

2002 ANNUAL REPORT
FUBON COMMERCIAL BANK

169, Jen Ai Road, Section 4
Taipei, Taiwan
Tel: (02) 2771-6699

I. Corporate Spokesperson

Lin Jiu-Liang

Senior Vice President

Tel: (02) 2271-6699

2. Contact Information – Corporate Headquarter and Branches

Please see page 87

3. Transfer Agency

Registrar & Transfer Dept., Fubon Securities Co., Ltd.

7F, 138, Ming Sheng E. Road, Sec. 3, Taipei, Taiwan

Tel : (02) 2717-1033

4. Credit Rating Agency

Taiwan Ratings Corporation

23F, 100, Roosevelt Road, Section 2, Taipei, Taiwan

Tel : (02) 2368-8277

5. Auditors

Huang Min-Chuan, Ho, Chih-Ru

Deloitte & Touche

5F, 102, Kuang Fu S. Road, Taipei, Taiwan

Tel: (02) 2751-8866

6. Corporate Website:

www.fubonbank.com.tw

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MESSAGE TO SHAREHOLDERS

In retrospect, the overall economic environment in 2002 was uncertain, characterized by a volatile domestic stock market and foreign exchange market. Under such unfavorable conditions, Fubon Bank launched its well defined business strategy by developing its niche market with a view to emerge as the leading brand in the market and shake off the yoke of acute competition. This helped Fubon to project the corporate image of “Fubon Bank is No. 1”.

First of all, Fubon Bank has successfully acquired three hundred thousand credit card customers in good standing under its “No Annual Fee Platinum Card” innovative strategy rather than playing the numbers game in interest rates as the others in the industry did. It is because of its innovative strategy that Fubon Bank has successfully promoted its credit card business with the issuance of 2 million credit cards in 2002, an increase of 60% from the 1.2 million cards of 2001. This enabled Fubon to emerge as one of the top three credit card issuers in Taiwan.

In the area of consumer financing, Fubon Bank did not compete with the other financial institutions in unveiling the product of “adjustable rate mortgage”. Instead, Fubon targeted the market of rational buyers, and has been the first bank to launch the “Fixed Rate Mortgage”. Similarly, Fubon is also the first bank to launch the “adjustable rate personal loan” product. These two products helped Fubon to sustain stable growth in gaining new accounts and profits, and hit right into the mark of the niche market.

In addition, Fubon Bank is aware of the high demand of financing from small enterprises. Therefore, it founded the “Small Business Finance Department” in September 2002, and kicked off the new product of “Boss Account”. In just a matter of four months, Fubon Bank has drawn loans down by up to NT\$2 billion. This has cleared up the cloudy sky over corporate banking.

In 2003, Fubon Bank will persist to uphold its spirit of innovation, and will seek growth from its current establishment. Further, Fubon Bank will integrate all the resources of its subsidiaries for integrated marketing in order to yield synergy. In practice, Fubon will act in the following three directions:

1. Work proactively with Taipei Bank in the integration of back-office and mid-office operation for resource sharing and integrated marketing.
2. After the grand opening of “Fubon Keelung Road Financial Center” in July 2002, Fubon Bank managed to continue its working relationship with Fubon Securities in sharing facilities for integrated banking and securities services. Besides, Fubon seeks to step up its training of the banking staff so that they are capable of marketing in insurance, securities and banking.
3. Share database resources with its subsidiaries for customer relationship management in order to maximize cost-effectiveness and provide a full-range of financial services.

Despite the weak recovery of the global economy, Fubon Bank yielded good performance in 2002. The return on equity before loan loss provisioning of Fubon Bank has reached the international standard of 27.43% with pre-provision pre-tax profit at NT\$7.78 billion, an increase of more than 100% from that of 2001. For improving its asset quality, Fubon Bank has declared

recognized loss of NT\$ 4.368 billion in the disposition of non-performing loans to asset management companies. At the same time Fubon Bank also increased the loan loss provision of NT\$ 2.64 billion. This adjustment made the pre-tax profit at NT\$745 million, but made the coverage rate for overdue loans up to 47%, which helped to buttress the foundation of Fubon Bank for sustained growth.

We therefore would like to express our gratitude to our shareholders and leaders in other sectors, and wish our customers and shareholders to continue their guidance and encouragement. We will try with the best of our efforts for the best performance.

I. Company Profile

1. Introduction

Established in 1992, Fubon Commercial Bank (FCB) is one of the 16 new banks licensed to engage in banking activities in Taiwan following the liberalization of the industry. Since its inception, FCB has grown into one of the leading and most profitable private commercial banks in Taiwan.

As of December 19, 2001, Fubon Financial Holding Company Ltd. obtained 100% of the shares outstanding of FCB through a share swap. In accordance with Taiwan banking regulations, FCB's shares were de-listed from the Taiwan Stock Exchange on the same date. Milestones in FCB history are summarized as the following:

- 7/89 In response to government policies of liberalization and internationalization, Chairman Tsai Wan-tsai perceived the need to raise domestic standards of financial services. He decided to found a bank that would provide high-quality financial services to business and the public. He gathered other like-minded business leaders to organize the Fubon Commercial Bank.
- 1/92 FCB's founding meeting and first shareholders' meeting was convened at the Chung Tai Hotel. The first Supervisors and Board of Directors were elected.
- 4/92 Four business units launched operations: the Business Department, Savings Department, Min Sheng Branch and Jen Ai Branch. FCB was now officially open for business.
- 5/92 The Kaohsiung and Tao Yuan Branches opened.
- 6/92 The Taichung Branch opened.
- 12/92 Credit card business was launched.
- 2/93 Telephone banking was launched.
- 11/93 The Tu Cheng Branch opened.
- 12/93 The Sung Shan, Chung Li, Tainan and Feng Shan Branches opened; and the Trust Department was established.
- 7/94 The International Department began operations.
- 10/94 The Ling Ya Branch opened.
- 11/94 The Chia Yi and San Chung Branches opened.
- 12/94 The Pa Teh Branch opened.
- 4/95 The main bank headquarters and the business Department moved to a new location in the Fubon Building on Jen Ai Rd., and its original location of the Business Department was renamed the Chung Shan Branch. The Personal Banking Center was established, making FCB the first of post-liberalization banks to offer specialized personal financial service. Automatic banking was also launched.
- 5/95 FCB was the first post-liberalization bank to officially join the Trade-Van FEDI.
- 8/95 The Offshore Banking Branch (OBU) was set up.
- 11/95 The Pan Chiao Branch opened.
- 12/95 The San Min Branch opened.
- 1/96 The Pei-Taichung Branch opened.

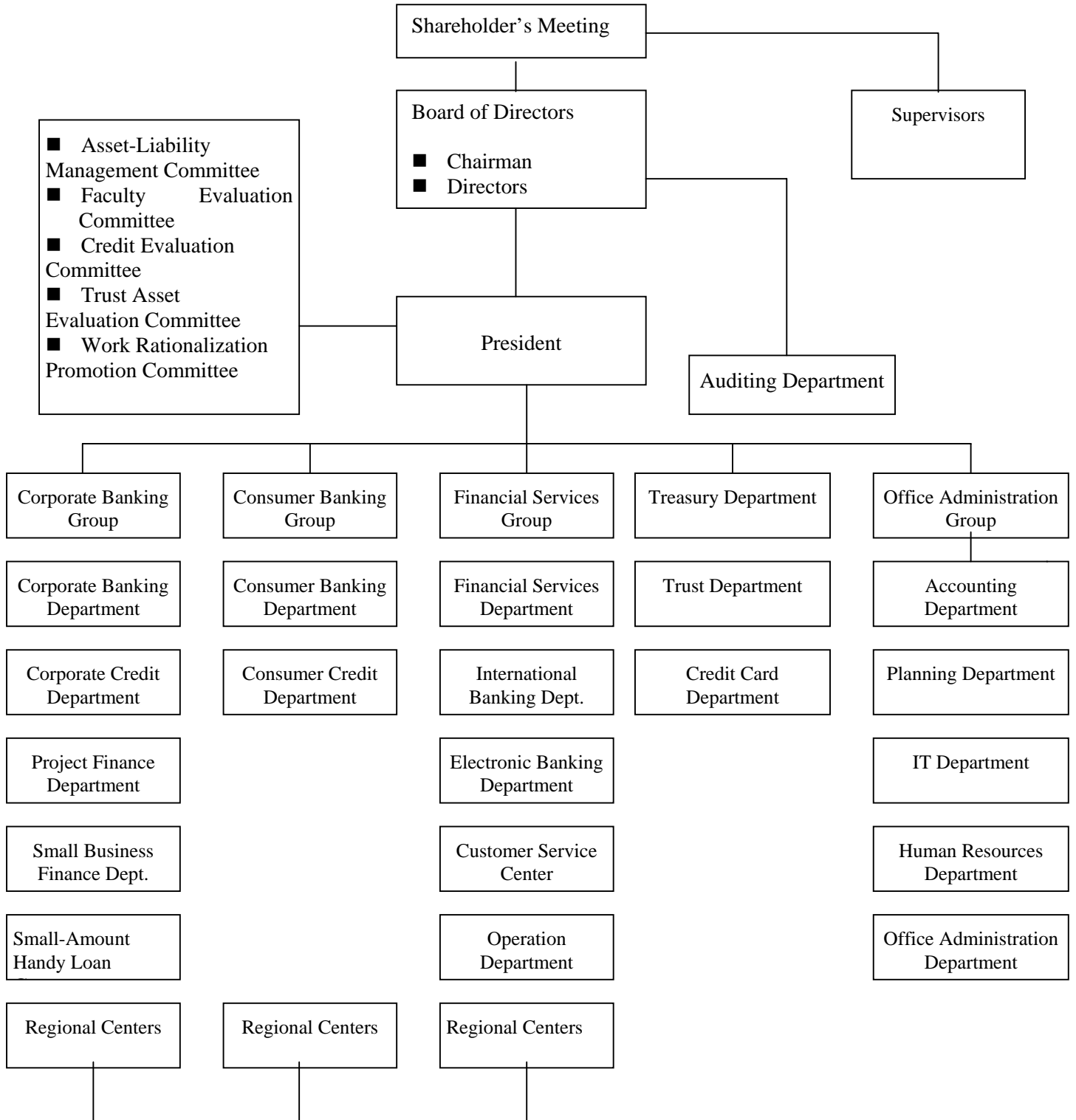
- 2/96 A new program was launched combining mortgage and life insurance. The Fubon Group home page was put onto the World Wide Web.
- 4/96 O.T.C. trading began for FCB stock. The Chien Kuo Branch opened.

- 5/96FCB cooperated with the Taiwan Power Company to become the first bank offering telephone payment of electric bills. The PC banking service system went into operation.
- 7/96FCB cooperated with the Bureau of Motor Vehicles to provide telephone payment of the automobile fuel tax.
- 8/96FCB cooperated with the water utility to provide telephone payment of water bills.
- 10/96 "Mixed Demand/Time Deposit Foreign Currency Accounts" launched to allow customers more diverse choices in financial management.
- 10/96 The Hsin Chu Branch opened.
- 1/97 The Hsin Tien Branch opened.
- 3/97 Non-discretionary trust fund by lump sum/cost-averaging method investment in domestic trust fund was launched.
- 3/97 The Tien Mu Branch opened.
- 9/97 The Hsi Chih Branch opened.
- 10/97 The Min Sheng Branch became a designated foreign exchange bank.
- 11/97 The International Department launched non-delivery forward operations. The Yung Kang Branch opened.
- 12/97 A designated foreign exchange bank branch was established in Kaohsiung. The Huei Long Branch opened.
- 1/98 The Cheng Chung Branch opened.
- 8/98 The Savings Department and Jen Ai Branch became designated foreign exchange banks.
- 10/98 FCB shares were officially listed on the Taiwan Stock Exchange on
- 10/1/98 The Mu Ja and Hsin Chuang Branches began operations.
- 11/98 The Hsin Ying Branch began operations.
- 12/98 The Ping Tung and Chien Chen Branches began operations.
- 2/99 The Credit Card Center was reorganized as the Credit Card Department, and the Personal Finance Department was established.
- 5/99 The 1999 Shareholders Meeting was convened and Yu, Cheng S. was elected as Chairman.
- 8/99 The Taichung Branch became a designated foreign exchange bank.
- 10/99 The Ministry of Finance gave special dispensation for FCB, Acer, and Mastercard Taiwan to jointly conduct Mondex trial operations. FCB and Taiwan Cellular Co. pioneered the launch of mobile banking.
- 11/99 The Tun Nan Branch began operations.
- 12/99 The Electronic Banking Department was established.
- 3/00 FCB became Taiwan's first bank to earn Ministry of Finance approval to launch Internet Banking services. The Hsuang Ho Branch was established.
- 5/00 Fubon Group and Citigroup announced a Strategic Alliance.
- 7/00 FCB set a new precedent by issuing electronic gift certificates in cooperation with the SOGO department store. Depositors and Credit Cards Broke the Million Mark.
- 10/00 FCB introduced its on-line website payment services.
- 11/00 The All-in-one Fubon Money Account was launched, integrating all of a customer's dealings with FCB into a single convenient account.
- 03/01 The Yuan Lin Branch opened. JCB Credit Card services were launched.
- 05/01 The Platinum credit card was introduced.
- 06/01 The Nei Hu Branch opened.
- 07/01 Corporate reorganization plans were implemented.

