months overdue; or
- (iii) Loans which meet the criteria of NPLs to be reported to the Ministry of Finance (MOF) but are exempt from such reporting requirement pursuant to the MOF rules, including as follows:
  - Loans repaid in installments for restructuring;
  - Loans are already indemnified by the Credit Guarantee Fund and those have sufficient deposit certificates or deposit provisions;
  - Loans are agreed to be deferred due to the earthquake in Taiwan on September 21, 1999;
  - Loans of which collateral has been auctioned and proceeds from the auctions are awaiting distribution; and
  - Loans with other special project approval by the MOF

Note 4: Write-off amounts for doubtful account = Accumulated write-off amounts for doubtful accounts from January 1 to December 31 for the respective year.

### C. Management information

#### a. Profile of concentration of credit risk

	December 31, 2003		December 31, 2002	
Amounts of credit extensions to related parties	\$	28,785,531	\$	36,465,110
Ratio of credit extensions to related parties		3.19 %		4.26 %
Ratio of credit extensions secured by stocks		1.38 %		1.43 %
	<b>Industry</b>	<b>Ratio %</b>	<b>Industry</b>	<b>Ratio %</b>
Industry concentration (Top 3rd industries)	Manufacturing	27.01	Manufacturing	27.80
	General services	10.21	General services	9.44
	Finance, insurance and real estate	4.68	Finance, insurance and real estate	5.51

## Notes:

- A)The total amounts of credit extensions shall include the purchase of foreign exchange, import and export negotiations, loans and discounted exchange bills, accepted bills and guarantees receivable.
- B)The amounts of credit extensions to related parties shall be calculated in accordance with the Banking Law of the Republic of China.
- C)The ratio of credit extensions to related parties = the amounts of credit extensions to related parties as defined in the Banking Law in the Republic of China / the total amounts of all credit extensions.
- D)The ratio of credit extensions secured by stocks = the amounts of credit extensions secured by stocks / the total amounts of all credit extensions.
- E)With respect to industry concentration, it is disclosed in accordance with the "Analysis report of borrower and loan destination " issued by the Central Bank of China. The ratio is equal to loan amounts for public-owned and private firms in respective industries divided by total loan amounts. The respective industries include agriculture, forestry, fishing and grazing, mining and soil excavation, manufacturing, water, electricity, fuel and gas, construction, general business, shipping, silo and communications, finance, insurance and real estate, and other/general services.

## b. Information on investees of FCB

In thousands of New Taiwan dollars

December 31, 2003		
	Original Investment Amount	Percentage of ownership
First Commercial Bank (USA)	810,000	100.00
First Insurance Agency Co., Ltd.	50,000	99.99
FCBL	499,850	99.97
FTFT	150,000	49.99
EAREM	15,000	30.00
Everlight Investment Co., Ltd.	254,040	17.39
Taiwan Asset Management Corporation	3,000,000	17.03
Taiwan Television Enterprise, Ltd.	96,506	7.25
Tang Eng Iron Works Co., Ltd.	492,680	7.04
Taiwan Business Bank Co., Ltd.	1,469,878	6.51
Taiwan Development & Trust Corporation	173,680	5.79
Capital Venture Management Co.	30,000	5.00
Lien An Service Co.	1,250	5.00

Only investees with percentage of ownership over 5% are disclosed.

## c. Policy of provisions for loans, non-accrual loans, and investment losses:

The provisions are determined by evaluating the recoverability of the outstanding balances of loans, including various loans and bills purchased and discounted, at the balance sheet date. Loans are classified into four categories: (1) pass; (2) substandard; (3) doubtful; and (4) unrecoverable. Provisions for credit losses is provided at 0.04%, 1%, 50%, and 100% on loans classified under categories 1, 2, 3, and 4, respectively. Further allowance is provided for specific loans on an as-needed basis if the aforementioned provisions are insufficient according to the recoverability.

## d. Extraordinary items

The company responsible persons or employees were prosecuted by district attorney due to violations of laws and regulations in relation to operations in the latest year (Note 1)

## December 31, 2003

## Cases and amount (Expressed in thousands of New Taiwan dollars)

Given the collapse of the Tung Xin building was caused by the major earthquake on September 21, 1999. The maintenance construction of FCB's Sung-Shan Branch was verified by the Taipei Professional Civil Engineer Association which was mandated by the Taipei District Public Prosecutors Office (TDPPPO) and the Public Works Departments of Taipei City Government. The verified report indicated that it can't prove to be the cause which the maintenance construction of FCB made the Tung Xin building collapsed. However, the TDPPPO still prosecute the FCB's employees for the professional negligence on November 5, 2003. As of December 31, 2003, the case is hearing under the Taiwan Taipei District Court.

Being fined due to violations of the Banking Law in the latest year (Note 2)

Amount: \$2,000

Letter: Tai-Tsai-Jung Disciplinary Action No.0920019054 dated May 5, 2003

Case: FCB had established the regional center before the authorities approved the plan. It was in violation of Article 57 Paragraph 2 of the Banking Law with respect to requiring applying for the approval of the authorities in advance.





# Financial Reports

Shortcomings and negligence rectified by the Ministry of Finance in the latest year (Note 1)

## Cases and amount (Expressed in thousands of New Taiwan dollars)

Letter: Tai-Tsai-Jung Disciplinary Action No.0920004765 dated March 12, 2003  
Reason: Certain procedures performed by a staff when handling deposit withdrawal for a customer were not in accordance with FCB's internal procedures for the payment from 1995 to January, 2001. In addition, the management did not timely rectify the non-compliant procedures. It was rectified by the Ministry of Finance.

Incurred losses over \$50 million New Taiwan dollars individually or in aggregate due to employee fraud, major incidental events, or violations of rules according to the "Guidelines for the Security Maintenance of Financial Institutions" in the latest year.

None.

Others

None.

Note1: The term "in the latest year" means the one year period prior to the date of disclosure.

Note2: The term "being fined due to violations of laws and regulations in the latest year" means that being fined by the Bureau of Monetary Affairs, the Securities and Futures Commission, and the Department of Insurance.

## D. Profitability

	December 31, 2003	December 31, 2002
Return on total assets (%)	( 1.37 )	( 2.51 )
Return on stockholders' equity (%)	( 32.79 )	( 45.96 )
Profit margin ratio (%)	( 40.41 )	( 61.11 )

Note 1: Return on total assets = Income before income taxes / average total assets.

Note 2: Return on stockholders' equity = Income before income taxes / average stockholders' equity.

Note 3: Profit margin ratio = Income before income taxes / total operating revenues.

Note 4: The term "Income before income taxes" means net income from January 1 to the balance sheet date of the reporting period.

## E. Liquidity

### Maturity analysis of assets and liabilities

December 31, 2003

(Expressed in millions of New Taiwan dollars)

	Total	0-30 days	31-90 days	91-180 days	181 days-1 year	Over 1 year
Assets	1,187,687	161,727	113,966	134,274	152,135	625,585
Liabilities	1,226,696	164,013	186,475	189,519	307,301	379,388
Gap	( 39,009 )	( 2,286 )	( 72,509 )	( 55,245 )	( 155,166 )	246,197
Accumulated Gap	( 39,009 )	( 2,286 )	( 74,795 )	( 130,040 )	( 285,206 )	( 39,009 )

Note: The aforementioned amounts only include assets and liabilities of FCB's head office and local branch offices and denominate in New Taiwan dollars.

## F. Sensitivity of market risk

a. Ratio of interest-rate-sensitive assets to interest rate-sensitive liabilities:

	December 31, 2003	December 31, 2002
Ratio of interest-rate-sensitive assets to interest-rate-sensitive liabilities	92.57	83.42
Ratio of interest-rate-sensitive gap to stockholders' equity	( 129.75 )	( 291.43 )

Note 1: Interest-rate-sensitive assets and interest-rate-sensitive liabilities are revenues of interest earned assets and costs of liabilities, which are sensitive to change in interest rate.

Note 2: Ratio of interest-rate-sensitive assets to interest-rate-sensitive liabilities = Interest-rate-sensitive assets / Interest-rate-sensitive liabilities (with maturity within one year)

Note 3: Interest-rate-sensitive gap = Interest-rate-sensitive assets - Interest-rate-sensitive liabilities



## b. Net positions of major foreign currency

(Expressed in thousands of New Taiwan dollars)

	December 31, 2003			December 31, 2002		
	Expressed in thousands of original currency	Expressed in New Taiwan dollars		Expressed in thousands of original currency	Expressed in New Taiwan dollars	
Net positions of major foreign currency (Market Risk)	SGD	\$ 59,527	\$ 1,189,213	USD	\$ 123,006	\$ 4,278,149
	HKD	242,926	1,063,797	HKD	423,416	1,888,139
	CAD	13,050	342,711	SGD	80,527	1,614,438
	EUR	7,331	313,269	EUR	18,443	672,045
	USD	7,186	244,310	JPY	1,297,796	380,903

Note1: Net positions of major foreign currency are the top 5 exposures which expressed in New Taiwan dollars

Note2: Net positions of major foreign currency are the absolute values for each currency.

## G. Implementations of corporation governance and differences between the implementations of corporate governance and the requirements of "Corporate Governance Best-Practice Principles for Banks"

Item	Implementations of corporate governance	Differences between the implementations of corporate governance and the requirements of the principles constituted by the authorities
<b>1. Ownership structure and stockholders' equity of FCB</b>		
A) Methods to handle stockholders' proposals, inquiries or disputes	A) The Company is the only stockholder of FCB.	Compliance.
B) Establishments of risk control mechanisms and firewalls between the FCB and affiliated enterprises	B) Risk control mechanisms and firewalls are managed in accordance with "Principle of personnel, information, and business between FCB and affiliated enterprises"	
<b>2. Compositions and duties of Board of Directors</b>		
A) Establishments of independent Directors	A) None.	A) In accordance with Tai-Tsai-Jung Ruling No. 0921001066 dated January 2, 2004, which issued the meeting memorandum of the draft for "Corporate Governance Best-Practice Principles for Banks" and indicated that the plan of independent Directors and Supervisors and audit committee could be more flexible. Therefore, the Bureau of Monetary Affairs will discuss the draft again after "Corporate Governance Best-Practice Principles for Banks" amended according to the aforementioned meeting memorandum by the Bankers Association of the Republic of China.
B) Evaluations of independence of independent accountants	B) When independent accountants are engaged for the auditing attestations of financial statements and tax returns, FCB will receive the "Independence declaration" from the independent accountants and propose it to the Board of Directors for the engagement.	B) Compliance.
<b>3. Compositions and duties of Supervisors</b>		
A) Establishments of independent Supervisors	A) None	A) In accordance with Tai-Tsai-Jung Ruling No. 0921001066 dated January 2, 2004, which issued the meeting memorandum of the draft for "Corporate Governance Best-Practice Principles for Banks" and indicated that the plan of independent Directors and Supervisors and audit committee could be more flexible. Therefore, the Bureau of Monetary Affairs will discuss the draft again after "Corporate Governance Best-Practice Principles for Banks" amended according to the aforementioned meeting memorandum by the Bankers Association of the Republic of China.
B) Communications between Supervisors and employees (and stockholders)	B) The office of FCB's Standing Supervisor is open, and the Standing Supervisor's e-mail address is in place on FCB's website. Therefore, it provides good communication between employees, related parties and Supervisors.	B) Compliance



