

**2002** Annual Report



*Message to Shareholders* 3

*Operating Results* 10

*Milestones* 40

*Financial Statements* 47

*Fubon Insurance* 10

*Fubon Life* 14

*Fubon Bank* 20

*Taipei Bank* 24

*Fubon Securities* 32

*Fubon Asset Management* 36



### Fubon Financial

Increased to six its number of subsidiaries after acquiring Fubon Asset Management and TAIPEIBANK, creating the most extensive product line and marketing network of any financial holding company in Taiwan.



### Fubon Insurance

Led the country in market share for the 21st consecutive year after posting premium revenues of NT\$20.81 billion, a 11.9% jump over 2001.



### Fubon Life

New policy revenues earned a 6.8% market share, the best of any company in Taiwan. Introduced the first structured note and investment linked policy in the industry, and ranked No. 1 in Taiwan in premium revenues from investment-linked products.

### Fubon Bank

Ranked No. 3 in the market with over 2 million valid credit cards, and had the highest spending per card of any other card issuer.



### TAIPEIBANK

Registered a pre-tax profit of NT\$5.86 billion and an EPS of NT\$2.51, a 60.9% increase over 2001. The earnings ranked in the top echelon of the industry.



### Fubon Securities

Post after-tax net profits of NT\$3.84 billion, No. 1 in Taiwan for the second straight year. Also led the industry with a 15.53% share of the emerging stock market sector.



### Fubon Asset Management

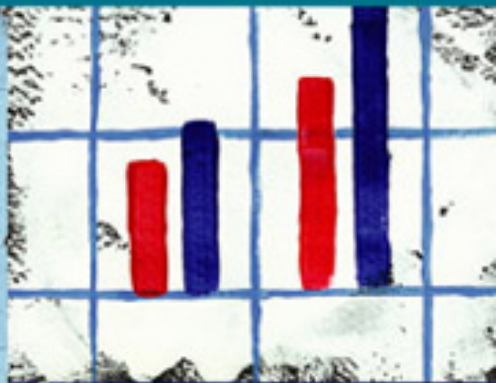
The total fund asset under management reached NT\$138.4 billion by year's end, the highest of any domestic company.



In NT\$ Thousand	Fubon Financial	Fubon Insurance	Fubon Life	Fubon Bank	Taipei Bank	Fubon Securities	Fubon Asset Management
	2002 2001	2002 2001	2002 2001	2002 2001	2002 2001	2002 2001	2002 2001
Revenues	137,474,457 139,373,471	39,819,989 41,864,679	40,835,355 32,207,383	18,540,474 20,270,905	32,108,897 33,704,674	8,979,972 7,897,457	671,672 566,124
Shareholders' Equity	138,802,069 148,710,170	30,003,653 38,611,756	7,573,468 8,492,569	27,604,397 29,163,057	48,423,497 45,805,664	37,778,269 35,366,055	1,428,144 1,395,075
Net Income	9,569,258 12,050,350	1,354,895 2,081,356	(1,238,257) 900,219	749,639 2,949,298	5,027,802 2,902,926	3,824,456 3,022,452	235,807 224,900
Total Assets	1,157,480,781 1,122,856,880	59,170,439 70,488,738	100,784,566 68,518,223	268,063,347 266,570,478	663,532,140 658,738,729	64,596,522 62,019,341	1,533,198 1,463,671



*Fubon Financial Holding Company was the first of its kind to be created in Taiwan, and it immediately demonstrated growth potential in its initial year of operations. In 2002, we acquired Fubon Asset Management and TAIPEIBANK, giving us the most balanced product line, the broadest bank marketing channels, and the most diversified revenue sources in the industry. We are not only the most competitive financial holding company in Taiwan, but also the 9th largest in all of Asia (excluding Japan) in terms of market value. This strong foundation will help us plant solid roots in international markets.*



**2001** *Fubon Financial Holding Company became one of the first financial holding companies to be listed on the Taiwan Stock Exchange.*

**2002** *Fubon Financial became the first publicly listed company to institute an independent board director system with the selection of two independent board members, establishing itself as the model for corporate governance.*

*Issued US\$430 million in Euro convertible bonds, becoming the first domestic financial enterprise to underwrite overseas convertible bonds.*

*Acquired Fubon Asset Management, which became the Fubon Group's 5th subsidiary.*

*Acquired TAIPEIBANK, which, combined with Fubon Bank, gave Fubon Financial the largest private banking entity in Taiwan in terms of assets.*

## Message to Shareholders

*On December 19, 2001, Fubon Financial Holding Company became one of the first financial holding companies to be listed on the Taiwan Stock Exchange. In our first full year of operations, when we integrated our businesses and completed two acquisitions, our financial holding company business model produced concrete benefits. Included among them were greater capital efficiency, cost savings, and cross selling.*

*In addition Fubon Financial was able to offer the greatest range of products through the most diverse distribution network of any financial holding company in Taiwan. Our company has the greatest potential of any domestic financial group to become one of Asia's leading integrated financial service providers.*

### **Strategies and Results in 2002**

*After adding Fubon Asset Management in August 2002 to Fubon Financial's corporate lineup, we truly became a "financial department store," one that could meet our clients' every insurance and financial service need.*

- Every section of the "department store" ended up at or near the top of its respective industry in 2002:*
- Our general insurance company had the highest market share in its industry.*
  - Our asset management company had the largest assets under management in its industry.*
  - Our securities unit's brokerage and underwriting businesses ranked second in market share in their sectors.*
  - Our life insurance subsidiary's investment-link policy revenues and first-year premium revenues finished first and fourth in market share in their fields respectively.*
  - Our banking unit finished in the top three in credit cards issued.*

*Despite these signs of strength, Fubon Financial's banking platform remained inadequate. To fill this gap, we acquired TAIPEIBANK after issuing US\$430 million in Euro convertible bonds in April 2002. With this strategic acquisition, our total assets soared to NT\$1.1 trillion, and our customer base expanded to over 5 million people. The combined banking platform of Fubon Bank and TAIPEIBANK became the biggest private bank in Taiwan in term of assets.*

*Our internal restructuring also paid dividends by strengthening cooperation among our subsidiaries, which in turn led to lower operating costs and instilled a management culture that values putting the customer first.*

*Our cross-selling initiative also delivered excellent results. As much as 70% of our asset management division's sales, 29% of our life insurance group's new policies, and 11% of our bank group's credit cards were distributed through the marketing channels of other subsidiaries.*

### **Strengthening the 3I Pillars of Growth**

*Fubon Financial's three Is – infrastructure, individuals, and information – are the pillars supporting the group's future development, and we've taken concrete steps to make sure they'll be up to future challenges.*

*Infrastructure: Fubon Financial's turned a weak banking channel into a strength by acquiring TAIPEIBANK.*

*In July 2001, we also set up the first integrated banking and securities services operations center – the Fubon Keelung Road Financial Center – to provide one-stop-shopping convenience for our customers.*

*Individuals: The addition of TAIPEIBANK not only expanded Fubon's distribution channels, but also brought about 3,000 outstanding individuals into our organization.*

*The management committee of Fubon Financial also added three new members in 2002, including TAIPEIBANK President Jesse Y. Ding, Fubon Asset Management President Eric Chou, and former president of Fidelity Investments Taiwan and now Fubon Bank Executive Vice-President James Wu. These distinguished executives have become important cornerstones of Fubon Financial's development.*

*Information: Because of our dedication to professionalism and innovation, we will spare no effort in building an operations information system that helps foster a "customer first" corporate culture.*

*Even prior to Fubon Financial's creation, we had already embarked on constructing a comprehensive data warehouse and CRM system. Its value was evident in the success of our cross-selling activities last year, and the system will gain even greater potency when after work on phase II – which begins this year – is completed.*

### **Exceptional Profitability Potential**

*In 2002, Fubon Financial was determined to improve the group's asset quality. Fubon Bank sold NT\$5 billion in non-performing loans to an asset management company, taking a one-time charge of NT\$4.35 billion. The bank also increased its loan loss provision by NT\$2.64 billion, enabling it to cover 47% of its overdue loans. TAIPEIBANK similarly bolstered its loan loss provision by NT\$2.61 billion, which covered 36% of its overdue loans.*

*The strategy, however, resulted in Fubon Financial falling 12% short of its estimated earnings.*



**Fubon Financial  
Management Team**

*Front row r to l:*

*Jesse Y. Ding, Taipei Bank President*

*Daniel Tsai, Co-CEO*

*Chen S. Yu, Chairman*

*Richard Tsai, Co-CEO*

*Chuan-Hsi Wang, Fubon Bank President*

*Back row r to l:*

*James Wu, Fubon Bank Executive Vice President*

*Peng-Yuan Cheng, Fubon Life President*

*Tsan-Ming Shih, Fubon Insurance President*

*Wing-Fai Ng, Chief Strategy Officer*

*Kung-Liang Yeh, Fubon Securities President*

*Victor Kung, Chief Financial Officer*

*Eric Chou, Fubon Asset Management President*



*Pre-tax profits amounted to NT\$11.3 billion, and after-tax profits hit NT\$9.4 billion.*

*But adding the NT\$9.6 billion used for loan loss provisioning and writing off non-performing loans to our NT\$11.3 billion pre-tax profit would have resulted in earnings of NT\$20.9 billion, a 9.5% return on equity, a vindication of Fubon Financial's business model and corporate strategies.*

*Because our asset quality has been strengthened, there is less pressure on our banks to divert earned income to loan loss provisioning. As a result, we are well positioned to significantly grow our net profit in 2003.*

### **Improved Credit Ratings**

*Our acquisition of TAIPEIBANK and strong profitability were recognized by international credit agencies. Moody's recently upgraded Fubon Financial's issuer rating to Baa2, and called the company's outlook "stable." At the end of last year, Standard & Poor's and Taiwan Ratings Corp. confirmed Fubon Financial's long-term credit ratings of BBB and twAA- respectively, and short-term ratings of A-3 and twA-1, with both calling the company's outlook "stable."*

*The credit agencies' ratings reflected Fubon Financial's high corporate value in Taiwan, the diversity of its business interests, and its robust capital structure. The "stable" outlook resulted in part from the addition of TAIPEIBANK to the Fubon Group. The bank is expected to help offset the profit volatility of the insurance and securities sectors, and create new synergies with other Fubon subsidiaries that can be leveraged to improve operating income.*

### **Development of Overseas Markets**

*Fubon's vision is to become one of Asia's leading financial services groups, and we are actively transforming our operations to become more internationally oriented. "Citi Fubon Life Insurance Company Hong Kong Ltd." began operations in May 2002, becoming the first example of success in opening overseas markets for the strategic partnership between Fubon and Citibank.*

*Fubon is also pushing to enter the China market with Fubon Insurance and Fubon Life having already set up representative offices there. Fubon Securities and China's largest securities firm, China Galaxy Securities, signed in May 2001 a memorandum of understanding to cooperate, and immediately applied to set up a representative office in Shanghai.*

*TAIPEIBANK's branches in New York, Los Angeles and Hong Kong also enhance the Group's international scope.*

### **World Class Corporate Governance**

*Fubon Financial has been committed to building a corporate governance system that will stand*

*the test of time, and put in place a corporate culture that is world class. Last year, Fubon Financial invited Harvey Chang, CFO of Taiwan Semiconductor Manufacturing Company, and Barry Lam, Chairman of Quanta Chairman Computer, to become independent directors.*