- 08/01 The Luo Tong Branch opened.
- 11/01 The Group Databank Information System officially began operation.
- 12/01 FCB shares were replaced on the Taiwan Stock Exchange by FFHC shares. The newly completed FCB Technology Building in Neihu began operations. C Plan was approved by the Ministry of Economics.
- 04/02 Entering into agreement with the Small and Medium Enterprise Administration, MOEA for the establishment of a window for financing, Fubon Bank is the first in the banking industry to have 19 "small and medium enterprise financing service windows" participating in this service program.
- 07/02 "Fubon Keelung Road Financial Center" officially opened for business. This is the first banking branch in Taiwan to provide customers with integrated services of banking and securities. This center allows customers to enjoy a full range of financial services in "one-stop shopping"
- 09/02 The "Small Business Finance Department" was established, and the product line of "Small-Amount Handy Loan Program" was launched. This program is specially prepared for small and medium enterprises as well as petty merchants, offering them tailor made financial products.
- 10/02 Established the "Operation Department" for coordinating the back-office operation of all business units.
- 11/02 Fubon Bank has issued more than 2 million valid credit cards, which made it emerge as one of the third largest card issuers in Taiwan. Further, the amount of monthly spending per card issued by Fubon Bank has been the highest, rated by United Credit Card Center.

2. Company Structure

(1) Organization Chart



39 Branches

(2) Board Members and Supervisors

Title	Name	Representing Organization	Education & Background	Date Elected	Term	Fubon Financial Holding Co., Ltd Shares Owened (Self and immediate family members)
Chairman	Yu, Chen S.	Fubon Financial Holding Co.	Dept. of Engineering, University of Wisconsin Madison, USA Vice President, Central Bank of China Chairman, Chiao Tung Bank	07/01/02	3 yrs	462,932
Director	Wang, Chuan-Hsi	Fubon Financial Holding Co.	Dept. of Mathematics, Tamkang University Vice President, Taiwan Business Bank, Information System Dept. and Banking Administration Dept.	07/01/02	3 yrs	388,488
Director	Chen, Eric	Fubon Financial Holding Co.	MBA, University of Missouri, USA Country Corporate Office, Citigroup, Taiwan	07/01/02	3 yrs	0
Director	Liu, Bang-Jen	Fubon Financial Holding Co.	Dept. of Accounting & Statistics, Cheng Kung University Vice President, Huanan Bank	07/01/02	3 yrs	157,548
Director	Hu, Ruey-Chang	Fubon Financial Holding Co.	Dept. of Business, Taiwan University Vice President, Chang Hua Bank	07/01/02	3 yrs	190,695
Supervisor	Lin, Chia-Chen	Fubon Financial Holding Co.	Dept. of Economics Taiwan University Chairman, Fubon Bills Financial Co. Ltd.	07/01/02	3 yrs	586,670
Supervisor	Huang, Tung-Chuan	Fubon Financial Holding Co.	Dept. of Economics, Taiwan University Vice President, Chang Hua Bank, Banking Administration Dept.	07/01/02	3 yrs	219,795

(3) 10% or More Shareholdings of Institutional Shareholder Representatives, Directors, Supervisors & Top 10 Shareholders

Institutional Shareholders	Top 10 Shareholder whose total investments account for more than 10% of total shares
Fubon Financial Holding Company	Taipei City Government

(4) Senior Management

Title	Name	Educational/ Professional Experience	Term Starting Date	Holding Company Shares Owned	Holding Company Shares Owned By Immediate Family
President	Wang, Chuan-Hsi	Tam Kang University, Mathematics Dept. Vice President, Taiwan Business Bank Vice President, Electronic Data System Taiwan Corp.	01/11/96	312,037	76,451
Executive Vice President, Kaoshiung Pintong Regional Center of Corporate Banking	Hu, Ruey-Chang	National Taiwan University, Business Department Vice President, Chang Hua Bank	30/04/01	190,695	0
Executive Vice President, Corporate Banking Group	Liu, Bang-Jen	Cheng Kung University, Accounting & Statistics Dept. Vice President Hua Nan Bank	30/04/01	157,548	0
Chief Auditor	Li, Su-May	Cheng Chi University Banking Department Vice President & Deputy Chief Economist, Cocurrently Chief of Credit Center, The International Commercial Bank of China	16/04/02	0	0
Assistant Executive VP, Financial Services Group	Kao, Chao-Yang	National Taiwan University, Law Department Manager, Taiwan Small-Medium Commercial Bank	30/04/01	15,058	0
Assistant Executive Vice President, Office Administration Group	Huang, Kuo-Tai	National Cheng Chi University, Graduates School of Statistics Division Chief, Taiwan Business Bank	30/04/01	59,175	215,234
Assistant Executive VP, Consumer Banking Group	Chen, Cliff	Tam Kang University, Hydraulic Engineering Dept. Vice President, Citibank, Taiwan	30/04/01	7,730	1,308
Senior Vice President, Office Administration Department	Lin, Jiu-Liang	National Taiwan University, Graduate School of Finance Vice President, T.C. Bank	30/04/01	28,457	0
Vice President, Accounting Office	Tseng, Ding-Jye	Cheng Chi University, Banking Department Manager, TNSoong & Co., TNS	17/04/00	10,268	0
Senior Vice President, Information Technology Office	Huang, Ei Sue	Soochow University, Accounting Department System Analyst, Szi Ping Company, Taiwan Small-Medium Business Commercial Bank	17/04/00	151,192	0
Senior Vice President, Human Resource Office	Yeh, Yih-Wen	Chinese Culture University, Labor Graduate School Junior Specialist of Hua Nan Bank	01/04/98	67,456	0
Assistant Executive VP, Credit Card Division	Chang, Cheng-Chih	National Ocean University Shipping & Transportation Management Vice President, Chung Shing Bank	01/01/00	95,812	2,141
Senior Vice President, Electronic Banking Department	Huang, Johnnathan	National Central University, Mathematics Dept. Manager, Center of Data Operation, Sysnet Co. Ltd	22/12/99	120,939	0
Vice President, Planning Department	Yao, Sunny	Taiwan University, Economics Dept. Asst Vice President, Taiwan business Bank	19/08/02	61,007	22,124
Senior Vice President Treasury Division	Chung, Sylvia	Capital English Commercial College, International Finance Dept. Senior Vice President, Taishin International Bank	18/03/02	0	0
Vice President, Financial Service Department	Chen Yifen	MBA, University of California, Berkely, USA Vice President, Citibank, Taiwan	12/08/02	59,466	0
Vice President, Centralized Processing Department	Huang, His-Hwa	Taipei Business Junior College, Accounting & Statistics Dept. Junior Specialist, Hua Nan Bank	07/01/02	113,172	7,218
Vice President, Corporate Banking Department	Lin, Hsih-Yao	Miami University of Ohio, Graduate School of Business Administration, Senior Specialist, Farmers Bank of China	07/01/02	5,443	0
Senior Vice President, Corporate Credit Department	Chiu, Hsien-Long	Extension School, Taipei Business College, International Trade Department Junior Specialist, Hua Nan Bank	09/09/98	90,788	17,618

Senior Vice President, Small Business Finance Department/ Project Finance Department	Hong, Chu-Min	Chia Yi Business Vocational School, General Business Dept. Vice Division Chief, Hua Nan Bank	17/09/98	13,881	0
Senior Vice President, Taipei Region of Small-Amount Handy Loan Center	Tsai, Chao-Hsiung	China Business College Business Administration Department Manager, Hua Nan Bank	15/10/02	45,640	0
Senior Vice President, Tao Yuan Region of Small-Amount Handy Loan Center / Pa The Branch	Wei, Tzu-Feng	Kwang Fu High School Associate Vice President, Taiwan Business Bank	15/10/02	85,797	0
Vice President, Kaohsiung & Pintung Region of Small-Amount Handy Loan Center / Chien Chen Branch	Cheu, Auten	Fong Chia University, Accounting Department Manager, Chang Hua Bank	15/10/02	9,536	0
Assistant Executive Vice President, Taipei Regional Center of Corporate Banking/ Business Dept.	Guu, Daw-Shin	Taiwan University, Agricultural Economics Dept. Vice Division Chief, Hua Nan Bank	30/04/01	10,877	0
Senior Vice President, Taipei Regional Center of Corporate Banking / Min Sheng Branch	Chao, Philip	Chung Hsing University, Business Administration Dept. Specialist, Citibank, Taiwan	30/04/01	70,794	0
Senior Vice President, Taipei Regional Center of Corporate Banking / Pan Chiao Branch	Peng Min-Tsai	Extension College of NCCU, Administration Dept. Vice President, Taiwan Business Bank	01/01/02	30,510	0
Senior Vice President, Taoyuan Regional Center of Corporate Banking/ Tao Yuan Branch & 環北分行	Chou, Tzu-Show	Extension College of NCCU, Administration Dept. Vice President, Taiwan Business Bank	01/01/02	125,202	0
Senior Vice President, Hsin Chu Regional Center of Corporate Banking / Hsin Chu Branch	Pan, Yu-Juce	Extension School of Taipei Business College, International Trade Dept. Associate Vice President, Hua Nan Bank	01/01/02	65,168	1,326
Senior Vice President, Taichung Regional Center of Corporate Banking /Taichung Branch	Yen, Tsai-Yuan	National Cheng Kung University, Statistics Dept. Vice President, E. Sun Bank	30/04/01	9,928	0
Senior Vice President, Tainan Regaional center of Corporate Banking / Tainan Branch	Chen, Shiao-Yiao	National Chen Chi University, Accounting & statistic Dept. Vice President, E. Sun Bank	30/04/01	12,678	0
Vice President, Consumer Credit Dept. / Taoyuan Regional Center of Consumer Banking	Lin, Pei-Yuan	Tam Kang University Banking & Insurance Dept. Vice President, Bao Dao Bank	30/04/01	10,665	0
Vice President, Taipei Regional Center of Consumer Banking	Yao, Fong-Tse	Taipei Business College, Accounting Dept. Vice Division Chief, Hua Nan Bank	30/04/01	141,235	0
Vice President, Taipei Regional Center of Consumer Banking /Tien Mu Branch & San Chung Branch	Lien, Jimmy	University of Northern Illinois, Graduate School of Computer Science Assistant Manager, AnTai Bank	01/01/02	32,473	65
Vice President, Taichung Regional Center of Consumer Banking /Northern Taichung Branch	Hsiao, Wen-Chi	Taichung Business College, Business Admin Dept. Assistant Manager, Chang Hua Bank	07/01/02	216,769	8,175
Senior Vice President, Tainan Regional Center of Consumer Banking/ Yung Kang Branch	Li, Cheng-Hsiung	Tai Na Business Vocational senior High School, Associate Vice President, Hua Nan Bank	30/04/01	52,159	0

Vice President, Kaoshiung Regional Center of Consumer Banking	Tsay, Her-Cherng	Extension College of National Cheng Kung University, Statistics Department Assistant Manager, Chang Hua Bank	30/04/01	0	2,298
Senior Vice President, Trust Department	Pan Esther	Taipei Business College, Banking & Insurance Dept. Soochow University, Economics Dept Associate Vice President, Taiwan First Investment & Trust Co.	12/08/02	76,308	0
Vice President, International Banking Department/ OBU Department	Chu, Chuan	Chung Shing University, Finance & Tax Dept., Assistant Vice President, Taiwan Business Bank	19/08/02	50,380	0
Senior Vice President, Chung Shan Branch & Nan-King East Branch	Liao, An-Long	National Chung Shing University, Law Dept., Division Chief, Chang Hua Bank	01/01/00	85,353	0
Senior Vice President, Jen-Ai Branch	Lo, Wen-Chih	Chung Li Vocational High School, Commerce Dept. Junior Specialist, Hua Nan Bank	01/04/93	66,258	4,212
Senior Vice President, Kaoshiung Branch	Teng, Min-Chang	Fong Chia University, Accounting Dept. Manager, Hua Nan Bank	30/04/01	121,250	0
Vice President, Sung Shan Bank	Huang, Yao-Kwuang	Tam Kang University, Banking & Insurance Dept., Division Chief, Taiwan Business Bank	07/01/02	58,375	0
Vice President, Tu Cheng Branch	Lo, Juei-Ding	Extension School of Taipei Business College, Business Administration Department Junior Specialist, Hua Nan Bank	07/01/02	41,718	0
Vice President, Chung Li Branch	Juang, Chorng-Shi	Extension College of NCCU, Administration Dept. Junior Specialist, Hua Nan Bank	30/04/01	60,469	0
Vice President, Jia Yi Branch	Lee, Lanny	National Ocean University Shipping & Transportation Management Dept. Vice President, E.Sun Bank	07/03/00	39,586	6,902
Vice President, Jia Yi Branch	Juang, Ming-Shing	Ping Tung Senior Vocational School Manager, Hua Nan Bank	30/06/98	69,763	0
Senior Vice President, San Min Branch	Huang, Wen-Shiung	Soochow University, Law Dept. Vice President, E. Sun Bank	04/01/00	714	98,507
Vice President, Chien Kuo Branch	Lin Spencer S.T.	Tam Kang College, Banking & Insurance Dept. Vice President, Taiwan First Investment & Trust Co.	30/04/01	55,581	14,235
Vice President, Hisn Chu Branch	Chen, Tang-Lie	Chinese Culture University, International Trade Dept. Junior Specialist, Chang Hua Bank	01/01/97	123,346	0
Vice President, His Chih Branch	Hsiao, Cheng-Feng	Extension School of Taipei Business College, Banking and Insurance Dept., Manager, Hua Nan Bank	23/09/97	72,213	0
Vice President, Cheng Chung Branch & Tun Nan Branch	Chen, Hui-Yu	Tulane University, Graduate School Business Administration Manager, Chang Hua Bank	01/01/02	76,134	0
Manager, Mu Ja Branch	Kao, Hsueh-Ping	Fong Chia University, Accounting Dept.	24/12/02	2,658	0
Vice President, Hsin Chuang Branch	Li, Bud	Soochow University, Business Administration Dept., Associate Vice President, E. Sun Bank	28/10/98	58,426	3,612
Vice President, Hsin Ying Branch	Tu, A-Ching	Distance Junior College of Taipei Business Junior College, Business & Administration Dept. Assistant Manager, Farmer's Bank	30/04/01	59,647	0
Vice President, Pin Tung Branch	Kuo, Long-Chao	San Shin Vocational School, Business Dept. Manager, Hua Nan Bank	07/12/98	94,638	0
Vice President, Chien Chen Branch	Liao, Tsung-Ming	Taichung Business College, Business Administration Dept. Junior Specialist, Chang Hua Bank	15/10/02	31,935	0
Vice President, Yuan Lin Branch	Yang, Ju-Ping	Fong Chian University, Banking & Insurance Dept. Specialist of Training Center, Chang Hua Bank	14/09/00	105,917	0
Vice President, Luo-Tung Branch	Yang, Bruce	National Taiwan University, Business Dept. Division Chief, Hua Nan Bank	30/04/01	113,771	0
Vice President, Nei-Hu Branch	Chen, Alex	Chung Shing, University, Economics Dept., Vice President, Bao Dao Bank	30/04/01	7,142	0
Manager, Keelung Road Branch	Hsieh, Gloria	Shih Chien University, Accounting and Statistics Dept. Manager, Citi Bank, Taiwan	03/08/02	8,021	0