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Item	Implementations of corporate governance	Differences between the implementations of corporate governance and the requirements of the principles constituted by the authorities
<b>4. Disclosures of information</b> FCB adopts other methods for disclosures of information. (For example, the establishment of an English public website, the designation of personnel who are responsible for gathering and disclosing the information, the establishment of spokesperson system, and the meeting with institutional investors, the presentations of which are placed on the website)	A) Annual report, monthly profit and loss information, and monthly asset quality status are available in English on FCB's website. B) The spokesperson system is established. Executive Vice President Tsai, Jer-shan acts as the spokesperson, and Executive Vice President Wu, Chin-yun is the proxy.	Compliance.
<b>5. Implementations of audit committee and other special committees</b>	None.	In accordance with Tai-Tsai-Jung Ruling No. 0921001066 dated January 2, 2004, which issued the meeting memorandum of the draft for "Corporate Governance Best-Practice Principles for Banks" and indicated that the plan of independent Directors and Supervisors and audit committee could be more flexible. Therefore, the Bureau of Monetary Affairs will discuss the draft again after "Corporate Governance Best-Practice Principles for Banks" amended according to the aforementioned meeting memorandum by the Bankers Association of the Republic of China
<b>6. Other information for implementations of cooperative governance</b> (for example, trainings for Directors and Supervisor, situations regarding Directors and Supervisors attending the Board Meetings, avoidances of interest conflict proposals by Directors, liability insurances for Directors and Supervisors, implementations and policies of risk managements, protections for consumers and responsibilities of managerial personnel):		
A) Training programs for Directors and Supervisors: FCB provides training courses and related training information for the Directors and Supervisors. B) Situations regarding Directors and Supervisors attending the Board Meetings: The situations regarding the Directors and Supervisors attending the Board Meetings are adequate, and the Directors and Supervisors provide valuable advices in a timely manner. C) Situations regarding Directors avoiding participating in interest conflict proposals: Avoidances for interest conflict are complied with "Rules Governing the Proceedings of Board Meetings of FCB". D) Implementations and policies of risk management : According to the risk management policies published on December 29, 2003, FCB established risk management mechanisms to identify, measure, supervise, and control risk. FCB will establish a wholly-integrated risk management system and risk-oriented business model to achieve objectives of operations, to enhance stockholders' values. Furthermore, FCB has established the risk management committee to integrate the deliberation, supervision, coordination, collaboration, and operation of risk manage.		

H. Disclosures in accordance with Tai-Tsai-Jung Ruling No. 0936000140 in 2004

a. Information of Assets and Liabilities

A) Balance sheet

Relevant explanation refers to 10. (4) "Condensed balance sheets and statements of operations of subsidiaries".

B) Balances of demand deposits, time deposits, foreign currency deposits, and their respective ratio to total deposits.

	December 31, 2003	December 31, 2002
Demand deposits	520,991,764	423,320,468
Ratios of demand deposits to total deposits (%)	47.95	41.05
Time deposits	565,579,755	607,884,967
Ratios of time deposits to total deposits (%)	52.05	58.95
Foreign currency deposits	132,910,368	118,282,521
Ratios of foreign currency deposits to total deposits (%)	12.23	11.47

Note 1: Ratio of demand deposits to total deposits = demand deposits / total deposits

Ratio of time deposits to total deposits = time deposits / total deposits

Ratio of foreign currency deposits to total deposits = foreign currency deposits / total deposits

Note 2: Demand deposits and time deposits include foreign currency deposits and treasury deposits

Note 3: Each kind of deposits does not include Postal transferred deposits.



## C) Balances of small and median size enterprise loans and consumer loans and their respective ratios to total loans

	December 31, 2003	December 31, 2002
Small and median enterprise loans	244,120,341	228,630,560
Ratio of small and median enterprise loans to total loans (%)	31.94	30.72
Consumer loans	234,396,972	207,602,032
Ratio of consumer loans to total loans (%)	30.67	27.9

Note 1: Ratio of small and median enterprise loans to total loans (domestic) = Small and median enterprise loans (domestic) / Total loans (domestic)

Ratio of consumer loans to total loans (domestic) = Consumer loans (domestic) / Total loans (domestic)

Note 2: Small and median enterprise loans are defined by "Criteria of Small and Median Enterprise Loans" established by the Ministry of Economic Affairs

Note 3: Consumer loans include mortgage loans, house repair loans, car loans, institutional employees' welfare loans and other individual consumption loans excluding revolved credit extensions for credit cards.

## b. Income statement

Relevant explanation refers to Note 10 (4) "Condensed balance sheets and statements of operations of subsidiaries".

## 1. Disclosures in accordance with Tai-Tsai-Jen Ruling No.175974 in 2001

The Company was established through the swap of shares with FCB on January 2, 2003. In accordance with the SFC Tai-Tsai-Jen Ruling No.175974 in 2001, a financial holding companies established through the business combinations or swap of shares under the provision of the Financial Holding Company Act must disclose the comparative pro forma financial statements in the year that the combination or swap of shares is completed and the immediately succeeding year in its notes as supplementary information.

## a. Major assumptions of pro forma financial statements

- A) The Company was assumed established on January 1, 2002.
- B) The balances of cash are estimated based on cash dividends from the subsidiaries and the Company, and the Company's working capital utilization.
- C) The balances of long-term investments are estimated based on the subsidiaries' balances of stockholders' equity.
- D) Gain (loss) from the long-term investments is recognized based on the subsidiaries' net income (loss) for the same period.
- E) Administrative expenses are estimated based on salaries, depreciations, and other related expenses.





# Financial Reports

b. The pro form a financial statements are as follows:

## FIRST FINANCIAL HOLDING CO., LTD. PRO FORMA BALANCE SHEETS

December 31, 2003 AND 2002  
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

ASSETS	2003		2002	
	Amount	%	Amount	%
<b>CURRENT ASSETS</b>				
Cash and equivalents	\$ 2,134,483	3	\$ 34,690	—
Receivables and prepayments	1,946	—	361	—
Total current assets	2,136,429	3	35,051	—
<b>LONG-TERM INVESTMENTS</b>	66,196,530	97	64,085,211	100
<b>PROPERTIES AND EQUIPMENTS</b>				
Machinery and equipment	3,351	—	—	—
Transportation equipment	350	—	—	—
Office equipment	22,217	—	21,877	—
Leasehold improvements	5,270	—	4,143	—
Sub-total	31,188	—	26,020	—
Less: Accumulated depreciation	( 5,782)	—	( 977)	—
Properties and equipments-net	25,406	—	25,043	—
<b>INTANGIBLE ASSETS</b>	1,145	—	—	—
<b>OTHER ASSETS</b>	30	—	—	—
<b>TOTAL ASSETS</b>	<b>\$ 68,359,540</b>	<b>100</b>	<b>\$ 64,145,305</b>	<b>100</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>
<b>CURRENT LIABILITIES</b>				
Payables	\$ 10,624	—	\$ 97,702	—
<b>LONG-TERM LIABILITIES</b>				
Accrued pension liabilities	4,455	—	—	—
<b>OTHER LIABILITIES</b>				
Guarantee deposit-in	537	—	539	—
<b>Total liabilities</b>	15,616	—	98,241	—
<b>STOCKHOLDERS' EQUITY</b>				
Common stocks	55,490,750	82	45,515,044	71
Additional paid-in capital	24,223,244	35	20,878,867	33
Retained earnings				
Reserve	972,570	1	19,920,874	31
Accumulated deficits	( 12,282,472 )	( 18 )	( 22,342,323 )	( 35 )
Net loss not recognized as pension cost	( 57,480 )	—	( 7,542 )	—
Unrealized loss on long-term equity investments	( 63,324 )	—	( 104,287 )	—
Cumulative translation adjustment	60,636	—	261,457	—
Treasury stocks	—	—	( 75,026 )	—
<b>Total stockholders' equity</b>	68,343,924	100	64,047,064	100
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 68,359,540</b>	<b>100</b>	<b>\$ 64,145,305</b>	<b>100</b>

**FIRST FINANCIAL HOLDING CO., LTD.**  
**PRO FORMA STATEMENTS OF OPERATIONS**

FOR THE YEAR ENDED DECEMBER 31, 2003 AND 2002  
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS, EXCEPT FOR LOSS PER SHARE)

	2003		2002	
	Amount	%	Amount	%
Operating revenues				
Other operating revenues	\$ 4,666	100	\$ —	—
Total operating revenue	4,666	100	—	—
Operating costs				
Loss from long-term investments accounted for under the equity method	( 12,323,640)	( 264,116)	( 24,206,606)	—
Gross loss	( 12,318,974)	( 264,016)	( 24,206,606)	—
Operating expenses				
Administrative expenses	( 168,158)	( 3,604)	( 38,198)	—
Other operating expenses	( 996)	( 21)	—	—
Total operating expenses	( 169,154)	( 3,625)	( 38,198)	—
Operating loss	( 12,488,128)	( 267,641)	( 24,244,804)	—
Non-operating income	6,112	131	48	—
Non-operating expenses	( 296,988)	( 6,365)	—	—
Loss before income taxes and net loss	<b>( \$12,779,004)</b>	<b>( 273,875)</b>	<b>( \$24,244,756)</b>	—
	<b>Before tax</b>	<b>After tax</b>	<b>Before tax</b>	<b>After tax</b>
Loss per share	<b>( \$ 2.30)</b>	<b>( \$ 2.30)</b>	<b>( \$ 5.59)</b>	<b>( \$ 5.59)</b>

J. Disclosures in accordance with "Guidelines Governing the preparation of Financial Reports by Financial Holding Company"

Disclosures of total amounts or ratios with respect to credit extensions, guarantees or other transactions engaged by the Company and its subsidiaries for the same individual, the same related individual, or the same affiliated enterprises in accordance with the Article 46 of the "Financial Holding Company Act", are as follows:



# Financial Reports

(Expressed in millions of New Taiwan dollars)