*At a shareholders' meeting in February 2003, Hong-Chang Chang, former dean of the College of Management at National Taiwan University was invited to be an independent supervisor. His addition enhanced our reputation for strict corporate governance and transparency, earned when we became the first company to establish an independent supervisor system.*

### ***A Model for Taiwan's Financial Industry***

*The Fubon Group's more than 40 years of experience in cultivating the market has given us a solid foundation and considerable credibility. Our ability to hit more than a few "No. 1s" in our first year of existence has made us a leader in Taiwan's financial services sectors.*

*Overseas, we firstly established a strategic partnership with Citigroup two and a half years ago.*

*In the area of information systems, Fubon was the first and the only financial holding company to build a comprehensive customer data warehouse crossing its subsidiaries.*

*In terms of integrated marketing, we were the first to create a "financial center" model that provided both banking and securities services in the same place, a model that other companies in the industry want to emulate.*

*Fubon Financial's most important strategic goal this year is to complete the integration of TAIPEIBANK into our marketing platform and back office systems. We hope to again set the standard for the integration of large financial institutions in Taiwan.*

*Fubon's passion for the financial services industry has propelled the group's rise to its position of leadership in its core businesses and been reflected by the fast-paced growth of its subsidiaries. To face the many challenges of the future and a rapidly changing competitive environment, we will continue to strive for profitability growth and an increase in shareholder return on equity. We also feel that this is the best way we can thank our shareholders and investors for their support and give back to our customers and employees.*

*Chairman* **Chen S. Yu,**  
*Co-CEO* **Daniel Tsai**  
*Co-CEO* **Richard Tsai**



*In Commonwealth "2002 survey of 1,000 large enterprises," Fubon Financial was ranked 9th, with operating revenues reaching NT\$137.5 billion.*

*In a China Times 2002 survey of more than 100 high-ranking local financial industry executives, Fubon Financial was rated as the most competitive of any financial holding company.*







In NT\$ Thousand

**2002**  
2001

Revenues

**39,819,989**  
41,864,679

Shareholders' Equity

**30,003,653**  
38,611,756

Net Income

**1,354,895**  
2,081,356

Total Assets

**59,170,439**  
70,488,738

## Cross Selling Pushed Fubon Insurance Direct Written Premium Revenue over NT\$20 billion



Established on April 19, 1961, Fubon Insurance Co. was Taiwan's first private property & casualty insurer. Today, the company offers a broad range of insurance, including fire, marine, motor, engineering, liability, and personal accident insurance.

In 2002, direct written premiums for the property & casualty insurance industry as a whole surpassed NT\$100 billion for the first time in history, growing 11.68% over the previous year. Fubon Insurance remains the industry leader for the 21st year in a row with its 19.79 market share after posting direct written premium revenues of NT\$20.81 billion and revenue growth of 11.93%.

Fubon Insurance marked the first time in its 41-year history surpassing the NT\$20 billion mark in direct written premiums, a performance helped by other Fubon Financial's subsidiaries. In their first year of Fubon Financial's existence, the subsidiaries hinted at their considerable future promise by soliciting new business for Fubon Insurance worth NT\$605 million in direct written premiums.

In recent years, the increasing frequency of natural and man-made disasters, the liberalization of insurance markets that has driven down prices, and the tightening in the reinsurance market have all made property & casualty insurance a hard sector to navigate. But Fubon Insurance was nonetheless able to post an impressive pre-tax profit of NT\$1.613 billion and a net after-tax profit of NT\$1.355 billion in 2002.

### Taiwan's Insurance Industry Casts Its Eyes Overseas

Fubon Insurance has been setting up overseas offices since 1980 in a number of countries, including Malaysia, Thailand, Indonesia, Vietnam, the Philippines and China. The main role of these offices has been to help Taiwanese businesses meet their insurance needs abroad. In 2000, the Fubon Group developed a strategic partnership with Citigroup, which gave Fubon access to advanced insurance technologies and experiences that will help expand the offshore business horizons.

In 2002, Fubon received government approval to establish a subsidiary in China with an initial capitalization of US\$23.5 million. A preparatory taskforce was immediately set up to train selective employees and plan ahead so that Fubon can grab the initiative as soon as the company is given permission by China's government to operate there.

### *Dedicated to New Product Development and Service Improvement*

*To offset the impact of the increasingly liberalized and globalized insurance market, Fubon Insurance has been actively planning to strengthen its competitiveness. The company core business philosophies of professionalism and innovativeness are perfect solutions to successfully adapt to a constantly changing marketplace.*

*Fubon has taken concrete innovative steps in recent years to escape from the vicious cycle of price wars by focusing on developing products that are unique to the market. In 2002, Fubon Insurance had direct written premium of NT\$1.92 billion from new products alone, or 9.5% of total company premium revenues. Fubon's spirit of innovation has already paid off handsomely as the guarantor of continued growth and stable service quality.*

*In order to improve customer service efficiency, Fubon Insurance restructured its organization in March of 2002, moving from a product-oriented structure to one that put the customer first. For example, we transformed the motor insurance claims department into a customer service department that is now able to handle claims from customers with any kind of insurance policy. Also, to achieve standardization in our internal processes and streamline our operational flow chart, regional service centers were divided into three service categories: customer service & claims, underwriting, and accounting. With this restructuring, Fubon's products and marketing channels will become clearly delineated to meet customer needs and provide unparalleled service quality.*

### *Earning the Approval of Credit Rating Agencies*

*A credit rating is an unbiased, independent opinion as to a company's capacity to meet its financial obligations relative to other obligators.*

*Fubon Insurance began to seek well-known credit rating agencies, Standard & Poor's and Taiwan Ratings Corp., since 1999 and Moody's since 2002 to provide financial rating service. For the updated 2002 rating surveillance results, Taiwan Ratings gave Fubon the highest rating possible, "twAAA," while Standard & Poor's granted an "A+" and Moody's also rated Fubon Insurance with "A2" rating.*

*The results reflected Fubon Insurance's overall financial strength, which was described as the best of any private Taiwanese financial institutions to be rated. At the same time, Taiwan Ratings also highlighted Fubon's "extremely strong" capacity to meet its financial commitments with "stable" outlook.*

### *The No. 1 General Insurance Company in Taiwan*

*In 2002, Risk Management and Insurance magazine asked the top 1000 domestic manufacturers to rate Taiwan's property insurance companies in a number of categories, including insurance planning and reputation. Fubon Insurance came out on top by wide margins in the*

*In 2002, Fubon received government approval to establish a subsidiary in China with initial capitalization of US\$23.5 million, becoming the industry pioneer in "going west." Fubon set up a mainland preparatory office to train related employees.*

*In 2002, Fubon Insurance had revenues of NT\$1.92 billion from newly introduced products alone, or 9.5% of all premium receipts. The spirit of innovation has already paid off handsomely as the guarantor of continued growth and stable service quality.*



*areas of name recognition, corporate image, after-sales service, and sales staff professionalism, and was chosen by the magazine as the "The Best General Insurance Company of The Year in 2002". It was the third year in a row Fubon Insurance won the award.*

*Fubon Insurance also worked with corporate clients to provide loss prevention services because of a tightening reinsurance market and rising premium rates. To enhance the risk management awareness of enterprises, the company signed a contract with the Industrial Technology Research Institute to jointly provide risk prevention services to customers in the semiconductor, optical, high-speed rail and mass transit, and electricity sectors. Companies will receive assistance in reducing operational risks and limiting potential losses if an accident does occur.*

#### ***Exploiting Fubon's Financial Synergies to Improve Competitiveness***

*In its first year of existence, Fubon Financial was integrating resources, setting up a joint purchasing system, and consolidating office space, employees and equipment in an attempt to save costs. The plan was successful as Fubon Insurance's expense ratio set a new low at 23.61%, down from 27.51% in 2001. In the future, Fubon Insurance will take advantage of the group's marketing channel strength and aggressively utilize its customer relationship management (CRM) system to help develop products tailored to meet customers' needs.*

*The company also hopes to strengthen its use of the integrated marketing and e-commerce system's multiple channels to build a "one-stop shopping" financial services environment. In doing so, Fubon Insurance can improve its competitiveness by offering high quality professional service and avoiding the vicious spiral of cutthroat pricing competition of recent years. At the same time, operating profits can be maximized through cross-selling synergies under Fubon Financial.*





In NT\$ Thousand

**2002**

2001

Revenues

**40,835,355**

32,207,383

Shareholders' Equity

**7,573,468**

8,492,569

Net Income

**(1,238,257)**

900,219

Total Assets

**100,784,566**

68,518,223

## Fubon Life Rose to No. 4 in 2002



2002 was a very difficult year for the life insurance industry, as interest rates fell precipitously and many insurers faced the threat of declining sales revenues. Despite this tough environment, however, Fubon Life still posted excellent results for the year. Total premium revenue reached NT\$33.4 billion, a 35.96% increase compared with 2001, and total assets surpassed NT\$100 billion by the end of 2002.

NT\$17.9 billion of total sales revenue came from new business, a market in which Fubon Life carved out a 6.78% market share, the highest of any newly established insurance company in Taiwan. This brilliant performance also helped Fubon Life move up a notch to become the fourth largest life insurer in the country.

### A Successful Diversified Marketing Strategy

The company has been able to grow so quickly in such a short period of time because of our diversified marketing channels and integrated marketing strategies, and the rise of Fubon Financial Holding Company Ltd. has allowed us to further leverage our competitive advantages.

From traditional agents, integrated marketing, and bancassurance, to financial services and brokers, and group insurance channels, Fubon Life's unique distribution network segments the market and targets each niche. Since Fubon Financial hit the scene at the end of 2001, sales through cross-selling have been especially impressive, accounting for 19.42% of new business in 2002.

### The Leader of Investment-linked Products in the Market

At Fubon Life, we're guided by the needs of our customers. Our comprehensive range of products offers our clients complete coverage, and we try to design unique products to satisfy their many needs. Fubon Life, for example, was the first in Taiwan to sell annuities and the first to fashion specialty insurance products, including juvenile insurance, disability indemnity insurance, and life annuities. Fubon Life has also developed a number of financial service products targeted at the increasingly important high net-worth market segment.