3. Company Capitalization and Shareholdings

(1) Capital Item

Item	Authorized Capital		
	Issued	Unissued	Total
Common Stock	21,857,366,970	0.00	21,857,366,970
Total	21,857,366,970	0.00	21,857,366,970

(2) Shareholdings

Date	Par Value/Share	Authorized Capital		Paid-in Capital		Source	Comment	
		# of Shares	Amount (NT\$)	# of Shares	Amount (NT\$)		Other Source of Capitalization	Other
1992/3/10	10	1,000,000,000	10,000,000,000	1,000,000,000	10,000,000,000	Founding Capital	-	Approved by (84)Doc.#37601 of Taiwan Ministry of Finance, 7.1.95
1995/7/7	10	1,035,718,229	10,357,182,290	1,035,718,229	10,357,182,290	Capitalization of Retained Earnings: NT\$357,182,290	-	Approved by (85)Doc.#41681 of Taiwan Ministry of Finance, 7.1.95
1996/8/15	10	1,073,114,521	10,731,145,210	1,073,114,521	10,731,145,210	Capitalization of Retained Earnings: NT\$373,962,920	-	Approved by (86)Doc.#46218 of Taiwan Ministry of Finance, 6.26.97
1997/8/30	10	1,322,899,392	13,228,993,920	1,322,899,392	13,228,993,920	Equity Issue of NT\$2,000,000,000; Capitalization of Retained Earnings: NT\$497,848,710	-	Approved by (87)Doc.#48477 of Taiwan Ministry of Finance, 6.4.98
1998/7/17	10	1,458,034,367	14,580,343,670	1,458,034,367	14,580,343,670	Capitalization of Retained Earnings: NT\$1,020,624,900; Capitalization of Reserves: NT\$330,724,850	-	Approved by (88)Doc.#87118 of Taiwan Ministry of Finance, 10.1.99
1999/11/8	10	1,575,764,744	15,757,647,440	1,575,764,744	15,757,647,440	Capitalization of Retained Earnings: NT\$812,795,180; Capitalization of Reserves: NT\$364,508,590	-	Approved by (89)Doc.#58907 of Taiwan Ministry of Finance, 7.7.00
2000/8/7	10	1,734,572,033	17,345,720,330	1,734,572,033	17,345,720,330	Capitalization of Retained Earnings: NT\$1,173,646,760; Capitalization of Reserves: NT\$414,426,130	-	Approved by (89)Doc.#58907 of Taiwan Ministry of Finance, 12.4.00
2000/12/13	10	2,044,572,033	20,445,720,330	2,044,572,033	20,445,720,330	Equity Issue of NT\$3,100,000,000, Issue of Foreign Depository Receipt	-	Approved by (90)Doc.#144064 of Taiwan Ministry of Finance, 7.10.01
2001/9/3	10	2,185,736,697	21,857,366,970	2,185,736,697	21,857,366,970	Capitalization of Retained Earnings: NT\$705,823,320; Capitalization of Reserves: NT\$705,823,320	-	

(3) Issuance of financial bonds

The Board of Fubon Bank resolved on July 12, 2002 to apply with the Finance Bureau of the Ministry of Finance for the issuance of 10 billion NTD worth of financial bonds. The application has been approved by the Ministry of Finance on September 4 in the Tai.chai.zon (II) tzu.di No. 0910041374 Letter. Fubon Bank had released the first issue of second priority financial bonds at 5 billion NTD on October 14 and 15, 2002, and the second issue of first priority financial bonds at 5 billion NTD on December 19 and 27, 2002. The total value of bonds outstanding after the two issues was at 10 NTD. Further, Fubon Bank has applied for trading the said bonds in the OTC market.

II. Operating Profile

1. Business Scope

- (1). Checking Deposit
- (2). Demand Deposit
- (3). Time Deposit
- (4). Short-term, Mid-term, Long-term Loans
- (5). Bills Discount
- (6). Marketable Securities Investments
- (7). Domestic Exchange
- (8). Commercial Acceptance
- (9). Certification of Domestic Letter of Credit
- (10). Domestic Guarantee Business
- (11). Fund Collection and Payment Services
- (12). Underwriting of Government Bonds, Treasury Bills, Corporate Bonds and Common Stocks
- (13). Credit Card Business
- (14). Brokerage & Dealing of Short-term Bills & Notes
- (15). Custodial Account Management & Warehouse Business
- (16). Safety Box Leasing
- (17). Guarantee of Corporate Bond Issuance
- (18). Negotiations of Export/Import Bills, General Inbound and Outbound Remittance, Foreign Exchange Deposit, Foreign Currency Loan, Foreign Currency Guarantee Payment Warranty
- (19). Management of Non-discretionary Trust Fund Investment of International, Domestic Securities.
- (20). Government Approved Derivatives Trading Business
- (21). Government Approved Factoring Business
- (22). Trust Law Designated Businesses
- (23). Brokerage Services of Marketable Securities
- (24). Dealer of Government Bonds
- (25). Sale of Gold Bullion, Gold Coin, Silver Coin
- (26). Government Approved Business Related Agency Services
- (27). Cash Card Value Charging Service

2. Marketing & Business Conditions

(1) Deposits

Plummeting interest rates in 2002 had great impacts on investors' investment preference as well as corporate capital flow. Aiming at a Reserve Requirement Ratio of 65%, we fully geared up to generate cheap and stable long-term funding rather than to provoke saving and chequing accounts and redirected our strategy from institution-oriented to consumer-oriented. Despite of a little slip in terms of total deposits over the previous year due to decreasing time deposits, demand deposits showed leaping growth and accounted for 38.50% of total deposits, representing unmatched competitive advantage.

Deposit Volume

Unit : NT\$1,000

Type	2001		2002		2001 vs. 2002	
	Amount	%	Amount	%	Differences	Growth%
Checking Deposits	2,332,640	1.03%	2,413,074	1.10 %	80,434	3.45 %
Demand Deposits						
Excluding Foreign Exchange	13,193,479	5.81%	16,539,594	7.56 %	3,346,115	25.36 %
Including Foreign Exchange	17,573,505	7.73%	21,655,911	9.90 %	4,082,406	23.23 %
Demand Saving Deposits	56,143,524	24.70%	60,125,831	27.50 %	3,982,307	7.09 %
Time Deposits						
Excluding Foreign Exchange	48,857,314	21.50%	35,751,585	16.35 %	-13,105,729	-26.82 %
Including Foreign Exchange	66,576,215	29.30%	48,332,664	22.10 %	-18,243,551	-27.40 %
Time Savings Deposits	63,805,062	28.08%	66,128,246	30.24 %	2,323,184	3.64 %
Postal Transfer Deposits	20,827,663	9.16%	20,018,070	9.16 %	-809,593	-3.89 %
Total (including foreign exchange)	227,258,609	100.00%	218,673,796	100.00 %	-8,584,813	-3.78 %

(2) Loans

The enterprises have been inert to make new investment and individuals have been hesitant to acquire properties due to the repercussion of the 2002 recession. As such, the loan market has not been ideal for Fubon. Yet, Fubon actively sought to develop products with higher profit margin and to develop the niche market. An obvious example is the "Boss Account" program for petty merchants, which made other lines of credit grow as high as 26.5%. Besides, the balance of revolving credit also grew by 58%, given the rapid growth in the credit card business. Further, personal lines of credit also prospered due to the unveiling of the "fixed rate mortgage loan" into the market, a unique product of its kind. Indeed, Fubon enjoyed significantly growth in personal lines of credit, and this area of financing was ranked top in growth among other loan products. In corporate financing, Fubon Bank established the Business Development Center for assisting small and medium enterprises in financing. This enabled Fubon Bank to maintain small and medium business financing at the same level of the previous year. Fubon Bank had sold 5 billion NTD of non-performing loans to asset management companies in 2002 to substantially upgrade its quality of assets. For further enhancing the quality of its assets, Fubon Bank stated the previously restructured loans as non-performing loans, which drove the non-performing rate higher than that at the end of 2001.

Loan Business Volume

Unit : NT\$1,000

Type	2001		2002		2001 vs.2002	
	Amount	%	Amount	%	Differences	Growth%
Large corporate Loans	49,410,981	34.90%	40,681,564	28.27%	-8,729,417	-17.67%
Small & Medium Business Loan	14,044,862	9.92%	14,000,039	9.73%	-44,823	-0.32%
Revolving Credit Loans	14,581,760	10.30%	23,032,245	16.00%	8,450,485	57.95%
Consumer Loans	56,330,046	39.79%	57,066,623	39.66%	736,577	1.31%
Other Revolving Loans	7,211,400	5.09%	9,123,779	6.34%	1,912,316	26.52%
Total	141,579,049	100%	143,904,250	100%	2,325,201	1.64%

Overdue Loan Amount & Ratio

Unit : NT\$1,000

	12/31/2001	12/31/2002
Over Loan Amount	5,096,175	5,692,716
Over Loan Ratio	3.52%	3.91%

1. Commercial and Industrial (C&I) Loans

Corporate financing in 2002 was 10.61% less than that of the previous year. The major reasons were: (1) economic recession and the fermenting relocation of industry offshore which compelled Fubon Bank to tighten its credit authorization procedures; (2) the loan to governmental agencies dropped by 4 billion NTD because of the interest rate; (3) Fubon Bank tightened its measures in risk management for setting a higher standard of credit rate for less efficient accounts, and also adjusted loan targets and structures. As a result, the small and medium enterprises became the target group of marketing.

In conjunction with our policy of developing more small-medium business loans, Fubon Bank took full advantage of the Small-Medium Business Guarantee Fund (SMBGF), yielding impressive results. At the end of 2002, Fubon Bank has processed 4.2 billion NTD of loan under the mechanism, which made it the number one among post-deregulation banks in underwriting loans secured by guarantee of the SMBGF and the 11th position among all financial institutions.

Where the macroeconomic looked pessimistic, competition in the financial market became more acute. As for Fubon Bank, it has formed the “Small-Amount Handy Loan Center” and “Small Business Finance Department” to its domain of corporate financing in the 4th quarter of 2002 for enhancing its niche and make profit more lucrative. Further, Fubon Bank sought to increase its income by applying a fee for credit rating and processing of application. By the end of 2002, the balance of loans through “Small business Finance Dept. ” amounted to 2.6 billion NTD while the balance of loans through “Small-Amount Handy Loan Center” amounted to 1 billion NTD. In industry analysis, Fubon Bank is still the top lender to the manufacturing sector at 30.57%. The performance was more or less the same as the previous year.

Loan Volume by Industry

Unit : NT\$1,000

Type	2001		2002		2001 vs.2002	
	Amount	%	Amount	%	Amount	%
Agriculture, Forestry, Fishing, etc.	190,998	0.27%	126,557	0.20%	-64,441	-33.74%
Mining & Quarrying	7,017	0.01%	6,445	0.01%	-572	-8.15%
Manufacturing	19,057,037	26.97%	19,313,683	30.57%	256,646	1.35%
Utilities	1,276,824	1.81%	1,347,045	2.13%	70,221	5.50%
Construction	2,713,770	3.84%	1,788,409	2.83%	-925,361	-34.10%
Commercial	7,945,091	11.24%	8,017,687	12.70%	72,596	0.91%
Transportation,Storage,Communication	1,669,122	2.36%	3,981,055	6.30%	2,311,933	138.51%
Finance, Insurance, Real Estate	13,710,686	19.40%	10,779,827	17.07%	-2,930,859	-21.38%
Industrial, Social and Personal Service	7,190,851	10.18%	4,971,366	7.87%	-2,219,485	-30.86%
Public Sector	5,273,000	7.46%	1,022,400	1.62%	-4,250,600	-80.61%
Individual	7,211,463	10.20%	8,620,544	13.65%	1,409,081	19.54%
Others	4,421,190	6.26%	3,193,057	5.05%	-1,228,133	-27.78%
Total	70,667,049	100%	63,168,075	100%	-7,498,974	-10.61%

2. Consumer Loans

Consumer loans in 2002 enjoyed growth due to the overall effect of promoting loans, including the fixed rate mortgage loans, Easy Loans, car loans, and so forth. This has been reinforced by the mobilization strategy of the marketing network and the reward strategy of “direct sales,” “cross-sell from the group salespeople,” and “database marketing”, which yielded synergy.

As for the proportion of different types of loans, mortgage loans was the top performer, which accounted for more than 90% of the total consumer loans. The proportion of personal loans and car loans are on the rise too.

In responding to the keen competition in the consumer loan market, Fubon Bank has pursued the “market segmentation” strategy in promoting consumer loans. Accordingly, the bank unveiled the “Fixed rate mortgage loan” and “Adjustable Rate Personal loan” on May and November 2002, respectively. The “Fixed rate mortgage loan” has helped to bring in new customers and kept existing customers.