Counterparties	Total amounts of credit extensions, guarantees, or other transactions	Percentage to the Company's equity % (Note 3)
<b>a. The same individual (Note 1)</b>		
The National Treasury Agency, Ministry of Finance	\$ 20,000	29.25
The Kaohsiung City Government	20,000	29.25
Taiwan High Speed Rail Corp.	13,691	20.03
Formosa Petrochemical Corp.	11,773	17.22
Taiwan Water Supply Corp.	9,760	14.28
Chinese Petroleum Corp.	9,054	13.24
FCBL	6,952	10.17
Nan-Ya Plastics Corp.	6,918	10.12
The Construction and Planning Administration of Ministry of the Interior	6,078	8.89
The Management Committee of the National Stabilization Fund	4,655	6.81
Metropolitan Construction Development Corp.	4,531	6.63
China Airlines Ltd.	4,409	6.45
Far Eastern Textile Ltd.	4,305	6.30
Mega Financial Holding Company	3,743	5.48
The Southern Taiwan Science Park Administration	3,500	5.12
Chia-Hsin Cement Corporation	3,078	4.50
Taiwan Asset Management Corp.	3,000	4.39
<b>Subtotal</b>	<b>135,447</b>	<b>198.12</b>
<b>b. The same related individual (Note 1)</b>		
Wu, gua-lin and his the same related person	6,958	10.18
Shi, thui-du and his the same related person	6,956	10.18
<b>Subtotal</b>	<b>13,914</b>	<b>20.36</b>
<b>c. The same affiliated enterprise (Note 1)</b>		
Mai-Liao Power Corp. and its affiliated enterprises	30,331	44.37
Formosa Petrochemical Corp. and its affiliated enterprises	13,586	19.87
Nan-Ya Plastics Corp. and its affiliated enterprises	8,855	12.95
Formosa Plastics Corp. and its affiliated enterprises	7,312	10.70
China Airlines Ltd. and its affiliated enterprises	7,240	10.59
Evergreen Marine Corp. and its affiliated enterprises	5,337	7.81
Far Eastern Textile Corp. and its affiliated enterprises	5,148	7.53
Metropolitan Construction Development Corp. and its affiliated enterprises	4,834	7.07
Hung-Chung Co., Ltd. and its affiliated enterprises	4,679	6.84
Chi Mei Optoelectronics Corp. and its affiliated enterprises	4,330	6.33
Formosa Chemicals and Fibre Corp. and its affiliated enterprises	4,096	5.99
Yieh United Steel Corp. and its affiliated enterprises	3,863	5.65
Chia-Hsin Cement Corp. and its affiliated enterprises	3,453	5.05
Hotai Motor Co., Ltd. and its affiliated enterprises	3,441	5.03
China Steel Corp. and its affiliated enterprises	3,234	4.73
<b>Subtotal</b>	<b>109,739</b>	<b>160.52</b>
<b>Total</b>	<b>\$ 259,100</b>	<b>379</b>



Note1: In accordance with Tai-Tsai-Jung Ruling No.0921000195 in 2003, total amounts with respect to credit extensions, guarantees or other transactions engaged by the Company and subsidiaries for the same individual, the same related individual, or the same affiliated enterprises can be expressed and placed into three categories: the same individual, the same related individual, and the same affiliated enterprise when they are reported to the authorities. In addition, the same related individual, and the same affiliated enterprise can be reported and disclosed by the major representative of the same related individual and by the major enterprise of the same affiliated enterprise

Note2: Disclosure of the same related person is calculated based on the individual and the representative of institutional stockholder.

Note3: The Company's equity stands at \$68,365 million New Taiwan dollars, which is book value and unaudited as of December 31, 2003

## 11. Supplementary Disclosures

### (1) Information regarding significant transactions:

#### A. Funds lent to others:

The Company and NITC: None

FCB, FTSI, and MFMI: In accordance with the regulations of the Securities and Futures Commission, the banking industry, securities industry, and insurance industry are not applicable.

#### B. Endorsements and guarantees provided for others:

The company and NITC: None

FCB, FTSI, and MFMI: In accordance with the regulations of the Securities and Futures Commission, the banking industry, securities industry, and insurance industry are not applicable.



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## C. Securities held at the period-end:

Investor	Name of Investee and Type of Securities	Relationship
<b>FFHC</b>	FCB	Stock
	FTSI	"
	MFMI	"
	NITC	"
	Debt Instruments Depository and Clearing Co., Ltd. Taiwan	"
<b>FCB</b>	First Commercial Bank (USA)	Stock
	FCBL	"
	FTFT	"
	First Insurance Agency Co., Ltd.	"
	EAREM	"
	Chang Hwa Commercial Bank Ltd.	"
	Hua Nan Financial Holding Co., Ltd.	"
	Taiwan Business Bank Co., Ltd.	"
	Taiwan Development & Trust Corporation	"
	Taiwan Power Company	"
	Taiwan Asset Management Corporation	"
	Tang Eng Iron Works Co., Ltd.	"
	Taiwan Sugar Corporation, etc.	"
	Cathay Financial Holding Co., Ltd., etc.	Debentures and Corporate bonds
Construction Bond 2001-1 issued, etc	Government Bond	
Taiwan High Speed Rail Corporation	Convertible preferred Stock	
<b>First Commercial Bank (USA)</b>	Federal Home Loan Mortgage Corp., etc.	Government Bond
<b>FTSI</b>	First Taisec Securities Investment Consulting Co., Ltd.	Stock
	First Taisec Securities (ASIA) Limited	"
	First Futures Co., Ltd.	"
	Taiwan Futures Exchange	"
	Taiwan Securities Central Depository Co., Ltd.	"
<b>NITC</b>	NITC Taiwan Bond Fund	Beneficiary Certificate
	NITC Bond Fund	"
	Capital Safe Income Fund	"
	PCA Welltool Bond Fund	"
	PCA Unique Fund	"
	Invesco GP Aggressive Income Fund	"
	Bond 14-4 of Chiao Tung Bank	Financial bond
	NITC (Cayman Islands) Ltd.	Stock
<b>NITC (Cayman Islands) Ltd.</b>	NAM Short Term Fixed Income Fund	Beneficiary Certificate
	NITC Asset Management (Asia) Ltd.(NAM(Asia))	Stock
	The Mutual fund Management Company of the Philippines, Inc. (MFMCP)	"

MFMI belongs to the industry of insurance. As a result, the information regarding securities held at the period-end is not applicable.

Note 1: There is no readily available market price as the stock is not listed on any public exchange.

Note 2: Long-term investments remain free of pledge or guarantee.

Account	At the Period-end				
	Shares / Certificates (in Thousand)	Book Value	Ownership Percentage	Market Value	Note (Note 2)
Long-term investments	4,621,600	\$57,901,195	100.00		Note 1
"	300,000	4,019,308	100.00		Note 1
"	200,000	2,748,698	100.00		Note 1
"	111,573	1,502,269	100.00		Note 1
"	2,000	20,000	0.99		Note 1
Long-term investments	3,000	1,119,418	100.00	1,119,418	
"	49,985	563,617	99.97	563,617	
"	15,000	121,813	49.99	121,813	
"	5,000	87,851	99.99	87,851	
"	1,500	8,327	30.00	8,327	
"	169,024	1,283,366	3.41	2,775,090	
"	119,832	701,235	2.53	2,971,823	
"	207,063	1,469,878	6.51	1,780,744	
"	17,368	173,680	5.79	40,641	
"	275,689	2,187,531	0.84	Note 1	
"	300,000	3,000,000	17.03	"	
"	49,268	492,680	7.04	"	
"	167,171	928,798	-	"	
"	-	20,814,998	-	Not applicable	
"	-	22,021,645	-	"	
"	-	2,000,000	-	"	
Long-term investments	-	2,361,342	-	Not applicable	
Long-term investments	30,000	298,912	100.00	298,873	
"	10,000	784,485	100.00	784,485	
"	20,000	193,241	100.00	193,241	
"	1	10	0.00	10	
"	229	925	0.09	925	
Short-term investments	5,311	70,000	0.21	71,723	
"	453	70,000	0.15	71,410	
"	5,261	70,000	0.13	74,446	
"	5,923	70,000	0.13	71,334	
"	4,175	60,000	0.28	61,367	
"	3,741	40,000	0.15	41,025	
Refundable deposits	-	20,000	0.65	-	
Long-term equity investments	1,650	65,873	100.00	65,873	
Short-term investments	75	27,752	0.37	32,756	
Long-term equity investments	4,488	34,981	44.88	34,666	
"	2,266	2,552	15.37	1,442	





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D. For marketable securities accumulatively acquired and disposed of during the period which amounted to 100 million New Taiwan dollars or 20% of the Company's common stocks

The information of MFMI and NITC: None.

The information of the Company, FCB, and FTSI is as follows:

Buyer or Seller	Security Name and Class	Account	Counterparty	Relationship
FFHC	Stock			
	FCB	Long-term investments	Not applicable	Subsidiary
	FTSI	"	"	"
FCB	Financial bond			
	IRISH NAT BD SOCIETY	Long-term investments	Not applicable	None
	SUNCORP-METWAY LTD	"	"	"
	ISLANDSBANKI HF	"	"	"
	BANCO TOTTA&ACORES	"	"	"
	ANGLO IRISH CORPORATION PLC	"	"	"
	BENDIGO BANK LTD	"	"	"
	EXPORT-IMPORT BK OF KOREA	"	"	"
	F VAN LANSCHOT BANKIERS	"	"	"
	FIRESLAND BANK	"	"	"
	SPAREBANKEN VEST	"	"	"
	INVESTKREDIT BANK AG	"	"	"
	INDUSTRIAL BANK OF KOREA	"	"	"
	DVB BANK AG	"	"	"
	SHINHAN BANK	"	"	"
	LLOYDS TSB BANK PLC	"	"	"
	ROYAL BANK OF SCOTLAND PLC	"	"	"
	BAYERISCHE LANDESBANK	"	"	"
	WESTPAC BANKING	"	"	"
	BNP Paribas, Paris	"	"	"
	CREDIT AGRICOLE INDOSUEZ	"	"	"
	SOCIETE GENERALE	"	"	"
	ALLIANCE AND LEICESTER	"	"	"
	BARCLAYS BK PLC	"	"	"
	NATWEST BANK	"	"	"
	STANDARD CHARTERED	"	"	"
	YORKSHIRE BANK	"	"	"
	BANCA INTESA	"	"	"
	BANQUE INT'L LUX	"	"	"
	DEN NORSKE BANK A.S.	"	"	"
	DRESDNER BANK	"	"	"
	BG BANK	"	"	"
	JYSK BANK	"	"	"
	SANTANDER CENTRAL HISPAN	"	"	"
	ALPHA BANK LONDON LTD	"	"	"
	NATIONWIDE	"	"	"
	SANPAOLO-IMI SPA	"	"	"
	ABN AMRO BANK	"	"	"
	SHIZUOKO BK LTD	"	"	"
	BANK GOPODARKI ZYWNOSCIDWXS	"	"	"
	SABANCI BANK PLC	"	"	"
	HANA BANK	"	"	"
	MOSCOW NARODNY BANK	"	"	"
HELLENIC BANK LTD	"	"	"	
SNS BANK NEDERLAND N.V.	"	"	"	
BANCA NAZIONALE DEL LAVORO	"	"	"	
BANCA COMM ITALIAN	"	"	"	
DEN DANSKE BANK	"	"	"	
DEUTSCHE BANK LUXEMBOURG	"	"	"	