Reacting to the prevailing low interest rates in the market, Fubon Life also created a number of investment-linked products to reduce corporate interest rate risks. In March 2002, we were the first to introduce a structured note life insurance policy called "Gili capital-protected index-link life insurance". The market reacted enthusiastically. In 2002, premiums from investment-linked products totaled NT\$4 billion, making Fubon the clear

*The Hong Kong Insurance Authority approved the registration of Citi Fubon Life Insurance Company Hong Kong Ltd., and the company became operational in May 2002. This was Fubon Life's first overseas venture and a tangible example of the successful partnership between Fubon and Citigroup.*

*In a 2003 Risk Management and Insurance magazine study on the top life insurance companies in the country, Fubon Life finished No. 1 in the areas of "name recognition," "best claims service," and "the company most worth recommending."*



*sector with a 50.91% market share. The company also launched "Gili capital-protected index-link deferred annuity" and "Gishiang variable universal life insurance" to expand its control of the market and strengthen its reputation as the leading investment-linked product brand.*

#### **Using Information Systems to Improve Service Quality**

*Fubon Life had a customer retention rate of 93.7% in 2002, well above the industry average. The success is partly attributable to the policy of linking sales commissions with target retention rates. It is also due to the company's insistence on superior service quality. Reports and surveys show that Fubon Life's name recognition and corporate image rank in the top echelon of newly established life insurers. In a 2003 Risk Management and Insurance Magazine survey that ranked the top life insurance companies in the country, Fubon Life finished at the top in the areas of "name recognition," "best claims service," and "the company most worth recommending."*

*The company's commitment to service excellence has clearly received public acceptance.*

*But Fubon Life is still constantly looking for new ways to improve. In May 2002, it set up integrated service centers in Taichung and Kaohsiung and 14 other regional centers. We also introduced the "one-stop service" concept and approved plans for an "express underwriting and policy-issuing platform" that will aim to issue policies quickly for clean cases.*

*In addition, Fubon Life is developing an "automatic underwriting operations system," that will automatically sort and underwrite pending applications. As a result, the processing of new policies will be automated and integrated with the Internet so that policies can be issued expeditiously.*

### *Citi Fubon Life: Going Global*

*The strategic alliance between Fubon and Citigroup is our first step in becoming a global enterprise. Citigroup's technical expertise, professional knowledge and internationally recognized brand will help the joint venture – "Citi Fubon Life Insurance Company Hong Kong Ltd." – exploit regional insurance markets. The company, which became operational in May 2002, was Fubon Life's first overseas venture and a tangible example of the successful partnership between Fubon and Citigroup.*

*In addition, in December 2002, China's Insurance Regulatory Commission approved Fubon Life's application to set up a representative office in Beijing. A special task force to deal with entering China's market has already been created.*

### *Four Major Development Strategies*

- *Aggressively develop investment-linked products to take advantage of the trend toward personalized financial services.*

*Promoting a broad range of products, such as variable life insurance, variable universal life insurance, and variable annuities, the company will provide its clients with the financial services products they need.*

- *Develop Fubon Group integrated products to provide a comprehensive range of financial services.*

*To satisfy customers demand for one-stop shopping, Fubon will market products combining life insurance, property insurance, mutual funds and other products available under the holding company's umbrella. After launching the "Twin Star" package in conjunction with Fubon Insurance, Fubon Life joined with Fubon Bank, and Taipei Bank to offer the "Great Wealth Financial Services Package II." Besides providing parents and their children with personal and medical accident insurance, it also includes trusts, savings accounts and mutual funds to give children financial security for their futures.*

- *Promote cross-selling opportunities.*

*To expand cross selling under the Fubon Financial umbrella, the company built an Internet platform to provide detailed information on the products of every subsidiary. This will give employees the resource base they need to attract new customers and develop effective marketing promotions that can take full advantage of Fubon Financial's synergies.*

- *Exploit bancassurance channels and alliances with other business sectors to expand our sales base.*

*Fubon Life continues to seek new marketing channels and promote cross-sector partnerships, with strong emphasis on the banking industry. In 2002, a high percentage of Fubon Life products were sold through banks. This marketing channel also helped drive Fubon Life to the top in the investment-linked product market.*



*Fubon*  
**Platinum**  
*Banking*





*In a June 2002 survey of graduating college students published in Global Views Monthly, Fubon Financial was rated second to Citibank as the "most popular enterprise," and co-CEO Daniel Tsai was ranked among the top four "most admired entrepreneurs."*

*China Credit Information Service, Ltd. published a report in 2002 on Taiwan's conglomerates and concluded that Fubon Financial was one of the top six with the greatest potential.*





In NTS Thousand

**2002**  
2001

Revenues

**18,540,474**  
20,270,905

Shareholders' Equity

**27,604,397**  
29,163,057

Net Income

**749,639**  
2,949,298

Total Assets

**268,063,347**  
266,570,478

## Top 3 Card Issuer & No. 1 Wealth Management



Since being established in April 1992, Fubon Bank has always been able to post good results regardless of the underlying economic conditions, and 2002 was no exception. The pre-provision return on equity was 27.43%.

### Leading Wealth Management with Double Platinum Strategy

Fubon Bank did not follow the industry in offering lower interest rates on credit card debt to attract new card customers. Instead, we used a "No Annual Fee Platinum Card" campaign to attract more than 300 hundred of new card users. By the end of 2002, Fubon Bank had issued more than 2 million valid cards, a 60% jump over the 1.2 million cards in circulation at the end of 2001. This allowed Fubon Bank to become the third largest credit card issuer in Taiwan with a 5 percent market share.

In April 1995, Fubon Bank launched its "Personal Banking Center" program to attract high-wealth individuals, becoming the first domestic bank to provide customized financial services to individual clients. The service – now called "Platinum Banking Center" – is offered in all 39 of our branches islandwide and handles more than NT\$130 billion in assets, a responsibility that our platinum bankers treat with the utmost care and discretion.

The resources of the entire Fubon Group are also at the disposal of our platinum customers, as experts from other subsidiaries are often consulted on issues concerning their area of specialization. The Fubon "Platinum Banking Center", therefore, is not merely a one-on-one service with one platinum banker working with a client; it's a "one-team-to-one" service.

Fubon Bank was also the first to come out with "fixed rate mortgage" and "adjustable rate personal loan." These two products have created steady new customer and profitability growth.

### Putting in an electronic B2B Platform

Fubon Bank has set up 19 "small and medium enterprise financing service windows" that will take full advantage of the "Small-Medium Business Guarantee Fund (SMBGF)." This program enables small and medium enterprises to raise funds to get access to financing.

At the end of 2002, Fubon Bank had accumulated outstanding guarantees of NT\$4.27 billion through the fund, up 34% from NT\$3.18 at the end of 2001. This outstanding achievement is just one of many reasons Fubon Bank has been ranked as the best new bank many times in years past.

In addition, Fubon Bank established in September 2002 a "Small Business Finance Department" that issued NT\$2 billion in loans in just four months, bringing some energy to an otherwise sluggish corporate finance market.



Aside from operating in the niche market, Fubon Bank was also chosen by the Executive Yuan as one of the seed banks to take part in its "C plan," a program devised to encourage companies to automate their operations and rely more on the Internet. Because of that, we are actively engaged in developing an electronic B2B platform to help corporate clients "take orders in Taiwan and operate around the world."

#### **Treasury Department Posts Strong Earnings**

The Bank's treasury department is renowned for success in bond trading operations. 2002 was no exception. The department posted a net profit of NT\$2.1 billion, accounting for 42.39% of the bank's revenue and 226% of the department's target.

Aside from trading for its own account, the bank set up a Treasury Marketing Unit under the treasury department in May 2002 to provide customers with tailor-made financial products and satisfy the variable requirements of its customers.

#### **The Bills Finance Market Leader**

Fubon Bills Finance Corporation, a Fubon bank subsidiary has emerged as a market leader. In 2002, it underwrote the second largest number of primary market issues and handled the second largest volume of government bonds of any new bills finance company in the industry. Because of these activities, the company's pre-tax EPS was a strong NT\$2.27 per share.

These results have not gone unnoticed. According to a report issued by China Credit Information Service Ltd. in June 2002, out of Taiwan's 5,000 main enterprises, Fubon Bills Finance was rated the best in the financial sector in terms of management efficiency.

We expect there will be variety of new products and developments to hit the markets by the end of 2003, including government bond futures, bills options, and bond lending centers. Fubon Bills Finance will be ready to take advantage of the opportunity the moment they can be traded.

Facing a constantly changing global financial environment, Fubon Bills Finance is determined to develop new international financial products for overseas markets, while maintaining its leadership position at home.

#### **An Integrated Marketing Strategy**

The bank has three strategies to take advantage of integrated marketing synergies.

- Cooperate with TAIPEIBANK to integrate the two banks' back office operation in order to share resources and improve the efficiency of the two companies.
- Build on the strength of the Fubon Keelung Rd. Financial Center, which opened in July 2002 and integrated the banking and securities operations of Fubon Bank and Fubon Securities.

*Not only was Fubon Bank's return on equity before loan loss provisioning 27.43%, its pre-provision pre-tax profit was NT\$7.8 billion.*

*According to a report issued by China Credit Information Service Ltd. in June 2002, out of Taiwan's 5,000 largest enterprises, Fubon Bills Finance was rated the best in the financial sector in terms of management efficiency.*



- *We will also enhance employee training so they have the ability to sell all of the products offered under the integrated marketing model, including insurance, securities, and banking products.*
- *Utilize the group's data warehouse and develop CRM capabilities to maximize the benefits of our information system and provide customers with outstanding financial service.*

*Because of Fubon Financial's cross-selling strategy, it is now a financial department store that can offer customers a complete range of financial services.*

### ***Aggressively Strengthen Asset Quality***

*Fubon Bank repeated its successes of the past with another strong year in 2002. Before accounting adjustments to deal with overdue and non-performing loans, net profit was NT\$7.8 billion, more than double that of the previous year.*

*In order to improve the bank's asset quality, however, management decided to take a one-time charge on NT\$4.35 billion of non-performing loans that were sold to an asset management company. At the same time, NT\$2.7 billion was set aside in reserves to cover overdue loans. After these adjustments, net profit fell to NT\$801 million, but the bank's loan-loss provision had grown enough to cover 47 % of overdue loans, strengthening our bank's foundation for long term development.*

*Fubon Bank will continue to expand its product line and broaden its customer base, and provide our clients with more meticulous service with the help of the group's data warehouse and CRM system. The bank will adapt international competition guidelines as our standards to meet the challenges presented by increasingly global markets.*



In NT\$ Thousand

**2002**  
2001

Revenues

**32,108,897**  
33,704,674

Shareholders' Equity

**48,423,497**  
45,805,664

Net Income

**5,027,802**  
2,902,926

Total Assets

**663,532,140**  
658,738,729

## A Model for Mergers in the Banking Industry



### *Greater liberalization and*

*globalization in the financial services sector led Taiwan to reform its local financial services environment. Many mergers and cross-business alliances resulted and led to the creation of large financial holding companies that could exploit synergistic marketing opportunities.*

*TAIPEIBANK, which was not involved in the wave of mergers, found it difficult to compete in an increasingly consolidated market. The bank re-evaluated how it wanted to position itself, and, in the interest of our shareholders and employees, we decided to look for a partner. Ultimately, through a stock swap, TAIPEIBANK merged with the holding company with the most complete range of financial products in Taiwan, Fubon Financial Holding Company Ltd.*

*TAIPEIBANK has the densest distribution of branches in the Greater Taipei area, which gave Fubon Financial the perfect sales platform for cross selling group products. At the same time, the integration with Fubon Financial allowed the bank to consolidate its competitive advantages and fortify areas of weakness. After the merger was announced, the bank intensively discussed cooperative arrangements with other group subsidiaries.*

*An example of such cooperation is in the area of securities. Fifty-two divisions of Fubon Securities have authorized 61 TAIPEIBANK branches to act as secondary-transaction banks. Two bank branches have sent people to Fubon Securities operation centers to set up banking counters on the premises. The Yen Ping Branch, which shares office space with Fubon Securities, now can handle securities transactions directly.*

### **Giving Back to Society**

*After being given exclusive rights for five years by the Ministry of Finance to handle the nationwide Public-Benefit Lottery, TAIPEIBANK devoted major human and material resources to have the system up and running by January 2002.*

*And our bank is proud to have successfully managed the lottery in its inaugural year, and deliver tangible benefits to society. The lottery created nearly 30,000 new employment*

opportunities, mostly for disadvantaged members of society and posted revenues NT\$99 billion, not only achieving the Ministry of Finance's target of 1% of GDP, but also contributing NT\$37 billion to the national treasury. Of that sum, approximately NT\$30 billion was allocated to programs for the elderly, national health and social welfare programs. It has created a force for good in Taiwanese society, and achieved the ideal of "making everybody a winner."