Consumer Loan Business Volume

Unit : NT\$1,000

Type	2001		2002		2001 vs.2002	
	Amount	%	Amount	%	Amount	%
Mortgage Loans	51,511,655	91.45%	52,070,278	91.24%	558,623	1.08%
Personal Loans	4,785,069	8.49%	4,889,288	8.57%	104,219	2.18%
Auto Loans	33,322	0.06%	107,058	0.19%	73,736	221.28%
Total	56,330,046	100%	57,066,624	100%	736,578	1.31%

(3.) Credit Cards

The marketing strategy of Fubon Bank in promoting credit cards in 2002 is to strengthen the competitiveness of products, to look for quality customers, to fully utilize the data warehouse system, to launch pre-approval campaigns for customers of the affiliates of the group including “credit card upgrading” and pre- approval for co-branded card and platinum card to selected groups of customers. The series of promotional campaigns has been widely accepted. In addition, Fubon Bank also launched segmented marketing of co-branded cards of high potential. For example, Fubon Bank works with TransAsia Telecommunications to issue the “TransAsia co-branded Card” and works with DHC to issue the “DHC co-branded Card”. Of all those cards issued, the “Kuang San SOGO co-branded Card” is the most popular. As of the end of 2002, Fubon Bank has issued more than 2 million cards in force of which the 317,000 were platinum cards, which made Fubon ranked the third and second in respective market.

In order to improve the usage of credit cards and to augment the loyalty of customers, Fubon Bank has presented the “a number-matching sweepstakes game,” “Cathay Pacific Airlines Upgrade,” “Three Times Credit Card Bonuses for Department Store Consumption,” and “Disney – Treasury Island Credit Card 8 Purchases” in 2002. These series of event has helped to boost up the transaction amount with platinum cardholders in particular. The total consumption by credit cards in 2002 has increased by 25.867 billion NTD or 56.35% from that of the previous year.

Of all the member banks of the National Credit Card Center, cards in force issued by Fubon Bank accounted for 7.72% of the market share and the transaction amount at 10.40% of the market. After joining the CRIS-NS system of the National Credit Card Center, Fubon Bank has adopted the FALCON alert system to reduce the amount of counterfeit loss to 13 million NTD in 2002, 88 million NTD less than that of the previous year. The ratio of counterfeit credit card also reduced to only 0.018%.

Loan	2001	2002	2001 vs. 2002	
			Differences	Growth %
# of Card Issued	1,752,514	2,813,048	1,060,534	60.52%
# of Card in Force	1,281,048	2,003,909	722,861	56.43%
# of Merchant Accounts	4,310	4,864	554	12.85%
Total Transaction Amount	45,904,549	71,771,958	25,867,409	56.35%
# of Transactions	21,042,842	28,956,877	7,914,035	37.61%
Ave. Monthly Card Spending	3,245	3,519	274	8.44%
Revolving Credit Balance	14,581,760	23,032,245	8,450,485	57.95%
Cash Advance Amount	6,501,544	13,936,307	7,434,763	114.35%

Comparison of Credit Card Operating Income

Unit : NT\$1,000

Item	2001		2002		Growth
	Amount	%	Amount	%	%
Interest Income	2,594,417	60.82%	3,525,605	66.66%	35.89%
Fees and Handing Charges	1,083,995	39.18%	1,763,470	33.34%	62.68%
Total	3,678,412	100%	5,289,075	100%	43.79%

(4) Trust Operations

1. Mutual Funds

The introduction of assorted fixed income choices and structured products in late 2001, representing a full spectrum of product lines, enables Fubon Bank to render satisfactory services to clients obtaining various investment objectives. Innovative products, which together with our spontaneous service not only exemplified our leadership position in wealth management but also generated prominent revenues. As of the end of 2002, investment assets under trust banking exceeded NT\$31.4 billion and delivered an upsurge of 61% in fees and commissions.

Over 2002 we added one hundred more funds for customers' selections and will constantly provide diversified choices and innovative services in the following years. Looking into 2003, we expect to be the first distributor of Investec Funds in Taiwan, and will provide clients access to discretionary asset allocation and choices by offering (i) FX Forward Hedging Service packaged with selected USD denominated bond funds; (ii) principal protected products best for market transition; (iii) dynamic managed-accounts linked to money market, futures and various options etc.;(iv) more fixed-income alternatives and ETFs.

Mutual Fund business

Unit : NT\$1,000

Item	2001	2002	2001 vs. 2002	
			Differences	Growth%
Mutual Funds Collection Business				
# of Funds	15	15	-	-
Amount Collected	68,419,591	68,683,593	264,002	0.39 %
Domestic Non-discretionary Trust Fund				
# of Funds	331	450	119	35.95 %
Trust fund Balance	22,694,983	24,665,174	1,970,191	8.68 %
Amount of Funds Purchase	11,973,645	8,063,589	-3,910,056	-32.66 %
International Bonds				
# of Bonds	4	132	128	3300 %
Bonds Balance	171,650	6,760,060	6,588,410	3900.38 %
Amounts of Bonds Purchase	171,650	9,598,288	9,426,638	5500.92 %
International Stocks				
# of Stocks	-	6	6	-
Stocks Balance	-	1,924,616	1,924,616	-
Amounts of Stocks Purchase	-	0	0	-
Total Fees and Handling Charges	186,097	300,556	114,459	61.51 %

2. Fiduciary Service

By the end of 2002, total custodial account assets had increased 22.46 % from the previous year , including Domestic Securities Investment Trust Funds , Discretionary Authorization custodial asset, business operating guarantee premiums , venture capital stocks and brokerage firm marketable securities. Domestic Securities Investment Trust Fund accounted for 76.74 % . According to the statistics on Trust Association, Fubon Bank was ranked the 7th position in Domestic Securities Investment Trust Fund and Discretionary Authorization custodian services as of the end of 2002. . The operation of brokerage firm marketable securities was reduced due to non-delivery of bond transactions and decreased volumes in bills and notes transactions. In contrast, the other custodial account balances and handling charges showed positive growth.

Trust Management Business

Item	2001	2002	2001 vs. 2002	
			Differences	Growth%
Domestic Mutual Funds Assets	13	14	1	7.69 %
# of Funds	95,100,884	122,732,313	27,631,429	29.05 %
Balance				
Full – Authority Trust	18	25	7	38.89 %
# of Accounts	2,788,248	4,829,551	2,041,303	73.21 %
Balance				
Operation Guaranty Fund & Stock Owned by Venture Capital Co.	11	13	2	18.18 %
# of Accounts	2,268,152	3,234,377	966,225	42.60 %
Balance				
Marketable Securities of Securities & Bills Company	8	8	0	0
# of Accounts	30,450,828	29,145,700	-1,305,128	-4.29 %
Balance				
Total Trust Balance	130,608,112	159,941,941	29,333,829	22.46 %
Fees and Handling Charges	96,989	109,684	12,695	13.09 %

3. Stock Certification Business

In the area of certification service, price competition in processing fee caused the decrease of income in this area in 2002, despite the face value of the documents certified was higher.

Certification Business

Unit : NT\$1,000

Item	2001	2002	2001 vs. 2002	
			Differences	Growth%
# of Issues Certified	117	109	-8	-6.84 %
Total Underwriting Par Value	56,355,517	75,063,720	18,708,203	33.20 %
Certification Charges	3,212	3,146	-66	-2.05 %

4. Individual Management Trust

A number of regulations governing trust fund have been passed as a response to the demand of customers in asset management. Fubon Bank offered the Insurance Claims Trust 、 Real Estate Trust 、 Pecuniary Trust and Securities Trust individual management trust in 2002. As the business has just begun, income from processing fees is limited.

Individual Management and Utilization Turst

Unit : NT\$1,000

Item	2001	2002	2001 vs. 2002	
			Difference	%
Pecuniary Trust	-	4,079	4,079	-
Securities Trust	-	79	79	-
Real Estate Trust	-	29,126	29,126	-
Trust Properties balance	-	33,284	33,284	-
Service Charges	-	535	535	-

(5). International Banking

Economic uncertainties together with slipping corporate and consumer sentiments decreased our export-related business in 2002. Import-related services showed a slight growth, while foreign remittances grew more than 30% due to growing individual financial needs and electric trading. Encountering the diving interest rates, clients started to increased exposure in investment products other than deposits, which led to a minor decrease in FX deposits over 2002. The average account balance was 0.57 billion.

International Banking volumes

Unit : NT\$1,000

Item	12/31/01		12/31/02		2001vs.2002	
	Amounts	%	Amounts	%	Differences	Growth%
Export	220,141	4.45%	185,237	2.92%	-34,904	-15.86%
Import	388,934	7.86%	390,956	6.15%	2,022	0.52%
Outward Remittances	2,218,257	44.84%	2,949,872	46.44%	731,615	32.98%
Inward Remittances	2,119,919	42.85%	2,825,805	44.49%	705,886	33.30%
Total	4,947,251	100.00%	6,351,870	100.00%	1,404,619	28.39%

Foreign Currency Deposit Volumes

Unit : NT\$1,000

Item	12/31/01		12/31/02		2001vs.2002	
	Amounts	%	Amounts	%	Differences	Growth%
Foreign Exchange Demand Deposits	125,118	19.82%	136,398	23.93%	11,280	9.02%
Foreign Exchange Time Saving Deposits	506,153	80.18%	433,645	76.07%	-72,508	-14.33%
Total	631,271	100.00%	570,043	100.00%	-61,228	-5.31%

(6). Financial Operations

In the first quarter of 2002, Taiwan's economy showed recovery from the recession. However, global economic growth slowed down in the second half of 2002 due to the accounting scandal in the U.S.A., the War in Iraq and the port sealing on the West Coast. The Central Bank of China further cut the rediscount rate in June and November in line with the global declining interest rate environment. The Bank unloaded its bond portfolio in 2002 and realized the part of the capital gains. To minimize the interest risk, the bill portfolio was over weighted with a view to shorten the duration of the asset portfolio.

Investment Balance of Bonds, Commercial Papers, Stocks Unit : NT\$1,000

Item	12/31/01	12/31/02	2001 vs. 2002	
			Differences	Growth%
Government Bonds	25,011,145	15,320,555	-9,690,590	-38.75%
Financial Debentures	464,903	700,656	235,753	50.71%
Corporate Bonds	7,694,269	5,618,859	-2,075,410	-26.97%
Stocks	1,116,333	962,500	-153,833	-13.78%
Mutual fund	2,349,481	2,448,177	98,696	4.20%
Corporate Papers	99,342	10,484,212	10,384,870	10453.66%
Total	36,735,473	35,534,959	-1,200,514	-3.27%

(7). Electronic Banking

The number of customers and transactions for E-bank service in 2002 was 17.36% and 15.07% higher than that of the previous year. The number of customers and transaction volume for Internet Banking Services enjoyed significant growth from the previous year by 31.30% and 79.73%, respectively. The convenience of using Internet Banking Service attracted many customers to switch to Tele-Banking and PC-Banking services. In order to reinforce the habit of the customer in for automated banking service, account representatives have spent great efforts to guide customers in using process step by step, and to build up their trust and satisfaction in the service provided by Fubon Bank.

Electronic Banking Business

Item	12/31/01	12/31/02	2001 vs. 2002	
			Differences	Growth%
Internet Banking # of Customers	138,990	182,496	43,506	31.30 %
# of Transactions	1,763,383	3,169,305	1,405,922	79.73 %
Telebanking # of Customers	791,727	911,441	119,714	15.12 %
# of Transactions	4,129,706	3,649,766	-479,940	-11.62 %
PC Banking # of Customers	7,885	7,988	103	1.31 %
# of Transactions	67,716	48,702	-19,014	-28.08 %
Mobile Banking # of Customers	2,384	2,437	53	2.22 %
# of Transactions	11,767	4,964	-6,803	-57.81 %
Total # of Customers	940,986	1,104,362	163,376	17.36 %
# of Transactions	5,972,572	6,872,737	900,165	15.07 %

ATM Business

Unit : NT\$1,000

Item	2001	2002	2001 vs. 2002	
			Differences	Growth
ATM Cards	1,117,539	1,296,795	179,256	16.04%
ATM Sets	186	192	6	3.23%
# of Transactions	10,892,756	12,834,802	1,942,046	17.83%
Total Transaction Amounts	126,269,000	159,241,000	32,972,000	26.11%

3. Work Force

(1) Number of Employees, Average Age & Average Years Worked

Item	12/31/01		12/31/02		2001 vs.2002	
	Persons	%	Persons	%	Differences	Growth%
Employees	1405	80.29%	1406	76.37%	1	0.07%
Service person (Includes Interns)	345	19.71%	435	23.63%	90	26.09%
Total	1750	100%	1841	100%	91	5.20%
Average Age	31.05		31.09		0.04	0.13%
Average Years Worked	7.04		8.06		1.02	14.49%

(2) Employee's Education Levels

Item	12/31/01		12/31/02		2001vs.2002	
	Persons	%	Persons	%	Differences	Growth%
Master's Degree or Above	92	5.26%	98	5.32%	6	6.52%
College	1,387	79.26%	1,460	79.3%	73	5.26%
High School/Vocational School	268	15.31%	280	15.21%	12	4.48%
Jr.High or Below	3	0.17%	3	0.17%	0	0.00%
Total	1,750	100%	1841	100%	91	5.20%

4. Risk Management

(1). Loan Authorization Risk

To fully utilize limited resources and exercise effective risk control, we undertook our loan authorization in accordance with the related regulations stipulated in Banking Law and other government mandated laws. Depending on the borrower, the secured item, the business group, industry sector and the investment type involved, we then set a ceiling of risk tolerance to avoid over concentration, thereby protecting our financial operations.

(2). Credit Risk

We were able to effectively control our credit risk by properly monitoring transaction amounts. In the case of interbank loans and repurchase agreements, we exercised our control of transaction amounts based on each trading partner's credit profile; in the case of outright purchases, we controlled the safe amount based on the credibility of the securing financial institution. Credit lines on derivatives shall be carried out in accordance with "Fubon Commercial Bank Derivatives Trading Processing Procedure."