Beginning Balance	Acquisition	Disposal			Premium and Discount Amortization and FX Effect	Ending Balance
		Sale price	Book Value	Gain on Disposal		
Amount	Amount				Amount	Amount
-	14,000,000	-	-	-	-	14,000,000
-	937,632	-	-	-	-	937,632
-	150,374	-	-	-	20,603	170,977
-	112,695	-	-	-	15,469	128,164
-	104,585	-	-	-	( 2,599)	101,986
-	116,076	-	-	-	11,940	128,016
-	116,297	-	-	-	11,881	128,178
-	104,165	-	-	-	( 2,178)	101,987
-	344,825	-	-	-	( 4,945)	339,880
-	118,820	-	-	-	9,407	128,227
-	118,807	-	-	-	9,409	128,216
-	158,363	-	-	-	12,551	170,914
-	172,948	-	-	-	( 3,149)	169,799
243,341	170,674	-	-	-	( 6,307)	407,708
-	376,996	-	-	-	50,236	427,232
-	506,988	-	-	-	3,622	510,620
-	337,773	( 169,650)	( 169,650)	-	1,276	169,399
-	165,931	-	-	-	1,403	167,334
-	337,430	-	-	-	2,350	339,780
-	171,243	-	-	-	( 2,968)	168,275
-	172,068	-	-	-	( 3,041)	169,027
-	343,424	-	-	-	( 6,026)	337,398
-	343,914	-	-	-	( 6,064)	337,850
-	103,184	-	-	-	( 1,819)	101,365
-	172,176	-	-	-	( 3,049)	169,127
-	172,529	-	-	-	( 3,086)	169,443
-	173,213	-	-	-	( 3,139)	170,074
-	173,424	-	-	-	( 4,719)	168,705
-	171,884	-	-	-	( 3,021)	168,863
-	153,924	-	-	-	( 2,608)	151,316
-	173,154	-	-	-	( 4,715)	168,439
-	116,786	-	-	-	10,727	127,513
-	196,646	-	-	-	17,825	214,471
-	350,428	-	-	-	32,197	382,625
-	192,014	-	-	-	17,789	209,803
-	193,712	-	-	-	19,120	212,832
-	206,798	-	-	-	6,762	213,560
-	194,248	-	-	-	17,467	211,715
-	195,339	-	-	-	17,880	213,219
184,151	-	-	-	-	( 11,355)	172,796
-	198,011	-	-	-	16,692	214,703
-	170,999	-	-	-	( 1,017)	169,982
-	101,886	-	-	-	142	102,028
-	101,994	-	-	-	( 60)	101,934
-	118,790	-	-	-	9,210	128,000
-	350,668	-	-	-	30,997	381,665
173,900	-	( 169,810)	( 169,810)	-	( 4,090)	-
-	233,370	-	-	-	21,440	254,810
-	198,589	-	-	-	153,227	351,816
174,238	102,537	-	-	-	( 5,720)	271,055



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Buyer or Seller	Security Name and Class	Account	Counterparty	Relationship
FCB	<b>Financial bond</b>			
	DG BANK FFT	Long-term investments	Not applicable	None
	FORENINGSSPARBANKEN	"	"	"
	FREDDIE MAC	"	"	"
	KOREA DEVELOPMENT BK	"	"	"
	LANDBANKI ISLAND	"	"	"
	MAZQUARIE BANK LTD.	"	"	"
	NAT. CO. COOP. BANK	"	"	"
	NIB CAPITAL BANK	"	"	"
	SNS BANK	"	"	"
FCB	<b>Corporate bond</b>			
	CADBURY SCHWEPES FINANCE	Long-term investments	Not applicable	None
	EPISTAR CORP	"	"	"
	MICRO-STAR INT'L CO., LTD	"	"	"
	CHINA DEVP FIN HOLDING CORP	"	"	"
	FAR EASTONE TELECOM CO., LTD	"	"	"
	TAISHIN FIN HOLDING CO., LTD	"	"	"
	E. SUN FIN HOLDING CO., LTD	"	"	"
	SINOPAC HOLDINGS COMPANY	"	"	"
	CATHAY FIN HOLDING CO., LTD	"	"	"
	FUBON FIN HOLDING CO., LTD	"	"	"
	MEGA FIN HOLDING CO LTD	"	"	"
	KOREA TELECOM CORP	"	"	"
	CMC MAGNETICS CORP	"	"	"
BIRTISH TELECOM	"	"	"	
FCB	<b>Government bond</b>			
	Construction bond 1996-5 issued	Long-term investments	Not applicable	None
	Construction bond 1996-2 issued	"	"	"
	Construction bond 1997-4 issued	"	"	"
	Construction bond 1990-5 issued	"	"	"
	1990-10 issued	"	"	"
	1998-1 issued	"	"	"
	2000-6 issued	"	"	"
	2000-14 issued	"	"	"
	2001-1 issued	"	"	"
	2002-9 issued	"	"	"
	Taipei city bond 1997-2 issued	"	"	"
	Taipei city construction bond 2000-2 issued	"	"	"
	Construction bond 1995-4 issued	"	"	"
	Construction bond 1996-1 issued	"	"	"
	Construction bond 1996-6 issued	"	"	"
2003-6 issued	"	"	"	
FCB	<b>Convertible Preferred Stock</b>			
	Taiwan High Speed Rail Corp.	Long-term investments	Not applicable	None
First Commercial Bank(USA)	<b>Corporate bond</b>			
	FEDERAL HOME LOAN BANK	Long-term investments	Not applicable	None
	FEDERAL NATIONAL MORTGAGAGE ASSOCIATION	"	"	"
	FEDERAL NATIONAL MORTGAGAGE ASSOCIATION	"	"	"
FEDERAL NATIONAL MORTGAGAGE ASSOCIATION	"	"	"	
FTSI	<b>Stock</b>			
	First Taisec Securities Investment Consulting Co., Ltd.	Long-term investments	Not applicable	An investee under the equity method
	First Taisec Securities (ASIA) Limited	"	"	"
	First Futures Co., Ltd.	"	"	"



Beginning Balance	Acquisition	Disposal			Premium and Discount Amortization and FX Effect	Ending Balance
		Sale price	Book Value	Gain on Disposal		
Amount	Amount	Amount	Amount	Amount	Amount	Amount
109,244	-	( 116,320)	( 116,314)	6	7,070	-
-	407,353	( 170,364)	( 170,364)	-	( 24,855)	212,134
-	170,686	-	-	-	( 1,186)	169,500
347,800	175,168	-	-	-	( 10,901)	512,067
-	56,352	-	-	-	7,740	64,092
172,021	69,322	( 173,175)	( 172,909)	266	( 398)	68,036
104,340	-	( 101,886)	( 101,886)	-	( 2,454)	-
69,025	-	-	-	-	( 1,390)	67,635
-	170,344	-	-	-	24	170,368
-	337,430	-	-	-	500	337,930
-	176,790	-	-	-	-	176,790
-	173,340	-	-	-	( 3,350)	169,990
1,912,900	4,126,000	( 3,954,320)	( 3,954,320)	-	( 44,700)	2,039,880
-	347,870	( 169,810)	( 169,810)	-	( 8,070)	169,990
-	174,325	-	-	-	( 4,335)	169,990
-	346,350	( 273,920)	( 273,920)	-	( 4,434)	67,996
173,900	1,170,754	( 411,634)	( 411,634)	-	( 49,072)	883,948
869,500	137,600	( 447,280)	( 447,280)	-	( 15,852)	543,968
869,500	1,222,848	( 860,950)	( 860,950)	-	( 7,470)	1,223,928
-	3,439,557	-	-	-	( 73,755)	3,365,802
-	173,715	-	-	-	( 3,725)	169,990
-	173,625	( 169,810)	( 169,810)	-	( 3,815)	-
-	756,628	( 679,960)	( 679,922)	38	( 76,706)	-
-	514,762	-	-	-	( 8,421)	506,341
-	267,454	-	-	-	( 10,398)	257,056
-	1,135,978	-	-	-	( 49,540)	1,086,438
-	3,449,668	-	-	-	( 143,900)	3,305,768
-	1,686,497	-	-	-	( 59,450)	1,627,047
-	269,017	-	-	-	( 13,689)	255,328
-	3,536,874	-	-	-	( 121,443)	3,415,431
-	2,639,437	-	-	-	( 97,776)	2,541,661
-	4,964,781	-	-	-	( 135,151)	4,829,630
-	155,928	-	-	-	( 2,161)	153,767
-	246,481	-	-	-	( 17,500)	228,981
-	294,740	-	-	-	( 13,221)	281,519
-	1,843,615	-	-	-	( 47,057)	1,796,558
-	135,371	-	-	-	( 2,516)	132,855
-	770,614	-	-	-	( 15,279)	755,335
-	797,706	-	-	-	( 1,181)	796,525
-	2,000,000	-	-	-	-	2,000,000
-	101,886	-	-	-	108	101,994
-	106,033	( 95,207)	( 106,033)	( 10,826)	-	-
-	104,195	( 101,994)	( 104,195)	( 2,201)	-	-
-	104,595	( 101,128)	( 104,595)	( 3,467)	-	-
108,028	190,884	-	-	-	-	298,912
217,648	566,838	-	-	-	-	784,486
-	193,241	-	-	-	-	193,241



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E. For real estate acquired during the period which amounted to 100 million New Taiwan dollars or 20% of the Company's common stocks:

The information of the Company, FCB, FTSI, MFMI and NITC: None.

F. For real estate disposed of during the period which amounted to 100 million New Taiwan dollars or 20% of the Company's common stocks

The information of the Company, FTSI, MFMI and NITC: None.