To give back to society, TAIPEIBANK's board established the "TAIPEIBANK Public Charity Fund" in June 2002. Thirty percent of the lottery's after-tax net profits will be donated to this charitable fund to undertake various welfare programs and sponsorships.

Managing the Public-Benefit Lottery has also enhanced the bank's profitability. In an environment where traditional banking revenue sources are being squeezed, TAIPEIBANK's revenue structure has been strengthened. Administrative and handling fees from the lottery have pushed this category as a percentage of the bank's total revenue up from 6 percent in 2001 to 17.41% in 2002. Also, TAIPEIBANK's management of the nationwide game has enhanced its status and name recognition.

#### **Using the Internet to Solidify the Bank's Treasury Role**

Although TAIPEIBANK has already become a private entity, its role as the representative bank of the Taipei City treasury has not changed. Aside from providing the city government with comprehensive public financial services, the bank is helping the city to take its operations online and improve the treasury's efficiency.

In the area of G to C (government to consumer) applications in 2002, the bank assisted in developing the e-Health City concept, which allowed patients to apply and pay for services online. Tuition payments at all educational levels were bar coded to make them compatible with the Internet and more easily payable through the bank. These and other services have brought greater convenience to city residents who can now take care of most chores on the Internet.

In the area of G to B (government to business) operations, TAIPEIBANK and the Taipei City Government cooperated to develop civil service procurement cards. These cards simplified the way the city pays its bills and improved its purchasing efficiency, while at the same time enhancing the flexibility of the city's cash flow management.

#### **Specialized Financial Consultants**

In line with its mission to become the city's primary full-service bank, TAIPEIBANK

*Exclusively issues tickets for three different public-benefit lotteries, including the first computerized tickets for the National Computerized Public Interest Lottery.*

*The Hong Kong representative office becomes a branch, a new milestone in the opening of the bank's cross-strait business.*



*has set its sights on providing corporations and individuals with the most comprehensive banking services available anywhere.*

*The bank has established an account officer system for corporate clients, where experienced financial consultants give personalized attention to the financial planning issues of public and private companies. In 2002, to strengthen our expertise and consolidate our resources, the bank established a "special unified banking unit" that could design customized products to meet enterprises' needs and offer clients complete financial planning and banking packages. The group has already put together 12 syndication loans to finance corporate projects, and taken part in another 22 that have been put together by other banks. This loan diversification system is becoming increasingly popular in Taiwan, and has benefited the bank.*

*In terms of consumer banking, TAIPEIBANK has made an all-out effort to galvanize the wealth management market. Aside from its consumer banking system, we also are constantly promoting new banking products to satisfy the varied needs of customers of all levels of wealth. This diverse product line gives consumers the convenience of one-stop shopping to meet their financial objectives.*

*In addition, TAIPEIBANK has also set up a "Platinum Banking Center" in five of its*

*Becomes a wholly owned subsidiary of Fubon Financial Holding Co. Ltd., and has its shares delisted from the Taiwan Stock Exchange.*

*2002 pre-tax profits reached NT\$5.9 billion, and net after-tax profits hit NT\$5.9 billion, with both figures near the top of the banking industry.*



*branches (Hoping, Minsheng, Chunghsiao, Yenping, and Peitou), providing customers with a comfortable, discreet banking atmosphere, staffed by professional advisers with access to specialized computer databanks. In 2003, we plan to establish 25 more Platinum Banking Centers.*

#### *Expanding Domestic and Overseas Marketing Channels*

*Building diversified service channels and satisfying the future needs of segmented groups of consumers is TAIPEIBANK's unwavering ambition.*

*In concrete terms, TAIPEIBANK added outlets in 2002 that brought the total number of branches to 81 nationwide by year's end. Our Hong Kong branch emerged as our third overseas branch when it became operational in September 2002.*

*TAIPEIBANK also has spared no effort in promoting its ATM services. By the end of 2002, there were 447 machines nationwide, up 48.5% over the previous year. And new automated functions have also been introduced, including automatic deposit machines, EZ pay convenience machines where water and electricity bills can be paid, ATS systems where motor vehicle fees are automatically paid, and AVMs where value-added transportation Easy Cards are distributed. These automated functions mean our*

customers have 24-hour access to basic banking services regardless of where they are or what time of day it is.

TAIPEIBANK has also worked on developing its "virtual" channels, including a 24-hour telephone banking service. In 2002, the bank unveiled the SSL, SET, and None-SET security systems to extend banking services to people's homes. In addition, the bank has made use of the latest in banking technology, including STK, WAP, PDA, and i-mode, to expand cell phone banking functions.

### **Great Results and Sound Assets**

In an industry that saw most banks lose money as they wrote off non-performing loans, TAIPEIBANK posted exemplary results. 2002 pre-tax profits reached NT\$5.9 billion, and net profit after tax hit NT\$5.0 billion, with both figures near the top of the banking industry.

The bank's non-performing loan ratio of 2.99% was well below the industry average, earning it the recognition of domestic and international credit ratings agencies. Taiwan Ratings Corp. gave TAIPEIBANK the same ratings the bank has received since 1998: a long-term credit rating of twAA- and a short-term rating of twA-1, with the outlook judged to be "stable." This evaluation reflected TAIPEIBANK's ability to maintain its asset quality at a level clearly superior to other competitors, even in a time of economic weakness. The American ratings agency Standard & Poor's evaluated TAIPEIBANK after its stock swap with Fubon Financial Holdings Corp. brought it under the Fubon corporate umbrella. In August 2002, the ratings agency repeated previous ratings of BBB+ for long-term debts and A-2 for short-term obligations, with an outlook described as "stable." S&P said TAIPEIBANK's continued strong results were impressive, especially its ability to limit upswings in the value of non-performing loans.

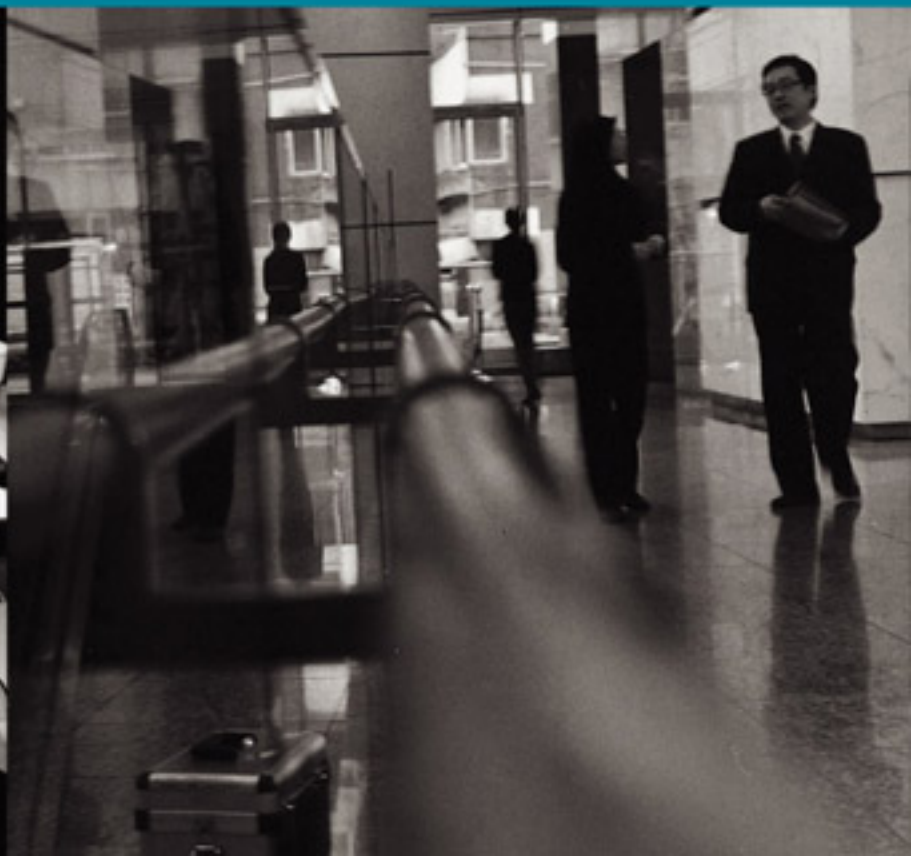
### **Taking Advantage of Fubon Group Synergies**

The most important event in the banks' corporate development in 2002 was becoming a part of Fubon Financial. Looking ahead to 2003, TAIPEIBANK's top priority is to complete its integration with Fubon subsidiaries, including in the areas of product design, customer assistance and operational support systems. Equally important is the task of developing cross-selling marketing mechanisms to leverage Fubon Financial's brand advantage and abundant resources into providing the most comprehensive, high-quality financial services to our customers.





*In September 2002, the magazine Institutional Investor wrote of Fubon: "Leveraging Citigroup's huge Asian distribution network and Fubon's insurance products, the two would like to extend their insurance business throughout Asia.....Fubon is easily Taiwan's most diversified financial institution. Twelve other firms have followed Fubon's lead to create a financial holding company, but none has anything approaching Fubon's range and depth."*



# 業務行銷科





In NT\$ Thousand	2002	2001
Revenues	8,979,972	7,897,457
Shareholders' Equity	37,778,269	35,366,055
Net Income	3,824,456	3,022,452
Total Assets	64,596,522	62,019,341



## No. 1 in Earnings for 2nd Straight Year



Despite the sluggish stock market in 2002, the performance of Fubon Securities stood out because of the dedication of its employees and the support of Fubon Financial. The company posted after-tax net earnings of NT\$3.824 billion, 26.53% higher than the previous year and tops in the industry for the second consecutive year. Earnings per share reached NT\$2.0, a 23.46% improvement over 2001 results.

Taiwan Ratings Corp. assigned Fubon Securities a long-term rating of twA and a short-term rating of twA-2, both among the highest in the industry. The company's outlook was rated "stable." Taiwan Ratings said its assessment reflected Fubon Securities' solid position in the market, its sound operating performance, and its relatively conservative financial structure.

### Brokerage Business Remains Second in Domestic Market

After Fubon Securities completed a seven-in-one merger in September 2000, it closed several underperforming or overlapping branches and in 2002 it set up a new branch in the Keelung Road Financial Center together with Fubon Bank – creating the first integrated operations center under Fubon Holdings.

By the end of 2002, the company had streamlined its network to 61 branches, but despite having fewer branches, the company's brokerage business and its outstanding margin loans both had market shares exceeding 6.5%, second highest in the industry.

### The Leader in the Emerging Stock Market

Although the underwriting industry was also weak in 2002, Fubon Securities posted strong results. The company underwrote NT\$15.44 billion in IPO's in 2002 according to the Chinese Securities Association, ranking second in Taiwan. In the newly opened emerging stock market, Fubon Securities led the industry with NT\$5.85 billion in trading value. Because of our understanding of market trends, a number of stocks that were launched on the emerging market in 2001 were able to post strong values on the stock exchange in the first quarter of 2002. At the end of the third quarter, Fubon underwrote an NT\$7.49 billion preferred stock issue for HannStar Display Corporation that was fully subscribed because of Fubon's knowledge of the market, satisfying its client, investors, and securities companies.

### The Leader in Financial Products

Although interest rates fell precipitously in 2002, Fubon Securities still remained aggressive in the bond market, in part to gain leverage from its position as the brokerage and underwriting leader in the market to develop new products. In 2002, it handled 10 warrant

issues with an issue amount that ranked 2nd in the market. In the convertible bond asset swap market, Fubon Securities had NT\$1.04 billion in option contracts and NT\$790 million in bonds outstanding at the end of the year, ranking first and second in the industry respectively.