(2). Interest Risk

We mainly used the interest rate sensitivity gap-to-net value ratio and the interest rate sensitive asset-to-interest rate sensitive liability ratio to control risk to a manageable level. We carefully monitored both these ratios, making sure that they fell between appropriate parameters.

(3). Exchange Rate Risk

The Bank has strict controls over its foreign exchange position including the overall exposure limit, individual dealer's position limit, single transaction limit and stoploss limit, counterparty's limits and relevant authorization are governed under the Bank's "Foreign Exchange, Money Market and Capital Market Internal Guidelines" which is reviewed regularly to enhance the risk management.

(4). Derivatives Trading Risk

In compliance with the related government regulations, the "FCB Derivatives Trading Processing Procedure" guidelines were submitted to and approved by the FCB Board of Directors. These procedures regulate the accountability of all transaction, settlement, management and audit departments. In addition, we also conducted regular profit/loss evaluations based on the trading nature (hedging vs. non-hedging). The results were all submitted to the general manager or other authorized, responsible persons in order to ensure new business was developed in accordance with sound management practices for credit risk, market risk, liquidity risk, operating risk and litigation risk.

(5). Risk Management Information System

In light of our increased business volumes, FCB adopted the real-time risk management system - “Kondor+” provided by Reuters to control our interest risk, exchange risk and credit risk. Kondor+ is equipped to exercise quantity limit controls on all financial product positions, trader positions and counterpart credit risks as well as country risks. It also provides data regarding real-time market price evaluation to allow users to conduct sensitivity analyses on interest rate and exchange rate fluctuations. This information system greatly improved the efficiency of manual control and helped to avoid risk control blind spots, enhancing our financial operating performance.

IV. Operating Plan

1. Current Year Operating Plan

(1) Financial Services

1. For meeting the goal in the balance between deposit and loan, Fubon Bank maintained the ratio of deposits to loans at 65%. In addition, it also adjusted the deposit structure and to increase the proportion in demand deposits and offers loans with lower cost equity capital.
2. Offer more principal protected products and investment-linked insurance to clients for their asset allocation with restricted investment risk and further increase our fees income.
3. Enact customer classification to provide customized products and services to clients with different enquiries. We will keep on establishing sophisticated Customer Relationship Management (CRM) based on the data warehouse system and expand the penetration of Personal Banking and Platinum Banking at aggressive paces.
4. For expanding the servicing network in financial management, Fubon Bank persists to remodel its branches in order to fortify its functions in marketing and related services. In addition, Fubon added more location for ATM facilities, cash deposits machines, and developed new functions for e-transactions for enhancing its automated banking services.
5. Fubon Bank puts tremendous effort to centralize its operation and make the process more rational. In practice, Fubon simplifies the operation procedure and enhances the efficiency. The human resources saved from the simplified process were used in the development of other business with higher added value.
6. Fubon launched the CNR (Customer Net Revenue) system for the evaluation of staff performance on a monthly basis. This helps to boost up the morale of the staff in business development, bolster sales and improve customer service quality.

(2) International Banking

1. Fubon takes the establishment of a foreign exchange center for the full-fledged development of foreign exchange the primary goal of the year. The purpose of this is to centralize the operation and yield better efficiency, and to cut down the cost of operation and upgrade work quality.
2. In supporting the Ministry of Economic Affairs in launching the Project C in financing the suppliers, Fubon developed the c-Payment system for online transaction of foreign currencies. This system integrates the function of controlling credit limit in foreign currencies, and helps to exercise timely control over the information of customer orders and credit limit. In effect, this system provides the services of capital management and disbursement in foreign currencies for the customers.
3. The demand deposits account in foreign currency allows for direct conversion between NT

Dollars and various foreign currencies, which is a solution for enhancing the multiple functions of foreign currency deposit accounts. With this type of account, customers get better choices with more convenience.

4. For increasing the volume of foreign currency deposits to pool up the foreign currency reserve of the bank, and satisfy the needs of customers in full-range financial services, Fubon Bank will continue to present more varieties of combined-feature banking accounts.

(3) Corporate Banking

1. In responding to the demand of the exporters, Fubon Bank works in conjunction with Fubon Insurance Co. to promote international account receivable finance.
2. Persist to enhance the relationship with small and medium enterprises and take advantage of “Small and Medium Business Credit Guarantee Fund” (SMBCGF) to minimize loan risk.
3. Fubon Bank’s automated credit-check and credit granting system were officially launched for service at the end of 2002. The loan application and review process were computerized and standardized for efficiency. In responding to BASEL 2, which will be in effect in 2006, the credit-evaluation mechanism will be included into the automated processing system in order to help the Corporate Banking Department to control and monitor asset quality.
4. Participate in the Project C (financing project) of MOEA in supply chain financing, install the mechanism of e-finance for the industrial sector, and improve the industry’s efficiency and competitiveness by integrating financial flow and distribution networks.
5. In responding to the internationalization of finance and providing customers with diversified financial instruments, Fubon Bank plans to promote derivative products to satisfy the need of the customers in risk-avoidance and financing. The financial instruments undertaken by Fubon Bank are forward contracts, options, swaps, and a number of other financial derivatives combining assets and liabilities. The main market for derivatives is the group of enterprises in good standing and is in need of derivatives.
6. In order to cooperate with the Small Business Division MOEA to help the unemployed middle-age people for setting up their own businesses, Fubon Bank plans to offer the “Small Business Loan” to those customers for acquitting manufacturing facility, business locations, and machinery.
7. Working with Taipei Bank to establish the mechanism of marketing and risk control. The

database and data control for the stakeholders of Fubon Bank and Taipei Bank and as required by law have been completed. In light of overall risk control, Fubon Bank establishes the upper limit of credit to common accounts (including the subsidiaries in stocks and bills) and the mechanism of information sharing on industry/credit check/review/overdue/collection/bad debt. In the integration of marketing, the bank will also establish the mechanism for joint processing and transfer on credit application.

8. For improving operation efficiency and enhancing the standardization, rationality of operation procedure in order to achieve the goal of streamlining human resources, Fubon Bank will establish 8 Business Financial Center. This could help to effectively control operation risk and account officers could devote much of their time to earn new customers and to maintain good relations with existing customers.

(4) Consumer Banking

1. In responding to the growing demand in the market of small loans, Fubon Bank develops a wide array of convenient credit limits to attract customers for enhancing the competitiveness in market.
2. Select potential customers for marketing purpose through the mechanism of customer information sharing. Provide customers with special offers and services and develop personal loan market by building up good relations with customers.
3. Expand the sales team and adopts the system of “product specialists” to improve overall business performance through professional division of labor.
4. Map out the strategy for mobilizing the sales channels and relevant reward system for better performance
5. Exercise reasonable risk control with the use of credit-check and credit rating system. In addition, the bank also establishes the customer evaluation system and workshop with the standard timing for processing credit-check and credit rating more efficiently.
6. Adjust the policy and procedure in granting credits and strengthen the collection process, and speed up the coverey of overdue loans to reduce the rate of non-performing loan.
7. Enhance the management in customer service, establish index for control the customer drain, understand the customers, and reduce the cancellation of accounts.
8. Set up the computerized collection system actively in order to enhance collection effort through the aspects of operation, management, strategy, system, and effectiveness.

(5) Credit Cards

1. Improve the competitiveness of products and enhance the added-value of products and

loyalty to brand name

2. Utilize Fubon Financial's resources more effectively for cross selling, and arrange relevant activities at the right time for various customer segments in order to increase the volume of credit card issuance and the amount of spending.
3. Enhance the issuance of platinum cards in quantity and transaction amount through the strategy of wealth management and double platinum brands so that the contribution value of the card could be maximized.
4. Actively plan for the customer loyalty campaign and credit card promotion to enhance customer loyalty and usage rate.
5. Work with renowned enterprises for promoting the "co-branded card" and joint marketing in segmented market so that more cards would be issued and higher amount would be spent on cards.
6. Upgrade the IVR system and install the CTI system, and also strengthen professional training and customer service quality for improving service efficiency and customer satisfaction.
7. Plan and install the automated credit scoring system, establish standard operation procedure, control the quality of channel sources and enhance the efficiency and timing in reviewing application.
8. Step up the collection of default accounts and enhance risk control.

(6) Trust Operation

1. Introduce a variety of Designated Purpose Trust Fund and enhance the competitiveness and absorb funds from the market by product differentiation.
2. Upgrade the function of the fund trading system, enhance the service of electronic transaction of funds, make business more convenience and reduce operating cost with e-commerce.
3. Increase involvement in custodial business for mutual fund asset and discretionary authorization custodial investment management, also develop new custodial business that will expand our trust management capacity.
4. Design and develop personal trust business for the demand of customers in asset allocation and trust planning.
5. Promote standard trust products like Common Trust Fund and joint trust, fund, insurance, and other financial products. The products can satisfy the needs of the investors and are beneficial to the business growth of Fubon Bank.
6. The mandatory or semi-mandatory personal pension plan will be in effect when the “Labor Pension Act” is passed. Fubon Bank plans to develop Employee Benefit trust and pension trust business by having personal pension accounts and the trust system consolidated.

(7) Information Service

1. Integrate information security mechanism to enhance the security of Fubon Bank’s Internet comply with ISO 17799 Safety Standard for real time monitoring, to prevent malicious attack, and to reduce the risk of loss.
2. Establish business center and integrate the working platform of notes, remittance, collection, and credit evaluation process. Integrate with the graphic image system to improve operation efficiency and to reduce operating cost.
3. Provide diversified trust platform, coordinate with the promotion of money trust to maximize investment effect of trust fund. By using the system and consolidate management the investment of trust fund could be optimized. By combining the overseas stocks and bonds system, the bank could provide customers more diverse financial services.
4. “Card Chip” is for the protection of the cardholder. The construction of ATM Chip and credit card systems is to improve the security of transaction and the integrated function of credit cards.
5. Promote the integration of Fubon Bank virtual channels and the standardization of the interface.
6. Integrate the service system of CTI customer center in response to business expansion and diversification. Construct automatic voice mail system for enhancing the capacity in replying to customer calls and reduce the time of conversation between customer and service personnel on telephone in order to improve the service quality and Fubon Bank’s image.

2 Research & Development

(1) Establishment of MOEA Financing Project Center (Project C)

The Financing Project of MOEA is to help the supplier finance electronically for placement of orders to manufacturing centers and for account receivables. The bank will be able to control the purchase order information between the supplier and the manufacturing centers in order to reduce credit-authorization risk. To the supplier, the system minimizes time for financing; to the manufacturing center, it increases the incentive for business dealings with suppliers. This creates win-win-win scenario for the supplier, the manufacturing center and the bank. The platform of Project C is almost ready; in fact, Fubon Bank is going to establish an account receivable slips audit center for this project before the end of April 2002.

(2) Second Generation Boss Account– Cash Card

The “Boss Account” was introduced by the Small Business Finance Department in September 2002. This move has stirred up high tide in the financial market. The main purpose of the “Boss Account” is to provide small proprietorships or vendors with mid-term working capital or with funding for the acquisition, repair and maintenance of equipment. For sustaining its success and furthering its business growth, Fubon Bank plans to propose the “Cash Card” to valuable “Boss Account” customers in April 2003 in order to broaden its customer base, maintain relation with existing customers, and create a win-win situation for customers and the bank.

(3) e-LOAN business

Basing on the experience in developing the e-LOAN platform in Project C, Fubon Bank manages to change current process of revolving loans to e-Loan platform in order to provide excellent financial service and reduce the workload of the Bank.

(4) ATM IC Card

In the wake of development in chip technology and the increasing demand in e-Payment services, the Bankers Association and FISC started to research and develop the operation procedure for the 2nd generation ATM chips. The design aimed at simplicity, convenience and flexibility in the using of cards. Fubon Bank has taken part in the planning of the same scheme since October 2002. It is expected that Fubon Bank will unveil ATM cards with conforming chips and relevant automated machines by the end of 2003.

(5) e-Check

In preparing for future demand in e-commerce and online financial transactions, and complying with the fund appropriation function of Project C under the Ministry of Economic Affairs, Fubon Bank has started to work on the planning of the e-Check system since May 2002. This system has the advantages of data security, convenience in application, and low cost. Fubon Bank has been selected by TWNCH as one of the three banks in the pilot run of this project. It is expected that e-Check operation will be officially launched in the second quarter of 2003.

(6) Card Chip

The Bankers Association has reached consensus with its member banks and agreed to set aside 0.0442% of the amount for each Chip Card transaction to the acquiring bank for covering the high cost paid for the Chip Card migration. This will include replacement of chip-capable POS terminals and the adjustment of circuits for the entire system. The plan is expected to kick off in 2003. In responding to the development of the Chip Card, Fubon Bank has worked towards the multi-functional chip card (including the ATM card, credit card, e-purse, loyalty program, and project sharing) and planned to work with partners to develop and execute the chip card migration plan in order to provide customers with advanced and excellent services through an integrated option.

(7) New Trust Products

The key of trust business development is to satisfy the demand of consumers and investors. Under the structure of financial holding company, it is necessary to develop new trust business by cooperating with domestic regulations and integrating organizational resources in addition to provide better service. The R&D focus of the year is to plan on the Collective Investment Trust Fund , Common Trust Funds, Asset Securitization , Employees Benefit Trust , Pecuniary Rights & Secured Estate Trust in order to provide customers with comprehensive asset management service.

V. Financial Statements

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying balance sheets of Fubon Commercial Bank Co., Ltd. (the "Bank") as of December 31, 2002 and 2001, and the related statements of income, changes in shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Bank as of December 31, 2002 and 2001, and the results of its operations and its cash flows for the years then ended, in conformity with the "Standards for the Preparation of Financial Statements of Public Companies" and generally accepted accounting principles in the Republic of China.