The information of FCB is as follows:

Company	Property	Trade Date (Note)	Original Date of Acquisition	Book Value	Trade Amount	Proceeds Collection Status	Gain (Loss)	Counterparty	Relation-ship	Purpose	Valuation Reference	Other affairs
FCB	Foreclosed Assets - Land and Building	Feb 24, 2003	Jan 20, 2000	\$115,768	\$118,330	All collected	\$ 2,562	Inageya Inc.	None	Disposition of foreclosed assets in accordance with the Banking Law Article 76	Market value appraised by professional institution and surveyed by FCB's branch adjacent to underlying property	None
FCB	Foreclosed Assets - Land and Building	May 27, 2003	Jan 17, 2000	\$332,236	\$231,005	All collected	\$(101,231)	Wu Ton-ho	None	Disposition of foreclosed assets in accordance with the Banking Law Article 76		None
FCB	Non-operating Assets - Land and Building	May 27, 2003	Dec 30, 1943	\$ 36,307	\$171,000	All collected	\$ 134,693	Lee li-yu, Lee li-shen, Lee Po-I, Lee Po-ru	None	Disposition of non-operating assets		None

Note: Trade date refers to the date of ownership transfer

G. The amounts of related parties whom the Company and subsidiaries sell to or purchase from which amounted to 100 million New Taiwan dollars or 20% of the Company's common stocks:

The information of the Company, FTSI, MFMI, and NITC: None.

The information of FCB: Please refer to Note 5 (3) A.

H. The amounts of accounts receivable from related parties which amounted to 100 million New Taiwan dollars or 20% of the Company's common stocks:

The information of the Company, MFMI, and NITC: None.

The information of FCB: Please refer to Note 5 (3) A..

## I. Derivative financial instruments

### a. Information of the Company

The Company has no transaction of derivative financial instruments incurred during the period from January 1, 2003 to December 31, 2003.

### b. Information of FCB

A) Contract size or notional principals and credit risks

Financial Instruments	December 31, 2003		December 31, 2003	
	Contract (notional) principal	Credit risk	Contract (notional) principal	Credit risk
<b>Trading Purpose:</b>				
FX swap contracts	\$ 49,940,288	\$ 307,768	\$ 43,488,150	\$ 170,146
Forward contracts	19,909,031	172,578	24,989,913	231,343
FX margin trading	1,801,714	134,760	910,277	47,371
Options written	8,980,549	—	4,794,641	—
Options held	8,915,805	72,077	4,794,641	91,460
<b>Non-trading Purpose:</b>				
Interest rate swap	40,038,954	660,300	17,634,496	693,476
Cross currency swap	339,980	19,929	1,004,446	11,773
Assets swap (credit risk excluding the principal)	10,748,015	35,194	4,739,682	38,468



B) Types and conditions of derivative financial instruments

a) Trading conditions

i. The asset swaps contracts mainly based on the overseas convertible bond deals. In accordance with such structures, FCB enters into asset swap contracts with the counterparties at the same time while it purchases overseas convertible bonds. The structured swap contracts are made to swap the fixed coupons of bonds into the floating-rate cash flows. The counterparties retain the right to repurchase the convertible bonds based on conditions set forth in the contracts. Under such arrangements, FCB has an interest income stream, however, it also undertakes credit risks of both the bond issuers and the swap counterparties.

Convertible bonds in asset swap transactions were recorded as "marketable securities" , "exchange bills negotiated, discounted and loans," and "long-term investments" and totaled \$788,652, \$543,968, \$9,417,446, and \$500,000, \$243,460, \$3,999,700, respectively, as of December 31, 2003 and 2002.

ii. The receivable and payable balances arising from foreign exchange forward contracts, non-delivery forward contracts, FX margin trading and foreign exchange swap contracts are netted and accounted for as "accounts receivable" or "accounts payable."

b) Credit risks

The Bank's exposure from financial instruments is measured at fair value of contracted instruments with positive positions after netting settlements at the balance sheet date. It implies the risk that counterparties of any financial instruments may default on their obligations at the due date therefore incur losses. Credit risks are evaluated by replacement cost in accordance with market prices. With proper credit risk evaluations and controls being in place given that FCB's counterparties are either internationally recognized financial institutions or companies with proper credit rankings in compliance with FCB's credit requirements; FCB anticipates relatively low risks of defaults made by those counterparties.

c) Market Risks

Market risks are related to the loss incurred from the position held caused by unexpected adverse market movements. FCB has established specific detailed policies to control the market risks of interest and foreign exchange rates under the exposure limits. Options are dealt on a back-to-back basis in order to lower the market risks.

d) Liquidity Risks

The risks associated with the inability of liquidating existing position at fair market price due to the non-exchange traded nature of underlying products, should FCB may fail to timely unwind its positions to avoid serious losses. FCB mainly holds liquid instruments and has also established appropriate risk exposure limits for such transactions. Therefore, FCB has effectively managed its liquidity risks in view of the fact that the possibilities of derivative financial instruments not being liquidated at reasonable market prices are moderately low.

e) The amount, the period and the uncertainty for the future cash flows

The use of the derivative financial instruments was mainly driven by customer's demands and FCB's needs for funding or hedging purposes, so FCB acts upon matching principle for deals of fund borrowing. FCB did not involve any contracts with highly leveraged natures.

As to the asset swap contracts, the cash flows are determined by the payouts against the differences between fixed interest rates v.s. floating interest rates. As a result, there are no significantly extra demands for cash flows.

C) The purposes of holding derivative financial instruments

FCB holds or issues financial instruments for the purposes of trading and non-trading. The foreign exchange swap contracts for non-trading purposes are used to hedge against foreign exchange rate fluctuations resulting from FCB's foreign currency assets and liabilities, whereas the asset swap contracts are used to hedge against the interest rate risks of FCB's net assets. FCB's FX businesses mainly include spots, forwards, swaps, currency options and margin trading. The currency options are conducted on a back-to-back basis in order to hedge the market risks. FCB aims to mitigate the losses of potential market price fluctuations to a minimum level. The derivative financial instruments held or issued as hedge instruments by FCB have highly negative correlations to the underlying items and the effectiveness of hedging is reviewed on a regular basis.





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## D) Disclosures of net gains (losses) from the derivative transactions

Transaction gains and losses from the derivative transactions are recorded as exchange gains or losses, interest incomes or interest expenses and derivatives gains are summarized as follows:

	For the years ended December 31, 2003		For the years ended December 31, 2002	
Interest incomes	\$	618,835	\$	184,941
Interest expenses	(	82,594)	(	103,289)
Derivatives gains		69,133		159,039
Exchange gains		652,803		835,378
	\$	<b>1,258,177</b>	\$	<b>1,076,069</b>

## c. Information of FTSI

### A) Contract size or nominal principals and credit risks

Financial Instrument	December 31, 2003		December 31, 2002	
	Contract (nominal) principal	Credit Risk	Contract (nominal) principal	Credit Risk
Convertible bond asset swaps and options	\$ 143,600	—	—	—

### B) Credit Risks

FTSI collects sufficient issuance prices and premiums from investor, respectively, before warrants and convertible bond asset swaps and options are issued. Therefore, probability of credit risks are small.

### C) Market Risks

As changes in market prices for underlying securities linked to the warrants issued by FTSI, warrant holders may exercise warrants before maturity date. As a result, FTSI has obligations to provide underlying securities for warrant holders. The hedging principles to avoid market risks for FTSI are expressed as follows:

- Delta hedging principle: It is essential to purchase underlying securities for establishing initial positions, and the shares of underlying securities held will be adjusted according to dynamic hedging model.
- Vega hedging principle: FTSI will buy back the same warrants, which are undervalued than theory prices, from the market to offset price volatility risks of the issued warrants.

While FTSI engages in convertible bond asset swap and option transactions, FTSI makes contracts with counterparties, which stipulates that the counterparties have rights to purchase the convertible bonds at strike prices in a specific future period in accordance with the option contracts. As FTSI has acquired the convertible bonds through underwriting businesses, there are no significant market risks.

### D) Liquidity risks, cashflow risks and the amount, the period and the uncertainty for future cash flows

There are no above-mentioned risks while FTSI engages in convertible bond asset swap and option transactions, for FTSI has acquired the convertible bonds, which can be used for settlements before maturity date, through securities underwriting businesses and proprietary trading businesses.

### E) Types, purposes and strategies to achieve the purposes

FTSI sells warrants stripped from convertible bond asset swap and receives premiums. In addition, the counterparty can purchase convertible bonds at strike price in a specific future period. Therefore, the revaluation gains and losses and premium revenues arising from convertible bond asset swap and option transactions are recorded as current profits and losses when realized.

### F) Disclosures of derivative financial instruments on financial reports

The revaluation losses of \$4,417 arising from convertible bond asset swap and option transactions are recorded as "losses on derivative financial instruments" for the year ended, 2003. In addition, the deferred revaluation losses of \$67,485 arising from convertible bond asset swap and option transactions are recorded as "other current assets" as of December 31, 2003.

J. Implementations of corporation governance and differences between the implementations of corporate governance and the requirements of “Corporate Governance Best Practice Principles for TSE / GISM Listed Companies”

Item	Implementations of corporate governance	Differences between the implementations of corporate governance and the requirements of the principles constituted by the authorities
<p><b>A.Ownership structure and stockholders' equity</b></p> <p>a.Methods to handle stockholders' proposals, inquiries or disputes</p> <p>b.Commands at any time of information of the identity of major stockholders and its ultimate control persons who own a higher percentage of shares and have an actual control over the company,</p> <p>c.Establishments of risk control mechanisms and firewalls between the Company and its affiliated enterprises</p>	<p>a.The Company discloses the methods of communications to spokesperson and investor relationship department, and handles proposals, inquires and disputes from shareholder with diligence and propriety.</p> <p>b. The Company governs the information of shares held by major stockholders, which is based on the stock ledger according to the every result of stocks stopping transferring and registering and based on the information of changes in shares held by major stockholders, which is reported to the TSE monthly.</p> <p>According to “Rule of credit extensions and trades provided for related parties from First Financial Holding Co., Ltd. and subsidiaries”, the bank subsidiary and insurance subsidiary cannot provide unsecured credit extensions for the counterparties who meet the Article 44 of the Financial Holding Company Act. If secured credit extensions are provided for the aforementioned counterparties, it has to be subject to the Article 33 of the Banking Law with respect to restrictions of secured credit extensions to related parties. In addition, if the Company or its subsidiaries engage in transactions other than credit extensions to the counterparties who meet the Article 45 of the Financial Holding Company Act, the terms of such transactions shall not be preferential when compared with the same kind of transactions made with the other counterparties, and such transactions shall be resolved by a quorum which is at least three-fourths of Directors present at a Board Meeting attended by two-thirds of all Directors of the Company or subsidiaries, respectively.</p>	<p>a.Compliance with relevant regulations of the authorities.</p> <p>b.Correct information of shares held by major stockholders is not acquired until the stocks stop transferring and registering.</p> <p>c.Compliance.</p>
<p><b>B.Compositions and duties of Board of Directors</b></p> <p>a.Establishments of Independent Directors</p> <p>b.Evaluations of independence of independent accountants</p>	<p>a. None.</p> <p>b. When independent accountants are engaged for the auditing attestations of financial statements and taxation returns, the Company will receives the “Independent declaration” from the independent accountants and propose it to the Board of Directors for the engagement.</p>	<p>a.There are 13 Directors in the Company's Board, 7 government representatives of which are high-level official servants or professors from national universities with professional knowledge, specialties and abilities in the banking, securities, accounting and auditing, and MIS field. In addition, the aforementioned government representatives do not belong to any conglomerates or family controlled enterprises. Therefore, the requirements of professional and independent Directors are complied.</p> <p>b. Compliance</p>