In addition, in February 2003, when the Industrial Bank of Taiwan issued its first financial asset securitization product, Fubon Securities acted as a consultant on marketing the product to investors.

Fubon Securities has applied for government approval to underwrite a number of new equity products that have yet to be traded in the local marketplace, including equity-linked notes, principal-guaranteed notes, and equity swaps.

### *Aggressively Expanding Overseas with an Eye on China*

In 2002, Fubon Securities built on previous success in the QFII (qualified foreign institutional investor) brokerage business by becoming the domestic leader in market share after ranking 4th in 2001. The company also aggressively pursued the underwriting of overseas issues, and successfully handled ECB's (Euro Convertible Bonds) for Fubon Financial Holding Company, Yageo Corporation, Askey Computer Corporation and Sinbon Electronics Co., Ltd.

Taking advantage of the liberalization of China's potentially lucrative capital markets, Fubon Securities signed a memorandum of understanding with China's biggest securities firm, China Galaxy Securities, in May 2001, to cooperate in the areas of industry information, research reports, education, and training. Fubon is also seeking the Chinese government's permission to set up a representative office in Shanghai and hopes to become the first Taiwanese entity to directly establish a presence without having to go through a third country partner or subsidiary.

### *Research that Satisfies our Customers' Needs*

Created in 1987, Fubon Securities Investment Service is one of the most experienced investment firms in Taiwan and regularly produces in-depth industry analyses and diversified financial reports. It also serves as the Fubon Group's investment research center, and benefits from Fubon Financial's corporate synergies in offering professional investment consulting services.

The company has also become the local representative for foreign funds and offered these funds through Fubon Financial's bank marketing channels, giving local residents more investment options.

### *The Future is in Future*

In 1998, Fubon Securities established Fubon Futures, which helped round out the Fubon Group's financial product line. Facing a weak stock market and changing asset management concepts in 2002, the hedging attributes of futures became increasingly attractive.

The introduction of Taiex-indexed options at the end of 2001 sparked a huge increase in options contracts and made options one of the country's hottest financial products. Fubon Futures set up an Internet platform where options contracts could be processed online, one of the main reasons the

Taiwan Ratings Corp. assigned Fubon Securities a long-term rating of twA and a short-term rating of twA-2, both grades among the highest in the industry. The company's outlook was judged to be "stable".

*Fubon Securities has applied to the Chinese government for permission to set up a representative office in Shanghai and hopes to become the first Taiwanese entity to directly establish a presence there without having to go through a third country partner or subsidiary.*



company's market share finished in the top three in the sector. In the future, the company will hook up with Fubon Securities to offer more user-friendly and functional transaction platforms and provide our customers with even better financial management services.

#### **Envisioning the Leading Investment Bank in Asia**

Following the formation of Fubon Financial, Fubon Securities has played a pivotal role in the organization. Aside from having 61 offices around the island, the company is perfectly positioned to cross sell group products because of its competitive marketing channels, manpower, and professional expertise.

Though Fubon Securities has been the most profitable company in the domestic brokerage industry for the last two years, it cannot afford to rest on its laurels and relax in the liberalizing securities market.

The company is currently integrating the financial products and employee training of the Fubon Group's general insurance, life insurance, retail banking, and investment banking subsidiaries. The goal is to include all of these services in our expanded branch offices and give our customers a revolutionary one-stop shopping experience.

In 2003, Fubon Securities will continue to use return on equity as the major benchmark of company performance. But it will also promote four key strategies to pave the way to corporate excellence, including: enhancing financial innovation capabilities; increasing its scale of operations; revamping the organization to strengthen competitiveness; and improving the quality of its employees.

These strategies will create a new culture of discipline and efficiency, and propel the company toward its vision of becoming the leading investment bank in Asia.



Fubon Asset  
Management

In NT\$ Thousand

2002  
2001

Revenues

671,672  
566,124

Shareholders' Equity

1,428,144  
1,395,075

Net Income

235,807  
224,900

Total Assets

1,533,198  
1,463,671

## Highest Asset under Management Ever



*Fubon Asset Management made history in 2002 by accumulating NT \$138.4 billion in asset, becoming the largest asset management by volume in Taiwan. Fubon Asset Management managed 18 funds in 2002, of which, eleven are domestic equity funds, four domestic bond funds, one balance fund and two offshore funds. The 2002 year-end asset consists a 27.9% increase over that of 2001, gaining a 6.35% market share for Fubon Asset Management in the industry. Fubon Asset Management also managed, in the same year, NT\$13.2 billion in discretionary managed account, creating a total fund size of NT\$151 billion company wide. Fubon Asset Management posted pre-tax profits of NT\$321 million, translating to an earnings per share of NT\$4.24.*

### Competitive and Globalized

*Since its founding in September 1992, Fubon Asset Management has exemplified the core values of the Fubon Group — trustworthy, sincerity, professionalism and innovation — in providing its customers with superb financial services. As part of the firm's never-ending quest to strengthen itself, Fubon Asset Management merged with Citigroup Asset Management of Taiwan in February 2001, the first step in its strategy to become a global company and build a stronger distribution channel, and to improve the capabilities of research and analysis of fund managers. We are also looking for opportunities to work with other global financial institutions in order to increase our exposure in the global financial market.*

*Based on the success built in 2002, the Fubon Financial Holding Company, which Fubon Asset Management belongs to, has added Taipei Bank to the distribution lineups. In August 2002, Fubon Asset Management formally became a member of Fubon Financial Holding Company, which has further provided channels and branding strength to lead asset management to a new era.*

### Equity Funds

*In the past year, we have won a numbers of awards. The Fubon Fund was awarded for its 1-year and 3-year performance in the first year competition for closed-end funds. It was also recognized for its 5-year performance in the 2nd and 3rd year competitions.*



*Reflecting its commitment to aggressively expand its business, Fubon Asset Management ended the year with a 6.35% market share and growth in asset value of 27.91% over a year earlier. If the NT\$13.2 billion in discretionary managed accounts under the company's care is combined with fund assets, total assets managed amounted to NT\$151.6 billion at the end of 2002.*

*The "Fubon Taiwan Phoenix Fund" – an equity fund designed to attract foreign investors – has been recognized five times for excellence.*



*The company's first open-end fund, the "Fubon Fortune Fund," was nominated for its 1-year outstanding performance and was awarded for its 3-year performance in the first year competition for domestic open-end funds.*

*The "Fubon Precision Fund" was nominated for its 3-year and 5-year performance for 3 consecutive years. Its manager, George Lee, was also nominated for outstanding fund manager in 1999.*

*Last but not least, the Fubon Taiwan Phoenix Fund has received 5 awards for its 1-year, 3-year and 5-year performance in the competition for offshore funds.*

### **Bond Funds**

*Fubon Asset Management has created stable returns by applying stringent investment policies and procedures on four domestic bond funds. In order to assure the credit quality possessed by the investment portfolio, Fubon Ju II has been accredited for twAf rating from Taiwan Ratings Corporation for three consecutive years. We plan to have all our bond funds*

accredited in the near future. Fubon Asset Management is proud that its credit quality, high flexibility, stable management and internal controls have been thus recognized.

### Operational

Fubon Asset Management's analysts and fund managers are experienced professionals, who use a bottom up approach to select the best investment for our portfolios. This team of professionals monitor the markets closely and collect real-time information to minimize risk exposure. Daily review and periodic company visits are also carried out to strengthen our risk management.

In addition to excellent performance on both equity and bond funds, Fubon Asset Management has devoted a tremendous effort in bringing the best consumer services to our investors. This has ensured the company to keep a competitive edge and to strengthen the brand name recognition Fubon Asset Management had set up a customer service center in October 1997 as a bridge to strengthen communications with its clients and better understand their needs. We continue to use that channel in the hope that our unparalleled service attitude will compel investors to make Fubon Asset Management their personalized information source. Furthermore, the Fubon Asset Management Company is now expanding its sales channels and building a stronger Internet transaction platform to provide customers with even better service.

### Conclusion

Fubon Asset Management has been aggressively seeking improvement since its creation. In the years to come, Fubon Asset Management shall focus on improving its quality of operational management, rationalizing its organizational structure, and increasing the efficiency to achieve higher profitability.

We will also continue integrating our resources with our affiliates in Fubon Group, Citigroup and Taipei Banks to strengthen our competitiveness and enhance our brand name recognition. New funds will be introduced to our customers according to the environment of global financial market. We plan to launch the Fubon Global Fixed Income Fund in June to provide a more diversified product mix. With our professional research team, friendly customer services, conscientious management philosophy and steady development, Fubon Asset management will be able to lead our investors into a prosperous future.

## Milestones

### Fubon Life

1993

- Fubon Life started business operation.

1994

- The Company became one of top 10 insurers in terms of FYP premium revenue. The Company was also No. 1 in ROI ratio and No. 1 in corporate profile.

1995

- Awarded the Republic of China's first Golden Service Enterprise Award.

1996

- Awarded a gold medal for Best Vendor by the R.O.C. Customer Association.

1998

- Operational management and service quality passed BVQI inspection, making Fubon Life the first new life insurance company in Taiwan to achieve ISO 9001 certification.

1999

- The Company's sales figures exceeded NT\$10 billion.

2000

- Fubon Group entered an agreement with Citigroup, which invested US\$816 million (about NT\$25.2 billion) to acquire 15% of the holdings of five Fubon affiliates and directorship in these affiliates.

2001

- Fubon Life became the subsidiary of Fubon Financial Holding Company.

2002

- Was named by Risk Management and Insurance Magazine as the top newly-established insurance company in the areas of "Name Recognition," "Sales Agent Quality," and "Best Claims Service," in 2001, and is ranked 5th out of 29 life insurance companies in the country.
- Introduced the first fixed-equity indexed life insurance policy in the world, called "Fubon Lucky Investment-linked Life Insurance," and created a stir in the global Chinese insurance market.

1961

- Official operations began with the underwriting of fire and marine cargo insurance; former president Mr. Yien Chia-kan was invited to partake in the opening ceremony.

1982

- Annual premium income topped NT\$2 billion. Company achieved market share leadership for the first time.

1992

- Cathay insurance officially became Fubon Insurance.

1993

- First listing of Fubon Insurance stock on the open market.

1997

- NT\$40 million investment in the establishment of the Fubon fire laboratory officially began operation.

1998

- Fubon Insurance's global depository receipts (GDR's) were successfully

### Fubon Insurance

- Developed an "Express Insurance Approval Platform" that aimed to issue policies expeditiously to "Clean" cases.
- Introduced the first fixed-equity indexed annuity insurance policy in the world, called "Fubon Lucky Investment-linked Variable Annuity Insurance."
- In a Commonwealth Magazine survey of Taiwan's leading companies, Fubon Life was ranked 4th, Fubon Bank was ranked 6th, and Fubon Securities placed 2nd.
- Launched VIP customer personalized service – customized service for high investment clients.
- China's Insurance Regulatory Commission approved Fubon Life's application to set up a representative office in Beijing.
- Fubon Life and Fubon Bank launched the "Credit Card Travel Insurance Trust Fund," another global first.

issued and listed on the London Stock Exchange, making Fubon Insurance the first financial institution in Taiwan to issue GDRs abroad, and only the second Asian company.

#### 1999

- Asia Insurance Review named Fubon Insurance as the "General Insurance Company of the Year 1999" in its 3rd annual Asia Insurance Industry Awards.