As described in Notes 9 and 13 to the financial statements, the Bank holds NT\$313.2 million of Fubon Financial Holding Co., Ltd. shares which was originally accounted as restricted assets at December 31, 2001. However, in accordance with file No.91111467 issued by the Ministry of Financial on April 8, 2002, those shares held should be treated as treasury stocks and recorded as a reduction in shareholders' equity. Accordingly, the 2001 financial statements as presented herein have been restated for such change

Deloitte & Touche

Taipei, Taiwan, Republic of China

February 6, 2003

The above auditors' report and the following financial statements are English translations of the Chinese auditors' report and financial statements prepared for and used in the Republic of China. The accompanying financial statements were prepared using accounting principles, procedures and reporting practices generally accepted in the Republic of China and are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than those in the Republic of China. The standards, procedures and practices utilized to audit such financial statements are those generally accepted and applied in the Republic of China.

FUBON COMMERCIAL BANK

BALANCE SHEETS

DECEMBER 31, 2002 AND 2001

(Expressed in Thousands of New Taiwan Dollars)

	<u>2002</u>	<u>2001</u>		<u>2002</u>	<u>2001</u>
	NT\$	NT\$		NT\$	NT\$
ASSETS			LIABILITIES AND SHAREHOLDERS' EQUITY		
Cash (Note 3)	21,494,876	15,012,539	LIABILITIES:		
Due from banks (Note 3 and 7)	21,465,309	12,841,836	Due to banks (Note 17)	1,565,988	821,788
Due from Central Bank of China(Note 3)	10,472,457	12,594,277	Payables	9,157,587	8,119,365
Short-term investments, net (Note 4 and 17)	37,674,975	36,735,473	Advance from customs	174,042	127,012
Receivables, net (Note 5 and 6)	13,170,121	8,976,051	Deposits (Note 10 and 17)	218,841,188	227,481,240
Prepayments	79,276	91,707	Financial Bonds(Note 11)	10,000,000	-
Loans, net (Note 6 and 17)	142,278,365	140,863,185	Appropriated loan fund	53,732	69,536
Long-term investments, net (Note 7 and 17)	10,566,813	10,006,299	Provisions for guarantee and security trading losses	341,645	338,145
Property and equipment, net (Note 8 and 17)	5,022,239	4,739,016	Other liabilities	<u>324,768</u>	<u>450,335</u>
Leasehold assets, net (Note 8 and 17)	232,492	203,596	TOTAL LIABILITIES	<u>240,458,950</u>	<u>237,407,421</u>
Other assets, net (Notes 6, 9, 13 and 15)	5,606,424	4,506,499			
TOTAL ASSETS	<u>268,063,347</u>	<u>266,570,478</u>	SHAREHOLDERS' EQUITY (Note 13):		
			Common stock	21,857,367	21,857,367
			Capital surplus	1,443,760	1,438,541
			Retained earnings:		
			Legal reserve	3,576,309	2,691,158
			Special reserve	252,058	598,438
			Unappropriated retained earnings	854,960	2,963,801
			Unrealized loss on valuation of long-term investments (Note 7)	(134,725)	(73,058)
			Treasury stock	<u>(245,332)</u>	<u>(313,190)</u>
			TOTAL SHAREHOLDERS' EQUITY	<u>27,604,397</u>	<u>29,163,057</u>
			TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>268,063,347</u>	<u>266,570,478</u>

See accompanying notes to the financial statements.

FUBON COMMERCIAL BANK

STATEMENTS OF INCOME FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001 (Expressed in Thousands of New Taiwan Dollars, Except Per Data)

	<u>2002</u>	<u>2001</u>		
	NT\$	NT\$		
OPERATING REVENUES:				
Interest income (Note 17)	11,398,412	13,774,516		
Fee income (Note 17)	2,613,380	1,664,592		
Net gain on trading bills and securities	3,435,573	4,056,495		
Net gain on long-term investments (Note 7)	976,323	635,229		
Net gain on foreign exchange	107,435	140,073		
Other operating revenues	<u>9,351</u>	<u>-</u>		
Total operating revenues	<u>18,540,474</u>	<u>20,270,905</u>		
OPERATING COSTS:				
Interest expenses (Note 17)	4,969,879	9,240,432		
Fee expenses	1,711,699	737,502		
Provision for loan and other losses (Note 6)	2,673,742	3,643,563		
Other operating expenses	<u>7,663</u>	<u>-</u>		
Total operating costs	<u>9,362,983</u>	<u>13,621,497</u>		
OPERATING GROSS PROFIT	<u>9,177,491</u>	<u>6,649,408</u>		
SELLING, GENERAL & ADMINISTRATIVE EXPENSES (Note 17)	<u>4,155,176</u>	<u>3,545,911</u>		
NET OPERATING INCOME	5,022,315	3,103,497		
NON-OPERATING REVENUES (Note 17)	329,648	259,532		
NON-OPERATING EXPENSES (Note 14)	<u>4,606,638</u>	<u>359,347</u>		
INCOME BEFORE INCOME TAX	745,325	3,003,682		
INCOME TAX BENEFIT (EXPENSE) (Note 15)	<u>4,314</u>	<u>(54,384)</u>		
NET INCOME	<u>749,639</u>	<u>2,949,298</u>		
	Income Before Income tax	Net income	Income Before Income tax	Net income
EARNINGS PER COMMON SHARE AS REPORTED	<u>0.34</u>	<u>0.35</u>	<u>1.39</u>	<u>1.37</u>
DIVIDEND-ADJUSTED EARNINGS PER COMMON SHARE (Note 16)			<u>1.39</u>	<u>1.37</u>

See accompanying notes to the financial statements.

FUBON COMMERCIAL BANK

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001 (Expressed in Thousands of New Taiwan Dollars)

	Common stock	Capital surplus	Retained earnings			Unrealized losses on valuation of long-term investment	Treasury stock	Total shareholders' equity
			Legal reserve	Special reserve	Unappropriated			
	NT\$	NT\$	NT\$	NT\$	NT\$	NT\$	NT\$	NT\$
Balance as of January 1, 2001	20,445,720	2,144,280	2,026,675	186,020	2,216,853	(610,170)	(311,350)	26,098,028
Appropriation of retained earnings:								
Legal reserve	-	-	664,483	-	(664,483)	-	-	-
Special reserve	-	-	-	412,418	(412,418)	-	-	-
Stock dividends	705,824	-	-	-	(705,824)	-	-	-
Cash dividends	-	-	-	-	(403,327)	-	-	(403,327)
Employee cash bonus	-	-	-	-	(13,424)	-	-	(13,424)
Capital surplus transferred to capital	705,823	(705,823)	-	-	-	-	-	-
Net income for year 2001	-	-	-	-	2,949,298	-	-	2,949,298
Recovery of unrealized losses on valuation of long-term investments	-	-	-	-	-	537,112	-	537,112
Retained earnings adjustment due to changes in long-term investments	-	-	-	-	(2,790)	-	-	(2,790)
Treasury stock	-	-	-	-	-	-	(1,840)	(1,840)
Gain on sale of property and equipment transferred to capital surplus	-	84	-	-	(84)	-	-	-
Balance as of December 31, 2001	21,857,367	1,438,541	2,691,158	598,438	2,963,801	(73,058)	(313,190)	29,163,057
Appropriation of retained earnings:								
Legal reserve	-	-	885,151	-	(885,151)	-	-	-
Recovery of special reserve	-	-	-	(346,380)	346,380	-	-	-
Cash dividends	-	-	-	-	(2,300,000)	-	-	(2,300,000)
Employee cash bonus	-	-	-	-	(21,000)	-	-	(21,000)
Capital surplus transferred to unappropriated retained earnings	-	(1,291)	-	-	1,291	-	-	-
Net income for year 2002	-	-	-	-	749,639	-	-	749,639
Unrealized losses on valuation of long-term investments	-	-	-	-	-	(61,667)	-	(61,667)
Treasury stock sold to employees	-	6,510	-	-	-	-	67,858	74,368
Balance as of December 31, 2002	<u>21,857,367</u>	<u>1,443,760</u>	<u>3,576,309</u>	<u>252,058</u>	<u>854,960</u>	<u>(134,725)</u>	<u>(245,332)</u>	<u>27,604,397</u>

See accompanying notes to the financial statements.

FUBON COMMERCIAL BANK

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001 (Expressed in Thousands of New Taiwan Dollars)

	<u>2002</u>	<u>2001</u>
	NT\$	NT\$
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	749,639	2,949,298
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	254,473	237,798
Provision for loan and other losses	2,673,742	3,643,563
Loss on sale of bad loans	4,367,562	-
Recovery of provision for decline in market value of long-term investments	(30,291)	(3,500)
Loss on reduction of long-term investment	20,513	32,346
Provision for decline in market value of foreclosed properties	-	50,000
Provision for losses on guarantees transferred to non-operating income	(26,500)	(96,000)
Net investment revenue under the equity method	(970,602)	(579,618)
Cash dividends from invested company	26,504	95,803
Net loss on disposal of assets	3,542	958
Net loss on disposal of long-term investment	102,005	32,999
Net loss on disposal of foreclosed properties	98,316	72,892
Property and equipment reclassified to expense	213	753
Changes in assets and liabilities:		
Receivables	(2,446,456)	510,691
Acceptances receivable	41,973	(30,315)
Receivable on forward contracts for trading purposes	15,832	(5,947)
Prepayments	12,431	35,523
Deferred tax assets	(53,029)	(94,198)
Payables	(718,268)	(2,373,513)
Payable on forward contracts for trading purposes	(16,117)	1,690
Collection for customers	(12,607)	(38,060)
Acceptances	(45,788)	29,441
Advances from customers	47,030	(71,213)
Net cash provided by operating activities	<u>4,094,117</u>	<u>4,401,391</u>

(Continued)

FUBON COMMERCIAL BANK

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001 (Expressed in Thousands of New Taiwan Dollars)

	<u>2002</u>	<u>2000</u>
	NT\$	NT\$
CASH FLOWS FROM INVESTING ACTIVITIES:		
(Increase)/ decrease in reserve due from Central Bank	299,150	2,206,056
(Increase)/ decrease in due from banks	7,006,523	1,346,955
(Increase)/ decrease in short-term investments	10,828,596	(21,510,734)
(Increase)/ decrease in loans (including non-accrual loan)	(2,006,490)	(905,870)
Increase in long-term investments	(7,015,049)	14,995,246
Proceeds from sale of long-term investments	239,827	(2,176,167)
Purchase of property and equipment	56,321	54,109
Proceeds from sale of property and equipment	(322,467)	(667,206)
Increase in receivable on forward contracts for hedging purpose	2,109	7,366
Increase in payable on forward contracts for hedging purpose	412,906	-
Proceeds from sales of foreclosed properties	1,823,436	962,127
Increase in guarantee and margin deposits and other assets	298,946	372,491
Net cash used in investing activities	<u>(3,291,036)</u>	<u>(244,618)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Increase/ (decrease) in due to banks	744,200	396,913
Increase in deposits accepted and remittances payable	(8,640,052)	361,083
Increase in guarantee deposits received and other liabilities	10,000,000	-
Decrease in appropriated loan fund	(15,804)	(20,825)
Cash dividends	(125,567)	121,561
Proceeds from GDR	(2,313,436)	(400,758)
GDR-related expenses	-	(1,840)
Increase in treasury stock	<u>74,369</u>	<u>-</u>
Net cash provided by financing activities	<u>(276,290)</u>	<u>456,134</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	12,150,599	(702,720)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	6,723	(85,222)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>45,310,971</u>	<u>46,098,913</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>57,468,293</u>	<u>45,310,971</u>

(Continued)

FUBON COMMERCIAL BANK

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001 (Expressed in Thousands of New Taiwan Dollars)

	<u>2002</u>	<u>2001</u>
	NT\$	NT\$
SUPPLEMENTAL INFORMATION ON CASH FLOWS:		
Income tax paid	215,684	96,454
Interest paid	5,808,569	9,896,500
OTHER INVESTING AND FINANCING ACTIVITIES NOT AFFECTING CASH:		
Short-term investment transferred to receivable	30,000	100,000
Long-term investment transferred to short-term investment	69,560	-
Pledged properties repossessed transferred to property and equipment	-	70,000
Treasury stock transferred to other assets	14,721	1,935
CASH AND CASH EQUIVALENTS:	35,356	73,737
Cash	248,662	66,815
Due from banks (including call loans to banks of 90 days due)	7,564	15,993
Due from Central Bank of China (not including reserve due from Central Bank)		
Short-term investment securities of 90 days due	21,494,876	15,012,539
	18,705,828	23,075,832

See accompanying notes to the financial statements.

(Concluded)

FUBON COMMERCIAL BANK

NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

1. ORGANIZATION AND BUSINESS SCOPE

Fubon Commercial Bank Co., Ltd. (the “Bank”) was authorized by the Ministry of Finance (“MOF”) of Republic of China (“ROC”) to operate as a commercial bank on August 1, 1991, and commenced operations on April 20, 1992.

The Bank was established pursuant to the ROC Banking Law to engage in all commercial banking operations allowed by the Banking Law.

Effective as of December 19, 2001, the Bank became a wholly owned subsidiary of Fubon Financial Holding Co., Ltd. (a newly formed financial holding company under the ROC Financial Holding Company Act)

The Bank was listed on the Taiwan Stock Exchange on October 1, 1998. After the Bank became a subsidiary of Fubon Financial Holding Co., Ltd. (“Fubon Financial”) on December 19, 2001, the Bank’s shares were delisted.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The Bank prepares its financial statements in accordance with generally accepted accounting principles in the Republic of China. The accompanying financial statements are expressed in New Taiwan Dollars (NT\$) unless otherwise stated.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles in the Republic of China requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

Cash equivalents

The Bank considers all highly liquid debt instruments, which include investment securities, due from banks and call loans to banks, with the maturity of three months or less, to be cash equivalents.

Short-term investments

Marketable equity securities are recorded at cost when acquired and are stated at the lower of aggregate cost or market value. Market value is determined by the average closing price of the last month of the accounting period. Stock dividends are treated as an increase in the number of shares. The cost of marketable equity securities sold is determined by the weighted-average cost method.