# Financial Reports

Item	Implementations of corporate governance	Differences between the implementations of corporate governance and the requirements of the principles constituted by the authorities
<p><b>C. Compositions and duties of Supervisors</b></p> <p>a. Establishments of Independent Supervisors</p> <p>b. Communications between Supervisors and employees (and stockholders)</p>	<p>a. None</p> <p>b. Most of company's employees are transferred temporarily from FCB and the Company's Supervisors also act as Supervisors of FCB. FCB has established the mail box on its website, and it provides good communications between employees and Supervisors.</p>	<p>a. There are three Supervisors in the Company, all of which are representatives of the MOF, Bank of Taiwan, and Hua Nan Bank, respectively, with CPA license and professional knowledge, specialties and abilities in financial management field. In addition, the aforementioned Supervisors don't belong to any conglomerates or family controlled enterprises. Therefore, the requirements of professional and independent Supervisors are complied.</p>
<p><b>D. Communications with interest-related parties</b></p>	<p>Regular and irregular financial information is disclosed on Market Observation Post System according to the regulations of the SFC and the TSE, any material information is released on the Company's website and Market Observation Post System in time in accordance with the regulations of the TSE. The unaudited monthly profit and loss information, reviewed and audited financial reports, consolidation financial reports, and financial forecasts are disclosed on the Company's website to provide sufficient financial information for any related parties.</p>	<p>b. Compliance</p> <p>Compliance</p>
<p><b>E. Disclosures of information</b></p> <p>a. Disclosures of financial information, business information, and corporate governance information through the establishment of company's website.</p> <p>b. The Company adopts other methods for disclosures of information. (For example: the establishments of an English public website, the designation of personnel who are responsible for gathering and disclosing the information, the establishment of spokesperson system, and the meetings with institutional investors, the presentations of which are placed on the website)</p>	<p>a.</p> <p>A) Financial information and business information are open on the Company's website, excluding cooperate governance information.</p> <p>B) The unaudited monthly profit and loss information, reviewed and audited financial reports, consolidated financial reports, and financial forecasts are disclosed on the Company's website. In addition, material information is released on the Company's website and Market Observation Post System in time in accordance with the regulations of the TSE.</p> <p>C) At present, business information of subsidiaries is disclosed by hyperlinks which connect the Company's website and subsidiaries' websites. The Company will integrate business information cross subsidiaries through the establishment of single portal website for the First Financial group in the future.</p> <p>b. The Company's English website has established for foreign investors' inquiry. The information on the Company's website is gathered and disclosed by designated personnel in each department, and it is updated at any time. In order to reinforce completeness of information, the Company has engaged a consultant company for improving website contents. Since the spokesperson system has been established, information is released uniformly by the spokesperson or his / her deputy. The meetings with institutional investor are held in accordance with relevant regulations of the authorities. Information from each department, which is required to be disclosed on the Company' website, is handled by MIS department</p>	<p>a. Disclosures of business information and financial information are complied properly. For parts of cooperate governance are in progress (for example, the establishments of Independent Directors and Independent Supervisors), the information of cooperate governance is not put on the website this year. However, it will be disclosed gradually in the annual report and on the website in the future.</p> <p>b. The establishments of an English website, the designation of personnel who are responsible for gathering and disclosing information, and the implementations of spokesperson system are complied with regulations of the authorities. Besides, the meetings with institutional investors will be preserved in audios or videos and will be disclosed on the Company's website in the future.</p>



Item	Implementations of corporate governance	Differences between the implementations of corporate governance and the requirements of the principles constituted by the authorities
<b>F.Implementations of audit committee and other functional committees</b>	None.	Since the Company needs the Independent Directors and Independent Supervisors to participate in various kinds of functional committees, the Company does not establish the system of Independent Directors and Supervisor, and the functional committees have not been established.

**G.If the Company sets forth its “Cooperate Governance Practice Principles” in accordance with “Cooperate Governance Best-Practice Principles for TSE / GTSM Listed Company”, it is required to be stated the differences between the implementations exercised by the Company’s principles and the requirements of the principles set forth by the authorities:**  
the Company has not set forth its “Cooperate Governance Practice Principles” yet.

**H.Other information for implementations of cooperate governance** (for example, trainings for Directors and Supervisor, situations regarding Directors and Supervisors attending the Board Meetings, avoidances of interest conflict proposals by Directors, implementations and policies of risk managements, liability insurances for Directors and Supervisors, implementations of protections for consumers and policies for customers, and social responsibilities):

a. Trainings for the Directors and Supervisors:

The Company sets forth “Rules of Trainings for Directors and Supervisors” which is referred to “Reference Samples of Trainings for Directors and Supervisors for TSE / GTSM Listed Company”. The Company has planned to provide training courses for the Directors, Supervisors, and will disclose the training information on Market Observation Post System and the Company’s website.

b. Situations regarding Directors and Supervisors attending the Board Meetings:

The Company has set forth the “Rules Governing the Proceedings of Board Meetings”, and holds Board Meeting monthly. The Company delivers the meeting notices and documents which are prepared in writing to Directors and Supervisors. In addition, most Directors and Supervisors attend the Board Meetings in person and provide valuable advices.

c. Situations regarding Directors avoiding participating in the interest conflict proposals:

The “Rules Governing the Proceedings of Board Meetings” stipulates that Directors have to withdraw from participating in interest conflict proposals and the aforementioned Directors cannot act for other Directors to vote on such proposals. All Directors obey the rule in a proper manner.

d. Implementations and policies of risk managements:

The Company has set forth the “Guidelines Governing Risk Management Policies”. According to the guidelines, the Company established risk management mechanisms to identify, measure, supervise, and control risk. The Company will establish a wholly-integrated risk management system and risk-oriented business model to achieve objectives of operations, to enhance stockholders’ values. Furthermore, The Company has established the risk management committee to integrate the deliberation, supervision, coordination, collaboration, and operation of risk manage.

e. Liability insurances for Directors and Supervisor and social responsibilities:

The Company plans to cover liability insurances for the Directors, Supervisors, and significant employees of the Company and its subsidiaries in progress. Therefore, it can motivate the management team to undertake management risks, to make efficient and creative decisions, and to achieve potential huge benefits for the group.

f. Implementations of protections for consumers:

The Company set forth the “Policies and Guidelines Governing the Co-marketing Firewall for First Financial Holding Co., Ltd., and its subsidiaries” to protect consumer rights, According to the regulations of the authorities, the Company and its subsidiaries announce the policies regarding protections for customer privacies on the Company’s website and subsidiaries’ websites. Moreover, the subsidiaries release the publicities for its employees with respect to the aforesaid policies and guidelines through formal documents and meetings, and they also enhance employees’ educations regarding protections for customer secrets so that the employees can do businesses with diligences, comply with relevant laws and regulations, and avoid leaking customer data and secrets. In order to protect consumer, the Company and subsidiaries provides customer inquiry services and customer complaint services to do their duties with respect to protections for customer rights through special telephone line services.

Note1. Training for Directors and Supervisors is referred to “Reference Samples of Trainings for Directors and Supervisors for TSE/GTSM Listed Company” published by the TSE.

Note2. Securities firms, securities investment trust enterprises, securities investment consulting enterprises, and futures commission merchants need to state risk management policies, risk measurement standards, and implementations of consumer protections or customer policies.



# Financial Reports

## (2) Supplementary Disclosures Regarding Investee Companies

Investor	Investee	Address	Main Service	The Original Investment Costs		At the Year-End			Net Income (Loss) of the Investee	Investment Gain
				Ending Bal.	Beginning Bal.	Shares (in thousand)	Holding % Ownership	Book Value		
FFHC	FCB	30, Chung-King S.R., Sec. 1, Taipei Taiwan	Note 1	\$ 71,289,806	\$ -	4,621,600	100.00	\$ 57,901,195	(\$ 13,306,619)	(\$ 13,311,679)
FFHC	FTSI	6F, 27, An Ho R., Sec. 1, Taipei Taiwan	Note 2	3,653,851	-	300,000	100.00	4,019,308	559,256	559,256
FFHC	MFMI	1, Jen Ai R., Sec.4, Taipei Taiwan	Note 3	2,373,613	-	200,000	100.00	2,748,698	397,801	366,712
FFHC	NITC	7F, 6, Min Chuan E. R, Sec. 3, Taipei Taiwan	Note 4	1,577,191	-	111,573	100.00	1,502,269	57,012	57,012
FCB	First Commercial Bank(USA)	200 East Main Street, Alhambra, CA 91801, USA	Note 1	810,000	810,000	3,000	100.00	1,119,418	37,841	37,841
FCB	First Insurance Agency Co., Ltd.	9F, 30, Chung-King S.R., Sec. 1, Taipei Taiwan	Note 3	50,000	50,000	5,000	99.99	87,851	36,927	36,882
FCB	FCBL	14F, 30, Chung-King S.R., Sec. 1, Taipei Taiwan	Note 5	499,850	499,850	49,985	99.97	563,617	52,713	52,697
FCB	EAREM	9F, 94, Chung-Hsiao E.R., Sec. 2, Taipei Taiwan	Note 6	15,000	15,000	1,500	30.00	8,327	1,134	340
FCB	FTFT	8F, 94, Chung-Hsiao E.R., Sec. 2, Taipei Taiwan	Note 4	150,000	150,000	15,000	49.99	121,813	( 12,804)	( 6,402)
FTSI	First Taisec Securities Investment Consulting Co., Ltd.	6F, 29, An Ho R., Sec. 1, Taipei Taiwan	Note 5	289,325	94,325	30,000	100.00	298,912	( 3,814)	( 4,116)
FTSI	First Taisec Securities (ASIA) Ltd.	P.O. BOX 659, ROAD TOWN, TORTOLA, BRITISH VIRGIN ISLANDS	Note 5	333,156	246,294	10,000	100.00	784,485	493,103	493,103
FTSI	First Futures Co., Ltd.	4F, 29, An Ho R., Sec. 1, Taipei Taiwan	Note 2	200,000	-	20,000	100.00	193,241	( 6,759)	( 6,759)
First Taisec Securities (ASIA) Ltd.	FIRST TAISEC SECURITIES HK LIMITED	1910-1913 HUTCHISON HOUSE 10 HARCOURT RD CENTRAL HK	Note 2 And 8	USD 1,474	USD 1,474	-	100.00	USD 1,474	-	-
NITC	NITC (Cayman Islands) Ltd.	Cayman Island	Note7	56,064	57,342	1,650	100.00	65,873	14,460	14,460
NITC (Cayman Islands) Ltd.	NITC Asset Management (Asia) Ltd.	HK	Note4	HKD 2,040,000	HKD 2,040,000	4,488	44.88	34,981	32,881	-

MFMI has no investee company in 2003.