#### 2000

- Fubon Group announced a strategic partnership with Citigroup to jointly develop insurance business in Southeast Asia and China. The two will cooperate closely to provide customers with premium and diversified full-line financial services.

#### 2001

- Opening its Beijing office, becoming Taiwan's first insurance provider with a representative office in China.

#### 2002

- Risk Management and Insurance Magazine announced the results of its "Top 1,000 manufacturers' insurance buying behavior and satisfaction survey." Fubon Insurance finished on top in the areas of name recognition, corporate image, after-sales service and sales staff professionalism. The company was also selected as the best among the top ten general insurance companies of 2002.
- At the fourth annual "FHL Insurance Awards" held by the Risk Management and Insurance Media Group, Fubon Insurance won in the following categories:
  - Organization category: "Hope Award-Best Product Innovation Award" for "Fubon's Individual Liability Insurance."
  - Organization category: "Hope Award-Best Product Innovation Award" honorable mention for "Fubon Additional Clause for Long-term Leased or On-loan Automobile Insurance."
  - "Best Corporate Image Advertisement" Print - honorable mention.
- The company's organization underwent restructuring with the goal of putting the customer first; The company structure was divided into four major functions: personal insurance, corporate insurance, sales, and general resources.
- The Ministry of Finance formally gave permission to the Taiwan branches of England's Royal & Sun Alliance Insurance and America's The Hartford to pull out of Taiwan. Fubon Insurance assumed control of the policies, assets and liabilities left behind by these branches.
- Signed a contract for technical cooperation with the Industrial Technology Research Institute's Center for Environmental, Safety and Health Technology Development. The contract called for Fubon Insurance and the Center to jointly provide risk and loss prevention services to Fubon customers in the semiconductor, optical, high-speed rail and mass transit, and electricity industries.

**1969**

- In line with the central government's financial policy directives to stimulate local financial institutions and support city development, the Taipei City government's treasury put up funds to create City Bank of Taipei. Initially, the bank had two departments: Retail banking and public treasury operations. The bank's operations were limited to Taipei City.

**1970**

- Established the first bank branch office in the country in Shihlin.

**1983**

- Completed the Taipei City Bank Building, and departments from the bank's headquarters moved in.

**1984**

- Restructured and re-registered as a public limited company, City Bank of Taipei Co., Ltd..

**1986**

- Established an offshore banking unit (OBU) branch.

**1991**

- Opened a branch in New York City, the bank's first overseas banking location.

**1993**

- The Los Angeles Branch received the approval from the State of California's Department of Financial Institutions to begin operations, giving the bank a foothold in the United States West Coast market.
- Simplified its name to TAIPEIBANK to create a unique corporate identity.
- Received the top prize for overall excellence in the 1992 Interbank Financial Information Systems Service Competition.

**1994**

- Established a branch in Kaohsiung, the first step in extending its reach beyond Taipei City as the government liberalized the financial industry.

**1995**

- Received permission to have its status upgraded from Regional Bank to National Bank.

**1997**

- TAIPEIBANK shares were formally listed on the Taiwan Stock Exchange.

**1999**

- Received the Executive Yuan's Administrative Service Quality Awards "Best Service Image" award for 1998.
- The Taipei City government reduced its stake in the bank to 45.21 percent after selling off some of its holdings. TAIPEIBANK became a private commercial entity.

**2000**

- Streamlined operations by reducing the number of bank departments from 25 to 15 as part of a major restructuring effort launched after becoming a private entity.

## Taipei Bank

**2001**

- Was chosen by Taipei Smart Card Corporation as the lead bank to handle the EASYCARD business.

**2002**

- Exclusively issued tickets for three different public-benefit lotteries, including the first computerized tickets for the National Computerized Public Interest Lottery.
- The Hong Kong representative office became a branch, a new milestone in the opening of the bank's cross-strait business.
- Became a wholly owned subsidiary of Fubon Financial Holding Co. Ltd., and had its shares delisted from the Taiwan Stock Exchange.

## Fubon Bank

**1989**

- In response to government policies of liberalization and internationalization, Chairman Wan-Tsai Tsai perceived the need to raise domestic standards of financial services. He decided to found a bank that will provide high-quality financial services to business and the public. He gathered other like-minded business leaders to organize the Fubon Commercial Bank.

**1992**

- Four business units launched operations: the Business Department, Savings Department, Min Sheng Branch and Jen Ai Branch. Fubon Bank was officially open for business.

**1995**

- The main bank headquarters and the business Department were relocated into the Fubon Financial Building on Jen Ai Rd., and its original location of the Business Department was renamed the Chung Shan Branch.

**1998**

- Fubon Bank shares were official listed on the Taiwan Stock Exchange.

**2000**

- Fubon Group and Citigroup announced Strategic Alliance.

**2001**

- Fubon Group's data warehouse started operation.

**2002**

- Contracted with the Small and Medium Enterprise Administration of the Ministry of Economic Affairs to establish 19 financing service windows which will enable small and medium enterprises with great potential but insufficient collateral to raise funds to get access to financing.
- Fubon Keelung Road Financial Center officially opened, becoming the first local bank branch to offer both banking and securities services and offer customers a "one-stop shopping" environment.

- "Small-Amount Handy Loan Center" and "Small Business Finance Department" have been set up to help small and medium enterprises have access to customized banking products and services.
- Established "Operation Department" to centralize the back office operation and to help rationalize operation process.
- The number of valid credit cards issued surpassed 2 million, comfortably establishing the bank as the third largest card issuer in Taiwan. Fubon Bank, rated by the United Credit Card Center, had the highest spending per card in Taiwan. Clearly, Fubon credit cards reign supreme in terms of quantity and especially quality.

**1988**

- Received approval for establishment on July 11, 1988, and opened business on September 16 the same year as a securities brokerage firm with capital of NT\$200 million.

**1989**

- Added proprietary trade and underwriting to the scope of business, and increased capital to NT\$1.02 billion with name changed to Fubon Securities Co., Ltd.

**1995**

- Stock listed on the OTC market.

**1997**

- Overseas holding company in the name of Fubon Securities, British Virgin Island set up in British Virgin Island.

**1998**

- Received long-term credit rating of *twBBB* and short-term rating of *twA-3* from Taiwan Ratings Corporation.

**1999**

- Acquired the qualification of warrant issuer and capital increased to NT\$10,460 million.

**2000**

- Fubon Group and Citigroup announced strategic alliance, and Citigroup acquired 15% interest of the company and one seat of director.
- Merged with six other securities firms with capital increased to NT\$16,808 million.

**2001**

- Fubon Securities signed a memorandum of understanding in May with China's biggest securities

broker, China Galaxy Securities, outlining cooperation in the areas of industry information, research reports, education, and training.

**2002**

- Opened operations in the emerging stock market. The company's computerized transactions system formally went online, and transaction volume outpaced that of all other competitors in the industry.
- The Keelung Road Financial Center opened, putting banking and brokerage operations under the same roof for the first time.
- Took steps to cooperate with TAIPEIBANK, authorizing the bank to handle payments and remittances related to Fubon Securities transactions.

**Fubon Securities****Fubon Asset Management****1992**

- Fubon Asset Management was established on September 18, 1992.

**1993**

- The first closed-end equity fund, "Fubon Fund", was launched.

**1994**

- The first open-end equity fund, "Fubon Fortune Fund" and the first open-end bond fund, "Fubon Ju-I Bond Fund" were introduced to the market. Another open-end equity fund, "Fubon Precision Fund" was also launched in the same year.

**1995**

- The "Fubon Taiwan Phoenix Fund" was listed on Ireland's stock exchange
- The "Fubon Supreme Fund", an open-end equity fund was launched.

**1996**

- Total asset under management was over NT\$30 billion.

- Another two open-end equity funds, the "Fubon Champion Fund" and the "Fubon 88 Fund," and one open-end bond fund, the "Ju-I II Bond Fund" were added to the Company's product line.

**1997**

- Total asset under management surpass NT\$50 billion.
- The "OTC Fund", a closed-end equity fund, was launched.
- The company was listed in the Taiwan Stock Exchange.

**1998**

- The "Fubon Fund," "Fubon Supreme Fund," "Fubon Precision Fund," and "Fubon Taiwan Phoenix Fund" all received the first annual "Outstanding Fund Award."
- The "Fubon Aggressive Growth Fund", an open-end equity fund was launched.
- Branches in Taichung and Kaohsiung were set up.

**1999**

- The "Fubon Fund" and "Fubon Taiwan Phoenix Fund" received second "Outstanding Fund" Award. The "Fubon Precision Fund" and its fund manager were nominated for the "Outstanding Fund" and "Outstanding Fund Manager".
- The "Fubon Ju-I Fund" received a twofold credit rating from Taiwan Ratings Corporation.
- The "Fubon Technology Fund", an open-end equity fund and "Fubon Ju-I III Bond Fund" were introduced.
- Headquarters were relocated to the Fubon Life Insurance Building.

**2000**

- The "Fubon Fund" received the "Outstanding Fund" Award in the three consecutive year.
- Another two open-end equity funds, the "Fubon Value Fund" and the "Fubon Internet Fund" were launched.
- The first overseas open-end equity fund, the "Fubon Asia Technology Fund" was established.
- Online trading started operating.
- Received ISO 9002 quality certification

**2001**

- The asset under management reached NT\$108.2 billion, the second largest in the industry.
- The "Fubon Taiwan Phoenix Fund" received the 4th annual Diamond Award.
- Merged with Citibank Asset Management and took over the "Fubon Taiwan Heart Fund" and "Fubon Millennium Dragon Bond Fund."
- The Discretionary Managed Accounts were added to company's business.
- The "Fubon Value Fund" and "Fubon 88 Fund" were merged.

**2002**

- The asset under management reached N\$138.4 billion, the largest in the industry.
- Integrated into the Fubon Financial Holdings Group
- The "Fubon Taiwan Phoenix Fund" received the 5th annual Diamond Award.
- Launched the first open-end balance fund, the "Fubon Fu Bao Fund."
- Established the first overseas open-end equities fund, the "Fubon Global Tri-Sector Fund."
- The "Fubon Technology Fund" and "Fubon Supreme Fund" were merged.




**Fubon Group**

On April 19, 1961, Cathy Insurance, the former Fubon Insurance and Taiwan's first private property and casualty insurance company was founded. Since then Fubon Group has started its history. In 1992, the Fubon Group Founder and Chairman Wan-Tsai Tsai decided to change the corporate name as "Fubon", and integrate the new company identification system into all Fubon Group's affiliates. After four decades, Fubon Group has become the most comprehensive financial service group in Taiwan, and extends its businesses into land development and construction. Fubon Group always persists in the business philosophy of "Trustworthiness, Sincerity, Professionalism and Innovativeness", and will continually innovate new products to satisfy the diversified needs of society and to move forward into the new era of internationalization.