The market value for mutual funds is determined by the net asset value per share accounted by the investment management companies.

Short-term notes are recorded at cost when acquired and are stated at the lower of aggregate cost or market value on the balance sheet date, if the market value is available. The cost of these notes, interest income, and gain or loss either due to maturity or resulting from the sale of notes are determined by the specific identification method.

Loans

Loans are stated at the principal amounts less allowance for possible loan losses and non-accrual loans transferred to other assets.

Non-accrual loans are defined as:

1. Loans for which the most recent principal or interest payment is overdue by more than six months, or
2. Loans on which the Bank has initiated foreclosure and the related collateral has been sold.
3. When there are postponement or modification of the credit terms for the debtors, the Bank agrees to receive partial interests and the rest of interests are stopped accumulating.

The interests during the stopped accumulating period are not recognized until realized.

Allowance for loan losses

In determining the allowance for credit losses, the Bank evaluates the collectability of its loan portfolio and credit guarantees based on the borrowers'/ clients' payment history and the related loan classification as non-performing, in accordance with "Rules for Bank Assets Evaluation, Loss Reserve Provision, and Disposing of Overdue loans, Non-accrual Loans and Bad Debts" issued by the MOF.

Write-off of specific loans under MOF guidelines are first offset against the recorded allowance for loan losses. If the allowance is insufficient to cover loans write-offs, the Bank recognizes additional losses on loans in the statement of income for the current period. Amounts of bad debts recovered are accounted for as non-operating income in the statement of income.

As a result of changes in the operating and financial performance of customers and general economic conditions of the market which may have an impact on the debtors' ability to repay their loans, and uncertainties related to the future realization of collateral values, the ultimate losses may be different from the amounts presently estimated and provisioned.

Reserve for guarantees and securities losses

The reserve for losses on guarantees is determined by evaluating the potential losses of acceptances, guarantees and letters of credit on the balance sheet date. The accumulated reserve is recorded as a liability on the balance sheet. Amounts recovered are accounted for under non-operating income in the statement of income.

According to the “Rules Governing the Administration of Securities Firms”, 10% of the monthly gains on trading bills and securities less the monthly losses should be set aside into a reserve until the reserve equals NT\$200.0 million. Such reserve can only be used to offset actual losses.

Long-term investments

Long-term investments in listed companies, where the Bank owns less than 20% of the voting stock and lacks significant operational influence over the investees, are stated at the lower of cost or market value. Unrealized losses thereon are recorded as a reduction in shareholders' equity. Long-term investments in non-listed companies, which represent less than 20% of the investee's common stock ownership, are stated at cost. However, when there is evidence showing that a decline in the recorded value of such investment is other than temporary, the investment is written down to reflect the decline in value and the resulting loss is recognized in the period of such a write-down. Stock dividends are not recognized as income but treated as an increase in the number of shares held.

Investments in equity securities in which the Bank owns 20% or more of the investee's voting shares and has significant influence over the investee are accounted for under the equity method. Under the equity method, the difference between the acquisition cost of the investment and the underlying equity of the investment is amortized over five years on a straight-line basis and recognized as investment income or loss.

Upon sale of long-term equity investments (accounted for under the cost method), the difference between the weighted average cost and sale price is used to compute the resulting gain or loss reflected in the statement of income.

A corporation becomes a subsidiary when another corporation acquires a controlling interest (over 50 percent) in its outstanding voting stock. When a parent-subsidiary relationship exists, consolidated financial statements are required unless both the assets and operation income of the subsidiary are less than 10% of the amounts of the parent company or the consolidation is not proper due to the different operating characteristics between the parent company and its subsidiary.

If the combined total assets and combined operating income of the unqualified subsidiaries are more than 30% of the amounts of the parent company, the subsidiaries with assets and operating income amounted to more than 3% of the parent's amounts still need to be consolidated in the parent's financial statements until the combined total assets and combined operating income of the unqualified subsidiaries decreases to less than 20% of the amounts of the parent company. The Bank's subsidiaries that do not meet such criteria for consolidation are accounted for under the equity method of accounting.

Unrealized gains and losses from transactions between the Bank and investees under equity method are eliminated or deferred to the future years. The unrealized gains and losses that resulted from depreciable and amortizable assets are recognized over the useful years of assets. In addition, the unrealized gains and losses from other kinds of assets are recognized in the year which they are realized.

Long-term debt investments

Long-term debt investments, which are intended to be held for over one year, are stated at cost. Premiums and discounts are amortized over the Bank's intended holding period of the debt instruments. In addition, long-term debt investments are denominated in foreign currency translated into NT dollars at regulated exchange rates. The resulting foreign exchange gains or losses are included in the statement of income for the period. Unrealized losses are recognized in the statement of income for the period.

Property and equipment and leasehold assets

Property and equipment and leasehold assets are stated at cost. Depreciation of buildings and equipment is provided over the estimated useful lives of the respective assets on the straight-line method. Leasehold improvements are amortized over the lesser of lease terms or the useful lives of such improvements.

Renewals and improvements are capitalized and depreciated accordingly, repairs and maintenance are charged to expenses as incurred.

Foreclosed assets

Foreclosed assets are recorded at the appraised value, which is generally believed to be the fair market value at the time of acquisition. When the cost is less than the net realizable value at the balance sheet date, provisions for decline in value of such assets is recognized as losses in the statement of income for the period.

Retirement plan

The Bank has established a retirement plan for all employees. Pension plan benefits are based primarily on participants' compensation and years of credited service.

The Bank contributions to pension assets are equal to 8% of total salary expense.

In compliance with ROC Securities and Futures Commission regulations, the Bank implemented ROC Statement of Financial Accounting Standards (SFAS) No. 18, "Accounting for Pensions" to account for pension plan on actuarial basis. An actuarial valuation of the pension liability is performed at the balance sheet date, and a minimum pension liability is reported in the financial statements in the amount based on the difference between the plans accumulated benefit obligation and the fair value of plans' assets, when the cumulative benefit obligation exceeds the fair market value of the pension fund assets.

Interest income

Interest income is recognized on an accrual basis except for interest on non-accrual loans. Such interest on non-accrual loans is recognized when received.

Income tax

The Bank adopted the amended SFAS statement No. 22 “Accounting for Income Tax” which requires inter-period and intra-period tax allocations in addition to computing current period income tax expense. Furthermore, it requires recognition of deferred income tax liabilities on future taxable temporary differences, and deferred income tax assets on future deductible temporary differences, prior year’s loss carry-forwards and investment tax credits. The realization of deferred income tax assets is further assessed, and a valuation allowance, if needed, is provided accordingly. Adjustment of prior year’s income tax expense is recorded as current period income tax expense in the year of adjustment.

Deferred income tax assets and liabilities are classified as current or non-current in accordance with the underlying assets or liabilities. Deferred income taxes not relating to assets or liabilities are classified as current or non-current based on the expected period to realize or reverse.

Additionally, a 10% business income tax on undistributed earnings is recognized as expense in the year of the resolution of the shareholders’ meeting.

Foreign currency transactions

Foreign currency transactions are recorded in New Taiwan dollars at the rates of exchange in effect when the transactions occurred. Gains or losses resulting from adjustments or settlements of foreign currency assets and liabilities are credited or charged to income. Foreign currency assets and liabilities at the balance sheet date are translated at year-end exchange rates, and resulting gains or losses are credited or charged to current income.

Derivative financial instruments

The Bank is party to certain derivative transactions, including forward contracts, currency swaps, interest rate swaps and currency options. The Bank also engages in forward currency contracts on behalf of its customers.

Foreign currency swaps

Memorandum entries of the notional amount of foreign currency swap contracts entered into for hedging purposes are recorded on contracting dates. Unrealized gains or losses resulting from the change in rates are recognized as period gains or losses.

Forward currency contracts

Net assets and liabilities resulting from open foreign currency forward contracts are recorded in New Taiwan dollars at the rate of exchange in effect at the balance sheet date. Unrealized gains or losses resulting from the subsequent change in foreign currency exchange rates are recognized as current period gains or losses.

Cross currency swaps

For cross currency swap contracts, memorandum entries of the nominal amounts are recorded on the contracting dates. Forward accounts receivable and accounts payable are offset on the balance sheet date with the differences listed as net assets or liabilities. For trading contracts, differences in market value are recognized as transaction gains or losses. For non-trading contracts, interest receivables or payables and amortized principal as determined by agreement are recognized as current interest income or expenses, along with the hedged positions.

Options

For option contracts, the premium collected from put options is recognized as advance receipts and the premium paid for call options is recognized as prepaid expenses. The values of the option contracts are evaluated every month according to the market prices, and the differences are recognized as current period revenues or expenses.

Interest rate swaps

The Bank engages in such contracts for hedging purposes. Interest receivables or payables related to such swap contract, together with hedged positions, are recognized as current interest income or expenses.

Non-delivery deposit forward contracts

Given that there is no physical transfer of principal in non-delivery forward transactions, only memorandum entries of nominal amount are recorded on contracting date. Upon maturity of a contract, gains or losses resulting from the difference in exchange rate applied on maturity date are credited or charged to the current period. On the balance sheet date, differences resulting from exchange rate adjustments of uncleared positions with respect to the time remaining are recognized as current exchange gains or losses.

Commitments and contingencies

If losses on commitments and contingencies are considered probable and can be reasonably estimated, then the losses are recorded in the statement of income for the current period.

Earnings per share of common stock

Earnings per share (EPS) are computed as net income divided by the weighted average number of outstanding shares of common stock. The effect of any increase in outstanding shares due to the issuance of stock dividends, from retained earnings or capital surplus, is computed retroactively.

Treasury stock

The Bank uses the cost method to account for treasury stock. Under the cost method, treasury stock is debited at the cost of the shares purchased. When treasury stock is sold at a price greater than the cost, the difference is credited to capital surplus-treasury stock. If the sales price of treasury stock is lower than the cost, the difference is used to offset capital surplus from similar treasury stock. If the capital surplus-treasury stock account is insufficient to cover the excess of the cost over the price, retained earnings is debited for the remaining amount. The book value of each share of treasury stock is equal to its weighted-average value and is calculated according to its reason for purchase.

When treasury stock is retired, capital surplus and common stock are debited according to the ratio of retiring treasury stock to total issued stock. When the book value of the retiring treasury stock is

higher than the sum of its par value and capital surplus, the difference is debited to capital surplus-treasury stock. If the capital surplus-treasury stock account is insufficient to cover the difference, retained earnings is debited for the remaining amount. When the book value of the retiring treasury stock is lower than the sum of its par value and capital surplus, the difference is credited to capital surplus-treasury stock.

Regulatory requirements

The Bank is subject to the current laws and regulations of the Republic of China, pursuant to which it is subject to the oversight of the Central Bank of China and the Ministry of Finance, the primary banking regulators in the Republic of China. The legal and regulatory requirements to which the Bank is subject include limits and other restrictions concerning the capital adequacy, classification of loans and off-balance sheet liabilities, credit exposure with clients of the Bank, and liquidity.

3. CASH, DUE FROM BANKS AND DUE FROM CENTRAL BANK OF CHINA

Cash

	(NT\$ '000)	(NT\$
	<u>2002</u>	<u>2001</u>
	NT\$	NT\$
Cash on hand	1,707,642	1,568,248
Certificates of deposit	17,326,120	10,545,000
Petty cash and working funds	676	625
Notes and checks for clearing	2,309,611	2,749,319
Foreign currencies on hand	<u>150,827</u>	<u>149,347</u>
	<u>21,494,876</u>	<u>15,012,539</u>

Due from banks

	(NT\$ '000)	(NT\$ '000)
	<u>2002</u>	<u>2001</u>
	NT\$	NT\$
Due from other banks	547,203	549,026
Call loans to banks	<u>20,918,106</u>	<u>32,292,810</u>
	<u>21,465,309</u>	<u>32,841,836</u>

Due from Central Bank of China

	(NT\$ '000)	(NT\$ '000)
	<u>2002</u>	<u>2001</u>
	NT\$	NT\$
Checking and settlement accounts	3,160,285	4,982,954
Demand account-reserve deposits	5,122,172	5,421,323
Non-reserve deposits	<u>2,190,000</u>	<u>2,190,000</u>
	<u>10,472,457</u>	<u>12,594,277</u>

4. SHORT-TERM INVESTMENTS

The following is a summary of the major components of short-term investments as of December 31, 2002 and 2001:

	(NT\$ '000)	2002 NT\$	2001 NT\$
Government bonds		15,320,556	25,011,145
Financial bonds		700,657	464,903
Corporate bonds		5,618,859	7,694,269
Treasury Bonds		1,419,604	-
Stocks		962,500	1,116,333
Funds		2,448,176	2,349,481
Commercial paper		<u>11,204,623</u>	<u>99,342</u>
		37,674,975	36,735,473
Less: allowance for decline in market value		<u>-</u>	<u>-</u>
		<u>37,674,975</u>	<u>36,735,473</u>

As required by the ROC Code of Civil Procedures, the Bank must make a deposit in an amount equal to one-third of the value of the pledged assets in order to secure such assets before legal foreclosure proceedings begin. As of December 31, 2002 and 2001, the Bank had NT\$721.7 million and NT\$510.9 million in government and corporate bonds deposited for such legal proceedings.

Starting in 2001, in accordance with the ROC Trust Law, the Bank is required to deposit a fixed amount of NT\$50.0 million in government and corporate bonds against its trust operations. Prior to 2001, the required deposit was an amount equal to 15.125% of the monthly mutual fund transaction amount. As of December 31, 2002 and 2001, the Bank had NT\$58.4 million and NT\$56.0 million of deposit in the Central Bank of China for this purpose.

In accordance with guidelines set by the National Credit Card Center, the Bank, on a semi-annual basis, is required to make a deposit equal to 20% of the Bank's average monthly credit card transaction amount. The deposit is required to be 30% in cash and 70% in government and corporate bonds. As of December 31, 2002 and 2001, the Bank had NT\$459.9 million and NT\$519.2 million of deposit in the Central Bank of China for its credit card operations.