Note 1: Banking industry.

Note 2: Security and future industry.

Note 3: Insurance industry.

Note 4: Security investment trust industry.

Note 5: Leasing, investment consulting and business consulting industries.

Note 6: Auditing and inquiring of construction proposals and contract.

Note 7: Holding company.

Note 8: It is applying for approval of setting up.



(3) Investments in People's Republic of China: **None.**

## 12. Segmental Financial Information:

### (1) Operation in different business segments:

As the Company engages mainly in the investments and managements of financial institutions approved by the authorities, it is not applicable.

### (2) Operations in different regions:

As the Company has no foreign operating businesses, it is not applicable.

### (3) Export information:

As the Company has no export revenues, it is not applicable.

### (4) Significant clients:

As the company engages mainly in the investments and managements of financial institutions approved by the authorities, it is not applicable





# Financial Reports

**FIRST FINANCIAL HOLDING CO., LTD.**  
**OTHER DISCLOSURES WITH RESPECT TO THE FINANCIAL STATEMENTS**  
 FOR THE PERIOD ENDED DECEMBER 31, 2003

## 1. Labor-management relations

### I. Significant labor agreements and implementations

#### A. Employee welfare steps

1. Labor and healthy insurances are covered for employees in accordance with relevant regulations.
2. On-the-job educations, trainings, and researches and studies are provided for employees.
3. Medical subsidies are provided for the sick and wounded employees owing to dangers or accidents encountered by them when on duty

#### B. Retirement system

Employee retirements are handled based on relevant regulations according to the "Labor Standards Law"

#### C. Other material agreements: None

### II. Losses arising from industrial disputes in the latest 3 years: None

## 2. Market prices and dividends

### (1) Information for market prices

		2003				2002			
		1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
<b>Transacted prices</b>	Highest	29.0	23.5	24.4	24.1	Note (1)			
	Lowest	20.0	19.5	18.1	19.5				

Note (1): On January 2, 2003, the Company was established through the exchange of shares with FCB and with the approval from the SFC, and the Company was listed on the TSE on the same date. Therefore, there is no information for market prices in 2002.

### (2) Information for dividends

		2003	2002
<b>Cash dividends</b>		Note	—
<b>Gratis</b>	Dividends from undistributed earnings	Note	—
	Dividends from capital reserves	Note	—
	Dividends accumulated unpaid	Note	—

Note: Until the auditing report date, the loss recovering proposal for 2003 is not resolved by Shareholders' Meeting yet.

3. Changes in shares transferred and pledged by Directors, Supervisors, Executives, and major stockholders who hold over 10 % of the Company's total shares

Chairman	Name	Shares Held in the Beginning Period			Changes in Shares Held		Shares Held in the Ending Period			Note
		Shares Held	Percentage of Ownership (%)	Shares Pledged	Increase (Decrease) in Shares Held	Increase (Decrease) in Shares Pledged	Shares Held	Percentage of Ownership (%)	Shares Pledged	
Chairman of the Board	Shieh, Steve S.F. (Representative of the Ministry of Finance)	904,697,452	23.67%	-	(77,450,608)	-	827,246,844	14.91%	-	Note(1)
Director and President	Tsai, Jer-shyong (Representative of the Ministry of Finance)	-	-	-	-	-	-	-	-	Note(1)
Director	Yao, Chau-wang (Representative of the Ministry of Finance)	-	-	-	-	-	-	-	-	Note(1)
Director	Hwang, Tsing-yuan (Representative of the Ministry of Finance)	-	-	-	-	-	-	-	-	Note(1)
Director	Tu, Tsung-huei (Representative of the Ministry of Finance)	-	-	-	-	-	-	-	-	Note(1)
Director	Wu, Fan-chih (Representative of Bank of Taiwan)	470,631,825	12.32%	-	(20,991,000)	-	449,640,825	8.10%	-	Note(1)
Director	Wang, To-far (Representative of Bank of Taiwan)	-	-	-	-	-	-	-	-	Note(1)
Director	Kao, Jou-che (Representative of Hua Nan Commercial Bank, Ltd.)	164,827,624	4.31%	-	0	-	164,827,624	2.97%	-	-
Director	Chen, Tien-yuan	986,508	0.03%	-	0	-	986,508	0.02%	-	-
Director	Wu, Sunny C.L.	450,000	0.01%	-	0	-	450,000	0.01%	-	-
Director	Tai, Yen	2,610	0.00%	-	10,000	-	12,610	0.00%	-	-
Supervisor	Chang, Chao-shun (Representative of the Ministry of Finance)	-	-	-	-	-	-	-	-	-
Supervisor	Wu, Sheng-hsiung (Representative of Bank of Taiwan)	-	-	-	-	-	-	-	-	-
Supervisor	Huang, Wei-sheng (Representative of Hua Nan Commercial Bank, Ltd.)	-	-	-	-	-	-	-	-	-
Chairman of the Board	Shieh, Steve S.F.	-	-	-	100,000	-	100,000	0.00%	-	-
President	Tsai, Jer-shyong	102,015	0.00%	-	30,000	-	132,015	0.00%	-	-
Executive Vice President	Huang, Hsien-chuan	102,727	0.00%	-	52,700	-	155,427	0.00%	-	-
Chief Auditor	Lee, Shing-jin	31,965	0.00%	-	33,000	-	64,965	0.00%	-	-
S.V.P.	Yeh, Ding-yang	119,289	0.00%	-	31,100	-	150,389	0.00%	-	-
S.V.P.	Jeng M.L.	3,896	0.00%	-	10,000	-	13,896	0.00%	-	-
S.V.P.	Lee, Lih	0	0	-	0	-	0	0	-	-
S.V.P.	Lee, Yi-long	2,729	0.00%	-	1,000	-	3,729	0.00%	-	-
S.V.P.	Huang, Nancy	73,031	0.00%	-	0	-	73,031	0.00%	-	-
S.V.P.	Tu, Wen-chang	19,654	0.00%	-	31,100	-	50,754	0.00%	-	-
S.V.P.	Lin, Ying-hsiung	112,669	0.00%	-	21,100	-	133,769	0.00%	-	-

Note (1): Major Stockholder is the person who holds over 10% of the Company's total shares.

Note (2): Total shares in the beginning and in the ending of the years are 3,821,600,000 and 5,549,074,980 shares, respectively.



# Financial Reports

## 4. Significant financial information

### (1) Condensed balance sheets

(Expressed in Thousands of New Taiwan of Dollars)

Financial Information in the lastest 5 years (Note 1)		
	2002	2003
Current Assets	\$ 35,051	\$ 2,136,429
Long-term investments	—	66,191,470
Properties and equipments	25,043	25,406
Intangible assets	—	1,145
Other Assets	—	30
Current liabilities (before distribution)	97,702	10,623
Current liabilities (after distribution) (Note 2)	97,702	10,623
Long-term liabilities	—	4,455
Other liabilities	539	538
Common stocks	—	55,490,750
Additional paid-in capital	—	24,223,244
Retained earning (before distribution)	( 38,147 )	( 11,314,961 )
Retained earning (after distribution)	( 38,147 )	( 11,314,961 )
Equity adjustments	—	( 60,169 )
Total assets	60,094	68,354,480
Total liabilities (before distribution)	98,241	15,616
Total liabilities (after distribution) (Note 2)	98,241	15,616
Total stockholders' equity (before distribution)	( 38,147 )	68,338,864
Total stockholders' equity (after distribution) (Note 2)	( 38,147 )	68,338,864

Note 1 The financial information is audited by independent accountants.

Note 2 Until auditing report date, the loss recovering proposal for 2003 is not resolved by Stockholders' Meeting.

### (2) Condensed income statements

(Expressed in Thousands of New Taiwan of Dollars)  
(Except for Loss Per Share)

Financial Information in the lastest 5 years (Note 1)		
	2002	2003
Operating revenues	\$ —	\$ 4,665
Gross loss	—	( 12,324,034 )
Operating expenses	( 38,198 )	( 169,154 )
Operating loss	( 38,198 )	( 12,493,188 )
Non-operating revenues and income	48	6,112
Non-operating expenses and loss	—	( 296,988 )
Loss before income taxes	( 38,150 )	( 12,784,064 )
Net loss after income taxes	( 38,150 )	( 12,784,064 )
Loss per share	—	( 2.57 )

Note 1 The financial information is audited by independent accountants.

Note 2 There is no interest capitalization in the reporting period.