Wan-Tsai Tsai, Fubon Group Founder and Chairman

#### *Fubon Financial*

- Fubon Insurance
- Fubon Life
- Fubon Bank
- Taipei Bank
- Fubon Securities
- Fubon Asset Management
- Fubon Direct
- Fubon Bills Finance
- Fubon Futures
- Fubon Investment Services

#### *Other Financial Services*

- Fubon Securities Finance
- Fubon Venture Capital

#### *Property & Construction Services*

- Fubon Land
- Fubon Property Management
- Fubon Construction
- Fubon Construction Management
- Fubon Leisure & Entertainment

#### *Charitable Services*

- Fubon Charitable Foundation
- Fubon Cultural & Educational Foundation
- Fubon Art Foundation
- TAIPEIBANK Charitable Foundation

## Financial Statements

48	50	52	54
<i>Consolidated Balance Sheet</i>	<i>Consolidated Income Statement</i>	<i>Consolidated Statements of Changes in Stockholders' Equity</i>	<i>Cash Flow Statement</i>

## Fubon Financial Holding Co., Ltd. and Subsidiaries Consolidated Balance Sheets

December 31, 2002 and 2001

(expressed in thousands of New Taiwan dollars)

Assets	2002		2001 (Restated)	
	Amount	%	Amount	%
<b>Current assets</b>				
Cash and cash equivalents	\$ 182,244,143	16	117,758,962	11
Due from banks	81,082,644	7	83,544,474	7
Due from Central Bank of China	39,861,764	3	33,798,271	3
Short-term investments, net	145,494,196	13	194,197,134	17
Trading securities, net	24,138,937	2	25,934,865	2
Bonds purchased under agreements to resell	2,622,306	-	2,229,802	-
Margin loans	14,635,162	1	14,145,686	1
Notes and accounts receivables	31,015,618	3	33,009,224	3
Other current assets	3,901,801	-	4,136,592	1
<b>Total current assets</b>	<b>524,996,571</b>	<b>45</b>	<b>508,754,810</b>	<b>45</b>
<b>Loans, net</b>	<b>517,642,868</b>	<b>45</b>	<b>554,123,888</b>	<b>50</b>
<b>Long-term investments</b>	<b>75,764,413</b>	<b>7</b>	<b>23,690,222</b>	<b>2</b>
<b>Fixed assets</b>				
Land	9,426,269	1	9,531,888	1
Buildings and structures	7,579,176	1	7,330,135	1
Others	7,145,837	1	6,583,421	1
	24,151,282	3	23,445,444	3
Less: accumulated depreciation	(6,349,177)	(1)	(5,597,700)	(1)
Unfinished construction and prepayments for equipment	153,488	-	167,402	-
<b>Net fixed assets</b>	<b>17,955,593</b>	<b>2</b>	<b>18,015,146</b>	<b>2</b>
<b>Intangible assets</b>	<b>811,069</b>	<b>-</b>	<b>852,734</b>	<b>-</b>
<b>Other assets</b>	<b>20,310,267</b>	<b>1</b>	<b>15,956,409</b>	<b>1</b>
<b>Total assets</b>	<b>\$ 1,157,480,781</b>	<b>100</b>	<b>1,121,393,209</b>	<b>100</b>

Liabilities and Stockholders' Equity	2002		2001 (Restated)	
	Amount	%	Amount	%
<b>Current liabilities</b>				
Short-term borrowings	\$ 643,641	-	-	-
Commercial paper payable	119,895	-	-	-
Due to banks	31,379,240	3	37,286,788	3
Deposits	721,269,432	62	754,224,813	67
Bonds sold under agreements to repurchase	29,673,646	3	30,787,889	3
Securities finance margin deposits received	1,623,080	-	1,710,801	-
Payables for securities financing	1,990,122	-	1,922,375	-
Notes and accounts payable	28,357,683	2	33,818,842	3
Stock warrant liabilities	210,494	-	83,912	-
Other current liabilities	10,223,776	1	7,129,980	1
<b>Total current liabilities</b>	<b>825,491,009</b>	<b>71</b>	<b>866,965,400</b>	<b>77</b>
<b>Long-term liabilities</b>				
Bonds payable	45,287,623	4	998,338	-
Reserve for land revaluation increment tax	9,263	-	9,263	-
Accrued pension liability	628,102	-	516,019	-
Forward contract payable	5,305	-	-	-
Borrowed funds	43,313,105	4	27,971,865	2
Other long - term liabilities	2,687	-	124	-
<b>Total long-term liabilities</b>	<b>89,246,085</b>	<b>8</b>	<b>29,495,609</b>	<b>2</b>
<b>Other liabilities</b>				
Reserve for operations and other liabilities	101,286,447	9	75,126,127	8
Other liabilities	2,569,092	-	2,374,813	-
Minority interests	86,079	-	116,165	-
<b>Total liabilities</b>	<b>103,941,618</b>	<b>9</b>	<b>77,617,105</b>	<b>8</b>
<b>Total stockholders' equity</b>	<b>1,018,678,712</b>	<b>88</b>	<b>974,078,114</b>	<b>87</b>
<b>Stockholders' Equity</b>				
Common stock	82,914,373	7	80,215,594	7
Capital surplus	58,815,801	5	61,184,973	5
Retained earnings:				
Legal reserve	13,687,534	1	12,575,220	1
Special reserve	2,515,056	-	4,442,459	-
Unappropriated retained earnings	9,576,102	1	5,632,074	1
<b>Total retained earnings</b>	<b>25,778,692</b>	<b>2</b>	<b>22,649,753</b>	<b>2</b>
Equity adjustments				
Unrealized losses on valuation of long-term investments	(813,589)	-	(1,231,832)	-
Cumulative foreign currency translation adjustments	130,028	-	145,333	-
Net loss from unrecognized pension cost	(5,534)	-	(59)	-
<b>Total equity adjustments</b>	<b>(689,095)</b>	<b>-</b>	<b>(1,086,558)</b>	<b>-</b>
Treasury stock	(28,017,702)	(2)	(15,648,667)	(1)
<b>Total stockholders' equity</b>	<b>138,802,069</b>	<b>12</b>	<b>147,315,095</b>	<b>13</b>
Contingent liabilities and commitments				
<b>Total liabilities and stockholders' equity</b>	<b>\$ 1,157,480,781</b>	<b>100</b>	<b>1,121,393,209</b>	<b>100</b>

## Fubon Financial Holding Co., Ltd. and Subsidiaries Consolidated Income Statements

For the year ended December 31, 2002 and the period from December 19 to 31, 2001

(expressed in thousands of New Taiwan dollars)

	2002		2001 (Restated)	
	Amount	%	Amount	%
<b>Revenues</b>				
Brokerage and commission fees	\$ 16,152,261	12	9,876,642	7
Securities management fees	26,279	-	28,167	-
Interest income	38,840,771	28	48,705,124	35
Gain on trading and investment securities	1,945,209	1	3,342,632	2
Gross written premiums	54,158,311	39	42,784,381	31
Reserve release	5,488,389	4	8,288,064	6
Recovery from provision	10,263,244	7	11,385,778	8
Net gain on bills trading	8,252,865	6	7,768,996	6
Gain on issuance of stock warrants	490,624	-	173,749	-
Gain on devaluation for trading securities	-	-	824,384	1
Other operating revenues	1,856,504	1	3,774,153	3
Non-operating revenues	2,865,272	2	1,778,748	1
<b>Total revenue</b>	<b>140,339,729</b>	<b>100</b>	<b>138,730,818</b>	<b>100</b>
<b>Expenses</b>				
Brokerage securities transaction charge	360,114	-	189,088	-
Interest expense	18,148,749	13	29,421,498	21
Reinsurance premium ceded	12,866,881	9	11,507,568	8
Commission expense	3,896,289	3	3,775,626	3
Benefits and claims	14,152,373	10	15,880,962	12
Provision for premium reserves	40,361,364	29	31,075,529	23
Provision for loan losses	5,770,870	4	6,846,757	5
Provision for special claims reserve	567,550	-	1,526,690	1
Processing fees	4,884,412	4	1,259,345	1
Loss on devaluation of trading securities	269,581	-	-	-
Operating expenses	20,781,850	15	21,240,865	15
Non-operating expenses	6,970,665	5	1,908,753	1
<b>Total expenses</b>	<b>129,030,698</b>	<b>92</b>	<b>124,632,681</b>	<b>90</b>

	2002		2001 (Restated)	
	Amount	%	Amount	%
Income before tax expense	11,309,031	8	14,098,137	10
Income tax expense	1,717,179	1	2,258,673	2
Income before extraordinary items and cumulative effect of changes in accounting principle	9,591,852	7	11,839,464	8
Cumulative effect of changes in accounting principle	3,071	-	-	-
Net income before minority interest	9,588,781	7	11,839,464	8
Minority interest	19,523	-	14,014	-
Preacquisition income	154,405	-	11,195,454	8
<b>Net income</b>	<b>\$ 9,414,853</b>	<b>7</b>	<b>629,966</b>	<b>-</b>
<b>Earnings per share (In New Taiwan Dollars)</b>	<b>Before tax</b>	<b>After tax</b>	<b>Before tax</b>	<b>After tax</b>
			<b>(Restated)</b>	<b>(Restated)</b>
Primary EPS	\$ 1.50	1.25	1.78	0.08
Diluted EPS	\$ 1.49	1.24	1.78	0.08
<i>Assumption information: if subsidiaries hold the stock of the Company and it is not treated as treasury stock :</i>				
<b>Net income</b>	<b>\$ 11,151,310</b>	<b>9,257,132</b>		
Primary EPS	\$ 1.41	1.17		
Diluted EPS	\$ 1.40	1.16		

## Fubon Financial Holding Co., Ltd. and Subsidiaries Consolidated Statements of Changes in Stockholders' Equity

For the year ended December 31, 2002 and the period from December 19 to 31, 2001

(expressed in thousands of New Taiwan dollars)

	Common stock	Capital surplus	Retained earnings		
			Legal reserve	Special reserve	Unappropriated retained earnings
<b>Transferred existence as of December 19, 2001</b>	\$ 54,649,852	54,031,810	1,710,517	1,917,520	1,880,458
Additional paid - in capital adjustments	-	3,611,822	-	-	-
Cumulative foreign currency translation adjustments	-	-	-	-	-
The stock of the Company held by subsidiaries	-	-	-	-	-
Adjustment for issuance of stock for combination	25,565,742	3,541,341	10,864,703	2,524,939	3,121,650
Net income for the period from December 19 to					
December 31, 2001 (restated)	-	-	-	-	629,966
<b>Balance as of December 31, 2001 (restated)</b>	<b>\$ 80,215,594</b>	<b>61,184,973</b>	<b>12,575,220</b>	<b>4,442,459</b>	<b>5,632,074</b>
<b>Balance as of December 31, 2001 (before restated)</b>	<b>\$ 54,649,852</b>	<b>57,643,632</b>	<b>1,710,517</b>	<b>1,917,520</b>	<b>2,416,583</b>
Appropriation of retained earnings:					
Legal reserve	-	-	241,435	-	(241,435)
Reversal of special reserve	-	-	-	(688,140)	688,140
Cash dividends	-	(2,370,000)	-	-	(2,896,668)
Employees' bonuses, etc.	-	-	-	-	(500)
Cumulative foreign currency translation adjustments	-	-	-	-	-
Unrealized long-term investment loss	-	-	-	-	-
Reversal of gain on disposal of property and equipment transferred to capital surplus	-	(80,339)	-	-	80,339
Additional paid - in capital from long - term equity investment by equity method	-	36,888	-	-	-
Cash dividends received by subsidiaries from the company	-	364,594	-	-	-
The bonus to employees from subsidiaries	-	(46,600)	-	-	-
Issuance of stock for combination	28,264,521	3,259,177	11,735,582	1,285,676	114,790
Net income for the period from January 1 to					
December 31, 2002	-	-	-	-	9,414,853
Net loss for unrecognized pension cost	-	-	-	-	-
Sale of treasury stock	-	8,449	-	-	-
Purchase of treasury stock	-	-	-	-	-
Purchase of stock of TaipeiBank transferred to treasury stock	-	-	-	-	-
The adjustment from subsidiaries' treasury stock	-	-	-	-	-
<b>Balance as of December 31, 2002</b>	<b>\$ 82,914,373</b>	<b>58,815,801</b>	<b>13,687,534</b>	<b>2,515,056</b>	<b>9,576,102</b>

Unrealized losses on valuation of long-term investments	Cumulative foreign currency translation adjustments	Net loss for unrecognized pension cost	Treasury stock	Total
-	-	-	(2,207,237)	111,982,920
(1,229,321)	9,720	(59)	-	2,392,162
-	39,654	-	-	39,654
-	-	-	(13,441,430)	(13,441,430)
(2,511)	95,959	-	-	45,711,823
-	-	-	-	629,966
<b>(1,231,832)</b>	<b>145,333</b>	<b>(59)</b>	<b>(15,648,667)</b>	<b>147,315,095</b>
(1,229,321)	49,374	(59)	(15,648,667)	101,509,431
-	-	-	-	-
-	-	-	-	-
-	-	-	-	(5,266,668)
-	-	-	-	(500)
-	(15,035)	-	-	(15,305)
418,243	-	-	-	418,243
-	-	-	-	-
-	-	-	-	36,888
-	-	-	-	364,594
-	-	-	-	(46,600)
(2,511)	95,959	-	-	44,753,194
-	-	-	-	9,414,853
-	-	(5,475)	-	(5,475)
-	-	-	185,855	194,304
-	-	-	(7,415,603)	(7,415,603)
-	-	-	(5,890,803)	(5,890,803)
-	-	-	751,516	751,516
<b>(813,589)</b>	<b>130,028</b>	<b>(5,534)</b>	<b>(28,017,702)</b>	<b>138,802,069</b>



## Fubon Financial Holding Co., Ltd. and Subsidiaries Consolidated Statements of Cash Flows

For the years ended December 31, 2002 and the period from December 19 to 31, 2001

(expressed in thousands of New Taiwan dollars)

	2002	2001 (Restated)
<b>Cash flows operating activities:</b>		
Net incomes	\$ 9,414,853	629,966
Adjustment to reconcile net income to net cash:		
Pre - acquisition income	154,405	11,195,484
Minority interest income	1,574	-
Effect on minority	1,006	295,179
Depreciation and amortization	1,242,588	2,071,755
Provision for bad debts	31,245,517	4,124,280
Provision for pension and performance bonus	51,961	-
Payment for retirement	(43,330)	-
Loss on sale of bad loans	4,367,562	-
Amortization of premium forward contracts	(18,955)	-
Gain on disposal of short-term investments	(423,452)	-
Loss (gain) in devaluation of short - term investments	1,971,322	(1,131,321)
Received cash dividends	46,827	-
Net investment loss under to equity method	104,340	20,953
Loss (gain) on disposal of long-term investments	(382,398)	54,411
Provision for loss on securities trading	273,505	(824,384)
Provision for loss on foreclosed assets	-	50,000
Increase in trading loss reserve	99,903	-
Loss on disposal of assets	(1,562)	33,372
Loss on disposal of foreclosed assets	98,316	72,892
Increase in deferred pension cost	(66)	-
Collection of loan receivable written - off in prior years	147,061	-
Recovery of unrealized gain on short - term and long - term debt investments	73,462	-
Losses on reduction of long - term investments	30,251	-
Provision for losses on guarantees transferred to non - operating income	(26,500)	-
Property and equipment reclassified to expense	876	-
Increase in trading securities	227,090	(10,292,153)
Increase in receivables from securities refinance	(489,476)	-
Increase in resale bonds	(533,501)	(1,480,280)
Increase in receivables from pecuniary finance	(6,120)	322,071
Increase in receivables	7,503,554	(5,337,910)
Increase in prepayments and other current assets	559,665	(183,973)
Increase in stock warrant liabilities	126,581	-
Increase in repurchase bonds payable	(1,018,064)	14,749,223
Decrease in accounts payable	(2,979,029)	-
Decrease in payables	2,289,665	-
Decrease in securities finance margin deposits received	(87,721)	60,412
Decrease in payables for securities financing	67,747	-
Increase in reserve for liabilities	-	24,751,876
Decrease in pension payment	-	(13,993)
Decrease in other account payable and current liabilities	2,095,905	(4,525,773)
Increase in deferred tax asset, net	(203,994)	32,526
<b>Net cash flows provided by operating activities</b>	<b>55,981,368</b>	<b>34,674,613</b>

	2002	2001 (Restated)
<b>Cash flows investing activities:</b>		
Increase in due from Central Bank of China and banks	(10,994,337)	(6,500,706)
Decrease in short-term investments	5,948,857	(63,078,988)
Decrease in loans, including non-accrual loans	29,221,759	(19,796,740)
Decrease in securities purchased - for investing purposes	9,666,866	-
Decrease in restricted time deposits	247,000	299,500
Increase in long-term equity investments	(33,395,698)	(9,002,629)
Increase in property and equipment	(1,088,501)	(1,569,789)
Increase in deferred charges	-	(888,987)
Sale of long-term investments	17,212,842	178,062
Matured long - term bond investment	315,830	-
Proceeds from sale of bad loans	412,906	-
Sales of property and equipment	22,375	30,912
Decrease in operating deposits	(50,000)	294,000
Decrease in settlement and clearing funds	21,728	7,803
Sale of foreclosed assets	298,946	372,491
Increase in deposit-out and other assets	(7,850,319)	(1,011,180)
<b>Net cash flows provided by (used in) investing activities</b>	<b>9,990,254</b>	<b>(100,666,251)</b>
<b>Cash flows from financing activities:</b>		
Increase in short-term borrowings	643,641	-
Increase in commercial paper payable	119,895	-
Increase in payable on forward contracts	-	-
Increase in corporation bonds payable	14,971,140	(504,840)
Increase in deposits	(17,844,820)	44,644,009
Increase in due to banks	(4,858,717)	18,177,816
Decrease in appropriated loan fund	(15,804)	(20,825)
Increase in borrowed funds	-	25,595,961
Issuance of stock	-	79,19,308
Cash dividend payment	(7,519,032)	(5,590,784)
Payments of employees' bonuses, etc.	(24,530)	-
Proceeds from bonds issued	30,000,000	-
Increase in minority interest	(22,095)	(9,632)
Increase in deposit-in and other liabilities	(139,562)	144,312
Proceeds from disposal of treasury stock	46,792	-
Purchase of treasury stock	(12,370,169)	(3,530,818)
<b>Net cash flows provided by financing activities</b>	<b>2,986,739</b>	<b>86,824,507</b>
<b>Effect of exchange rate changes on cash</b>	<b>1,806</b>	<b>(11,508)</b>
<b>Net increase in cash and cash equivalents</b>	<b>68,960,167</b>	<b>20,821,361</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>148,057,393</b>	<b>127,236,032</b>
<b>Cash and cash equivalent at end of year</b>	<b>\$ 217,017,560</b>	<b>148,057,393</b>
<b>Supplemental disclosure of cash flow information:</b>		
Cash payments of interest	\$ 20,616,142	31,589,657
Cash payments of income tax	\$ 1,369,099	11,607,824
<b>Financing and investing activities not affecting cash:</b>		
Issuance of stock in exchange for subsidiary's shares	\$ 28,264,521	39,940,824
<b>Cash and cash equivalents:</b>		
Cash	\$ 182,244,143	117,758,962
Due from bank (including call loans to banks 90 days due)	17,505,828	23,075,831
Due from Central Bank (not including reserve due from Central Bank)	5,350,285	7,172,954
Short-term investment securities 90 days due	11,917,304	49,646
	<b>\$ 217,017,560</b>	<b>148,057,393</b>

*Fubon Financial  
Board of Directors*

**Chen S. Yu**  
*Chairman, Fubon Financial*

**Daniel Tsai**  
*Co-CEO, Fubon Financial*

**Richard Tsai**  
*Co-CEO, Fubon Financial*

**Stephen Long**  
*Asia Pacific Group Head,  
Citibank Corporate Bank*

**Harvey Chang**  
*CFO, Taiwan Semiconductor  
Manufacturing Company*

**Barry Lam**  
*Chairman, Quanta Computer*

**Kung-Liang Yeh**  
*President, Fubon Securities*

**Tsan-Ming Shih**  
*President, Fubon Insurance*

**Jesse Y. Ding**  
*President, Taipei Bank*

**Sush-Der Lee**  
*Commissioner, Bureau of Finance*

**Samuel S. G. Wu**  
*Chairman, Research, Development  
and Evaluation Commission of  
Taipei City Government*

*Supervisors*

**Hong-Chang Chang**  
*Professor,  
National Taiwan University*

**Chia-Chen Lin**  
*Supervisor, Fubon Bank*

**C. H. Lu**  
*Chairman,  
Neoflex Technology Ltd.*



*Fubon Financial Holding Co., Ltd.*  
Founded in December, 2001  
Chairman: Chen S. Yu  
President: Richard Tsai  
Capital: NT\$82.9 Billion  
237 Section 1 Chien Kuo S Road Taipei, Taiwan  
Tel (886-2)6636-6636 Fax (886-2)6636-0111  
[www.fubongroup.com](http://www.fubongroup.com)

*Fubon Insurance Co., Ltd.*  
Founded in April, 1961  
Chairman: Daniel Tsai  
President: Tsan-Ming Shih  
Capital: NT\$20.7 Billion  
237 Section 1 Chien Kuo S Road Taipei, Taiwan  
Tel (886-2) 2706-7890 Fax (886-2) 2704-2915  
[www.518fb.com.tw](http://www.518fb.com.tw)

*Fubon Life Assurance Co., Ltd.*  
Founded in July, 1993  
Chairman: Richard Tsai  
President: Pen-Yuan Cheng  
Capital: NT\$5.6 Billion  
108 Section 1 Tien Hwa S Road Taipei Taiwan  
Tel (886-2) 8771-6699 Fax (886-2) 8771-5919  
[www.fubonlife.com.tw](http://www.fubonlife.com.tw)

*Fubon Commercial Bank Co., Ltd.*  
Founded in April, 1992  
Chairman: Chen S. Yu  
President: Chuan-Hsi Wang  
Capital: NT\$20.4 Billion  
169 Section 4 Jen Ai Road Taipei Taiwan  
Tel (886-2) 2771-6699 Fax (886-2) 2778-0021  
[www.fubonbank.com.tw](http://www.fubonbank.com.tw)

*TAIPEIBANK Co., Ltd.*  
Founded in April, 1969  
Chairman: Chi-Yuan Lin  
President: Jesse Y. Ding  
Capital: NT\$23.3 Billion  
50 Section 2 Chung Shan N Road Taipei Taiwan  
Tel (886-2) 2542-5656 Fax (886-2) 2565-2122  
[www.taipbank.com.tw](http://www.taipbank.com.tw)

*Fubon Securities Co., Ltd.*  
Founded in September, 1988  
Chairman: Kung-Liang Yeh  
President: Kung-Liang Yeh  
Capital: NT\$19.8 Billion  
108 Section 1 Tien Hwa S Road Taipei Taiwan  
Tel (886-2) 8771-6888 Fax (886-2) 8771-6795  
[www.fbs.com.tw](http://www.fbs.com.tw)

*Fubon Asset Management Co., Ltd.*  
Founded in September, 1992  
Chairman: Richard Tsai  
President: Eric Chou  
Capital: NT\$556 Million  
108 Section 1 Tien Hwa S Road Taipei Taiwan  
Tel (886-2) 8771-6688 Fax (886-2) 8771-8966  
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