## (3) Financial ratios

	Financial information in recent 5 years (Note 1)	
	2002	2003
<b>Financial structure</b>		
Debt to Assets (%)	163.48	0.02
Long-term capital to fixed assets (%)	( 152.33)	269,004.64
Fixed assets to total stockholders' equity (%)	( 65.65)	0.04
<b>Solvency</b>		
Current ratio (%)	35.88	20,111.35
Quick ratio (%)	35.51	20,106.86
Interest coverage ratio	Note	( 1,332,961.94)
<b>Operating performance</b>		
Accounts receivable turnover (times)	Note	Note
Average accounts receivable collection period	Note	Note
Inventories turnover (times)	Note	Note
Average inventory processing period	Note	Note
Fixed assets turnover (times)	Note	Note
Total assets turnover (times)	Note	Note
Operating revenues per employee (expressed in thousands of New Taiwan dollars)	-	91.00
Net profits per employee (expressed in thousands of New Taiwan dollars)	-	( 250,668.00)
<b>Profitability</b>		
Return on total assets (%)	( 126.97)	( 37.37)
Return on stockholders' equity (%)	200.01	( 37.43)
Operating income to issued capital stocks	-	( 22.51)
Net income before income taxes to issued capital stocks	-	( 23.04)
Profit margin ratio (%)	-	( 274,042.10)
Earnings per share (in dollars)	-	( 2.57)
<b>Cash flows</b>		
Cash flow ratio	55.44	-
Cash flow adequacy ratio	208.18	-
Cash reinvestment ratio	( 147.87)	-
<b>Leverage effect</b>		
Degree of operating leverage	Note	Note
Degree of financial leverage	Note	Note
Capital adequacy ratio (%)	-	105.74
Total amounts or ratios with respect to credit extensions, guarantees or other transactions engaged by the Company and its subsidiaries for the same individual, the same related individual, and the same affiliated enterprises.	-	Please refer to Note10(J)

Note: not applicable



# Financial Reports

## 5. Financial status and analysis and review of operation results

### (1) Financial status

	2002	2003	Differences		Note
			Amounts	%	
Current assets	\$ 35,051	\$ 2,136,429	\$ 2,101,378	5,995	1
Long-term investments	–	66,191,470	66,191,470	–	2
Properties and equipments	25,043	25,406	363	1	
Intangible assets	–	1,145	1,145	–	
Other assets	–	30	30	–	
Total assets	60,094	68,354,480	68,294,386	113,646	
Current liabilities	97,702	10,623	87,079	( 89)	3
Long-term liabilities	–	4,455	4,455	–	
Other liabilities	539	538	1	( 0)	
Total liabilities	98,241	15,616	( 82,625)	( 84)	
Common stocks	–	55,490,750	55,490,750	–	2
Additional paid-in capital	–	24,223,244	24,223,244	–	2
Retained earnings	( 38,147)	( 11,314,961)	( 11,276,814)	29,561	2
Equity adjustment	–	( 60,169)	( 60,169)	–	2
Total stockholders' equity	( 38,147)	68,338,864	68,377,011	( 179,246)	

Note1:As the Company has begun to operate, engaged in investment activities, and issued global depository receipts (GDRs), the current assets increase significantly in 2003.

Note2:On January 2, 2003, the Company was established through the exchange of shares with FCB. In addition, the Company acquired FTSI, MFMI, and NITC on July 31, 2003. Therefore, long-term investments and items of stockholders' equity change significantly in 2003.

Note3: The current liabilities for 2002 are mainly arising from accruing relevant expenditures in the development period, and the aforesaid liabilities were paid during 2003. As a result, the current liabilities declined significantly in 2003.

### (2) Significant capital expenditures and capital sources

- A. Significant capital expenditures and capital sources: None  
 B. Expected potential benefits from capital expenditures: None

### (3) Liquidity

#### A. Analyses of liquidities in the latest two years

	December 31, 2002	December 31, 2003	Increase (decrease) in ratio (%)
Cash flow ratio	55.44	–	–
Cash flow adequacy ratio	208.18	–	–
Cash reinvestment	( 147.87)	–	–

Explanation for changes in ratio increases or decreases: As cash flows from operating activities are outflows, the changes are not to be analyzed.

## B. Analyses of cash position in the coming year

Cash Balances in the Beginning	Net Cash Flows from Operating Activities	Total Cash Outflows in the Whole Year	Cash Surpluses (Deficits)	Remedy Procedures for Cash Deficits	
				Investments plan	Financing plan
\$ 2,134,484	(\$ 150,275)	(\$6,380,102)	(\$ 4,395,893)	\$ —	\$ 5,000,000

## a. Analyses of cash flow changes in the coming year:

- (1) Operating activities: As gains from long-term investments accounted for under the equity method do not generate cash flows, it is expected that cash flows from operating activities in the coming year are negative.
- (2) Investment activities: It is expected to increase long-term investments and purchase operating assets in 2004.
- (3) Financing activities: It is expected to issue subordinate corporate bonds in 2004.

## b. Remedy procedures and liquidity analyses for cash deficits

The Amounts of cash deficits may be \$4,395,893 in 2004, so it is expected to issue subordinate corporate bonds of \$5,000,000 for the cash demands in 2004.

## (4) Operating performance

	2002	2003	Differences		Note
			Amounts	%	
Net operating revenues	\$ —	\$ 4,665	\$ 4,665	—	1
Operating costs	—	( 12,328,699)	12,328,699	—	1
Gross loss	—	( 12,324,034)	12,324,034	—	1
Operating expenses	( 38,198)	( 169,154)	130,956	343	2
Operating loss	( 38,198)	( 12,493,188)	12,454,990	32,606	
Non-operating revenues and income	48	6,112	6,064	12,633	3
Non-operating expenses and loss	—	( 296,988)	296,988	—	4
Net income before taxes	( 38,150)	( 12,784,064)	12,745,914	33,410	
Income tax benefit	—	—	—	—	
Net income after taxes	( 38,150)	( 12,784,064)	12,745,914	33,410	

Note 1: From January 1, 2002 to January 1, 2003 is the development period, and the operating activities do not commence. Therefore, the changes in operating revenues, operating costs, and gross profit are substantial between 2002 and 2003.

Note 2: The Company establish and begin to operate in 2003, and it gives rise to salary expenses, advertisement expenses, service fees and other expenses, so it leads to heavy increases in operating expenses.

Note 3: The interest revenues increased this year for the sake of making use of abundant capital resulting from issuance of global depository receipts (GDRs) in 2003.

Note 4: The non-operating expenses increase hugely for the sake of exchange losses arising from exchanging foreign currencies of share capital with respect to issuing global depository receipts (GDRs) for New Taiwan dollars in 2003.





# Information on affiliated companies

## I. Background of Affiliated Companies (2003.12.31)

NT\$ thousand

Name	Founded Date	Address	Paid-In Capital	Primary Business Activities
First Commercial Bank	1947.03.01 (Re-established)	No. 30, Sec.1, Chung King South Road, Taipei City	NTD 46,216,000	Banking
First Taisec Securities Inc.	1988.08.15	6F, No.27, Sec. 1, An Ho Road, Taipei City	NTD 3,000,000	Univeral Securities
Mingtai Fire & Marine Insurance Co., LTD.	1961.09.22	No. 1, Sec.4, Jen Ai Road, Taipei City	NTD 2,000,000	Insurance
National Investment Trust Co., LTD.	1986.02.15	7F, No.6, Sec.3, Min Chuan East Road, Taipei City	NTD 1,115,730	Assets Management
FIRST COMMERCIAL BANK (USA)	1997.05.20	200 E. MAIN ST., ALHAMBRA, CA 91801 U.S.A.	USD 30,000	Banking
FCB Insurance Agency Co., Ltd.	2001.12.13	9F, No.30, Sec.1, Chung King South Road, Taipei City	NTD 50,000	Insurance Agency
Franklin Templeton First Taiwan SITE	2002.05.23	8F, No.94, Chunghsiao East Road, Taipei City	NTD 300,000	Assets Management
East Asia Real Estate Management Co.,LTD.	1987.10.20	9F, No.94, Sec. 2, Chunghsiao East Road, Taipei City	NTD 50,000	Real Estate Management
FCB leasing Co., LTD.	1998.05.26	14F, No.30, Sec.1, Chung King South Road, Taipei City	NTD 500,000	Leasing, Management Consultancy
FCB leasing (BVI) LTD.	1998.10.09	Citco Building, Wickhams Cay,P.O. Box 662,Road Town, Tortola,British Virgin Islands	USD 50	Leasing
First Taisec Capital Management Inc.	1992.11.02	6F, No.29, Sec.1, An Ho Road, Taipei City	NTD 300,000	Investment advisory, Asset management
First Futures Inc.	2003.04.14	4F, No.29, Sec.1, An Ho Road, Taipei City	NTD 200,000	Futures brokerage related business
First Taisec Securities (ASIA) Ltd.	1997.02.12	P.O.Box 659,Road Town Tortola British Virgin Island	USD 10,000	Securities, Investment Advisory Services
NITC (Cayman Islands) Ltd	1996.06.13	PO Box 309,Ugland House, George Town,Grand Caymans, Cayman Islands,British West Indies	USD 1,650	1.Issuance of beneficiary certificates and launching of new investment funds 2.Fund management and securities investment 3.Investment in financial products approved by the government of the Cayman Islands

Remark: The currency exchange rate for FIRST COMMERCIAL BANK(USA) and FCB Leasing(BVI) LTD. was USD\$1=NT\$33.998 on 2003.12.31, and for other affiliated companies was USD\$1=NT\$33.978.

## 2. Operating Status of Affiliated Companies (2003.12.31)

NT\$ thousand

Name	Paid-in Capital	Total Assets	Total Liabilities	Net Worth	Revenues	Profits	Net Income After Tax	EPS After Tax
First Commercial Bank	46,216,000	1,445,688,131	1,387,786,936	57,901,195	46,729,389	(19,998,766)	(13,306,619)	(3.32)
First Taisec Securities Inc.	3,000,000	18,660,195	14,640,887	4,019,308	1,489,483	500,696	559,256	2.43
Mingtai Fire & Marine Insurance Co., LTD.	2,000,000	13,851,139	11,102,441	2,748,698	19,039,295	504,195	397,801	1.99
National Investment Trust Co., LTD.	1,115,730	1,629,144	126,875	1,502,269	403,245	78,080	57,012	0.51
FIRST COMMERCIAL BANK (USA)	1,019,940	9,811,120	8,691,702	1,119,418	395,512	64,847	37,841	12.61
FCB Insurance Agency Co., Ltd.	50,000	118,274	30,423	87,851	157,898	48,471	36,927	7.39
Franklin Templeton First Taiwan SITE	300,000	249,951	6,324	243,627	51,700	(22,441)	(12,804)	(0.43)
FCB leasing Co., LTD.	500,000	15,607,405	15,043,619	563,786	1,142,514	58,911	52,713	1.05
East Asia Real Estate Management Co.,LTD.	50,000	47,426	19,668	27,758	35,133	1,799	1,134	0.23
FCB leasing (BVI) LTD.	1,700	373,596	322,823	50,773	20,661	31	38	0.77
First Taisec Capital Management Inc.	300,000	310,290	11,417	298,873	20,129	(7,734)	(3,814)	(0.13)
First Futures Inc.	200,000	399,850	206,609	193,241	8,127	(10,332)	(6,759)	(0.34)
First Taisec Securities (ASIA)LTD	339,780	1,255,551	470,847	784,704	510,339	493,668	493,103	49.3
NITC (Cayman Islands) Ltd.	56,064	65,903	30	65,873	14,302	14,272	14,275	8.65

Remark: If the affiliated companies are foreign corporations, the figures are converted to New Taiwan Dollar according to the currency exchange



第一金融控股股份有限公司  
First Financial Holding Co., Ltd.



Chairman *Steve S. F. Shieh*







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