In 2001, the Bank began its operations in the settlement of commercial paper trading activities through the ROC Over-the-Counter Securities Exchange. For these operations, the Bank is required to deposit NT\$10.0 million plus an amount based on the Bank's daily transaction volume. For the years ended December 31, 2002 and 2001, the Bank provided a deposit of NT\$81.2 million and NT\$74.0 million for its settlement activities.

In accordance with the ROC Regulation Governing Administration of Bills Finance, the Bank, who plays assistance activity in bills finance, is required to deposit NT\$50 million for its operations. As of December 31, 2002, the Bank had NT\$49.2 million in government bonds deposited in the Central Bank of China for its operations.

5. RECEIVABLES

	2002	(NT\$ '000) 2001
	NT\$	NT\$
Notes receivable	110	273,835
Allowance for notes receivable (Note 6)	-	(170,972)
Accounts receivable	6,995,815	4,475,322
Allowance for accounts receivable (Note 6)	(467,900)	(70,063)
Tax refund receivable	313,639	215,181
Accrued income receivable	197,717	249,442
Acceptance receivable	255,567	297,540
Interest receivable	1,303,069	1,610,538
Forward proceeds receivable	1,685,280	929,483
Forward proceeds receivable - foreign currencies	2,049,622	814,760
Other receivables	837,202	350,985
	<u>13,170,121</u>	<u>8,976,051</u>

6. LOANS

Loans consist of the following as of December 31, 2002 and 2001:

	2002	(NT\$ '000) 2001
	NT\$	NT\$
Bills discounted and purchased	298,122	254,533
Short-term loans and overdrafts	11,294,152	17,280,303
Secured short-term loans and overdrafts	10,143,035	15,225,640
Medium-term loans	42,436,171	26,806,948
Medium-term secured loans	18,573,222	22,762,099
Long-term loans	5,178,639	2,915,591
Long-term secured loans	55,980,909	56,333,935
Non-accrual loans	<u>1,656,423</u>	<u>3,455,967</u>
Gross loans	145,560,673	145,035,016
Allowance for loan losses:		
Loans, net of non-accrual loans	(1,625,885)	(715,864)
Non-accrual loans	(469,686)	(672,263)
Net non-accrual loans, transferred to other assets (Note 9)	<u>(1,186,737)</u>	<u>(2,783,704)</u>
	<u>142,278,365</u>	<u>140,863,185</u>

The movements in the allowance for loan and receivable losses for the years ended December 31, 2002 and 2001 are as follows:

	(NT\$ '000)		
	2002		
	For Losses on Particular Loans	For Losses on the Overall Loan Portfolio (Excluding the Particular Loans)	Total
	NT\$	NT\$	NT\$
Balance as of January 1, 2002	1,252,339	376,823	1,629,162
Provision for loan and receivable losses	1,758,660	885,082	2,643,742
Write-off	<u>(1,709,433)</u>	<u>-</u>	<u>(1,709,433)</u>
Balance as of December 31, 2002	<u>1,301,566</u>	<u>1,261,905</u>	<u>2,563,471</u>

	(NT\$ '000)		
	2001		
	For Losses on Particular Loans	For Losses on the Overall Loan Portfolio (Excluding the Particular Loans)	Total
	NT\$	NT\$	NT\$
Balance as of January 1, 2001	1,166,072	384,805	1,550,877
Provision for loan and receivable losses	3,504,490	-	3,504,490
Write-off	<u>(3,418,223)</u>	<u>(7,982)</u>	<u>(3,426,205)</u>
Balance as of December 31, 2001	<u>1,252,339</u>	<u>376,823</u>	<u>1,629,162</u>

NT\$240.6 million and NT\$129.8 million of bad debts were recovered during the years ended December 31, 2002 and 2001, respectively, and were credited to non-operating income.

Non-accrual loans amounted to NT\$1,656.4 million and NT\$3,456.0 million as of December 31, 2002 and 2001, respectively. Interest on such loans not accrued is estimated to be NT\$136.6 million and NT\$243.6 million as of December 31, 2002 and 2001, respectively.

Group concentrations of credit risks exist if a number of counterparts are engaged in similar activities or activities in the same region, which have similar economic characteristics that would affect their abilities to meet contractual obligations. The Bank maintains trading positions in a number of markets and with a variety of counterparts or obligors. The Bank's significant group concentrations of credit risk were summarized in categories of similar industries as follows:

	(NT\$ '000)	
	2002	2001
	NT\$	NT\$
Loans – by industry:		
Individuals	90,021,975	80,445,165
Commercial	8,326,223	8,423,168
Manufacturing	19,700,204	19,433,326
Construction	1,810,944	2,759,965
Others institutions	<u>25,701,327</u>	<u>33,973,392</u>
	<u>145,560,673</u>	<u>145,035,016</u>

The Bank will incur a transaction loss equal to the book value, if the counterpart is unable to fulfill its obligations and the collateral promised by the counterpart is completely worthless.

7. LONG-TERM INVESTMENTS

Long-term investments as of December 31, 2002 and 2001 consist of the following:

	(NT\$ '000)			
	2002		2001	
	Percentage of Ownership (%)	Amount NT\$	Percentage of Ownership (%)	Amount NT\$
Equity securities:				
Equity method:				
Fubon Construction Management Co., Ltd.	30.00	46,204	30.00	45,017
Fubon Bills Finance Co., Ltd.	100.00	5,893,401	99.79	4,958,644
Fubon Leasing Co., Ltd.	99.99	838,094	99.99	836,891
Fubon Future Co., Ltd.	30.00	217,877	30.00	219,411
Fu-Yin Insurance Agent Co., Ltd.	95.00	33,478	95.00	14,282
Fubon Insurance Agent Co., Ltd.	99.00	2,153	99.00	2,826
Cost method:				
Fubon Securities Finance Co., Ltd.	5.67	337,011	5.67	337,011
Fubon Venture Capital Co., Ltd.	5.00	25,000	5.00	25,000
Taiwan High Speed Rail Co., Ltd.	1.01	500,000	1.01	500,000
Taiwan Fixed Network Co., Ltd.	0.22	200,000	0.22	200,000
Taiwan Assets Management Co., Ltd.	1.14	200,000	1.14	200,000
Other (percentage of shares held under 5 % or amount under 100,000 thousand)	-	390,739	-	405,739
The lower of cost or fair market value method:				
Fubon Financial Holding Co., Ltd.	0.50	1,164,336	0.76	1,164,336
Other (percentage of shares held under 5 % or amount under 100,000 thousand)	-	21,717	-	42,230
		<u>9,870,010</u>		<u>8,951,387</u>
Less: allowance for decline in market value		<u>(134,725)</u>		<u>(73,058)</u>
		<u>9,735,285</u>		<u>8,878,329</u>
Long-term debt investment		969,921		1,297,755
Less: allowance for decline in market value		<u>(138,393)</u>		<u>(169,785)</u>
		<u>831,528</u>		<u>1,127,970</u>
		<u>10,566,813</u>		<u>10,006,299</u>

All the invested companies of the Bank under the equity method excluding Fubon Construction Management Co., Ltd. and Fubon Future Co., Ltd. are subsidiaries over 50% held by the Bank. However, each subsidiary's total assets and total operating income are below the criterion of marking consolidated financial statements, and all the subsidiaries' combined assets and combined operating income are under 30% of the Bank's total assets and total operating income, therefore the Bank and its subsidiaries are not necessary to prepare the consolidated financial statements.

For the years ended December 31, 2002 and 2001, the original costs and investment revenues of investments under the equity method of accounting were as follows:

	Original cost		Investment revenue	
	2002	2001	2002	2001
	NT\$	NT\$	NT\$	NT\$
Fubon Construction Management Co., Ltd.	30,000	30,000	1,187	4,508
Fubon Bills Finance Co., Ltd.	3,910,329	3,900,291	924,719	531,172
Fubon Leasing Co., Ltd.	999,900	999,900	1,203	8,673
Fubon Future Co., Ltd.	196,170	196,170	13,529	22,555
Fu-Yin Insurance Agent Co., Ltd.	1,900	1,900	29,888	11,880
Fubon Insurance Agent Co., Ltd.	1,980	1,980	76	831

In September 2001, the Board of Directors resolved to invest in Fubon Bills Finance Co., Ltd. The Bank acquired the stocks amounted to NT\$2,082.0 million at NT\$12.45 per share from September 2001 through November 2001, and then acquired the stocks amounted to NT\$78 thousand at NT\$12.975 per share from June 2002 through July 2002. Therefore the percentage of ownership increased to 100.00%. Furthermore, related parties were involved in this transaction as disclosed in Note 17.

As of December 31, 2002 and 2001, long-term debt investments consisted of the following:

	(NT\$ '000)	
	2002	2001
	NT\$	NT\$
Corporate bonds		
Domestic	382,580	315,063
Foreign	-	45,246
Floating rate notes		
Domestic	86,950	262,553
Foreign	223,550	389,767
Other	276,841	285,126
	<u>969,921</u>	<u>1,297,755</u>

Long-term debt corporate bonds are primarily denominated in US dollars and have future maturities ranging to 2013.

8. PROPERTY AND EQUIPMENT, AND LEASEHOLD ASSETS

	(NT\$ '000)	
	2002	2001
	NT\$	NT\$
Land	2,582,508	2,564,397
Buildings and improvements	2,192,252	1,918,451
Equipment	844,720	686,175
Transportation equipment	109,999	112,148
Miscellaneous equipment	336,825	309,087
Leasehold improvements	535,736	510,597
Unfinished construction and prepayment for equipment	64,934	77,067
Leased assets	2,050	13,150
Total costs	<u>6,669,024</u>	<u>6,191,072</u>
Less: accumulated depreciation	<u>(1,646,785)</u>	<u>(1,452,056)</u>
	<u>5,022,239</u>	<u>4,739,016</u>

In December 1999, the Bank purchased land, buildings and parking lots for the proposed branch premises in Neihu for NT\$890.7 million. Additional costs were incurred subsequent to the purchase of NT\$38.5 million and the architectural consulting fee of this transaction of NT\$12.6 million was paid to a related party (see Note 17). The Bank had paid the entire purchase price as of June 30, 2001.

In February 2001, the Bank purchased land, buildings and parking lots for the proposed branch premises in Tuchen for NT\$118.9 million. As of September 30, 2001, the Bank had paid the entire purchase price.

Leasehold assets include foreclosed properties and self-owned properties that are leased out. The cost of these leased assets was as follows:

	(NT\$ '000)	
	<u>2002</u>	<u>2001</u>
	NT\$	NT\$
Cost:		
Land	50,552	29,489
Buildings	<u>199,329</u>	<u>185,036</u>
Total cost	249,881	214,525
Less: accumulated depreciation	<u>(17,389)</u>	<u>(10,929)</u>
	<u>232,492</u>	<u>203,596</u>

The lease period of the above assets range from one to ten years and such assets are leased to related parties as disclosed in Note 17.

9. OTHER ASSETS

Other assets as of December 31, 2002 and 2001 consist of the following:

	(NT\$ '000)	
	<u>2002</u>	<u>2001</u>
	NT\$	NT\$
Statutory deposits	395,996	348,154
Non-accrual loans, transferred from loans (Note 6)	1,656,423	3,455,967
Less: allowance for loan losses, transferred from loans (Note 6)	(469,686)	(672,263)
Foreclosed assets	517,479	1,160,635
Less: allowance for decline in market value	(50,000)	(50,000)
Restricted assets	3,200,000	-
Deferred tax assets	279,172	226,143
Deferred charges	69,605	30,500
Others	<u>7,435</u>	<u>7,363</u>
	<u>5,606,424</u>	<u>4,506,499</u>

The Bank has NT\$3,200 million in certificates of deposit which was accounted as restricted assets at December 31, 2002. In accordance with the rule set by Central Bank of China, the Bank is required to deposit sufficient guaranty for daytime overdraft to Central Bank of China. As of December 31, 2002, the Bank had NT\$ 3,200 million in certificates of deposit deposited in the Central Bank of China for this purpose. The interest rate is between 1.625% and 2.249%, and the final due date is December 8, 2003.

The Bank holds NT\$313.2 million of Fubon Financial shares which was originally accounted as restricted assets at December 31, 2001. However, in accordance with file No.91111467 issued by MOF on April 8, 2002, those shares held should be treated as treasury stocks and recorded as a reduction in shareholders' equity. Accordingly, the 2001 financial statements as presented herein have been restated for such change.(Note 13).

10. DEPOSITS

Deposits as of December 31, 2002 and 2001 consist of the following:

	(NT\$ '000)	
	<u>2002</u>	<u>2001</u>
	NT\$	NT\$
Checking accounts	2,413,074	2,332,640
Demand deposits	21,655,913	17,573,505
Time deposits	68,350,734	87,403,878
Savings deposits	126,254,077	119,948,586
Remittances payable	<u>167,390</u>	<u>222,631</u>
	<u>218,841,188</u>	<u>227,481,240</u>

As of December 31, 2002 and 2001, the Bank issued negotiable certificates of deposits of NT\$1,430.2 million, and NT\$2,009.9 million, respectively, recorded as time deposits.

11. FINANCIAL BONDS

In order to maintain the risk-based capital ratio, the Bank needs to collect long-term operating capital. For this purpose, the Bank applied to the Bureau of Monetary Affairs, Ministry of Finance for the issuance of financial bonds amounted to NT\$10,000 million, and the issuance was authorized at September 4, 2002. The Bank issued financial bonds which both amounted to NT\$5,000 million in October and December, 2002, respectively. The interest is paid semiannually and the principal will be paid when the bonds mature. The details were as follows:

'000)	(NT\$			
<u>Bond type</u>	<u>Issue date</u>	<u>Maturity date</u>	<u>Interest rate</u>	<u>Amount</u>
				NT\$
Type A,B,C,K,L,M,P of the first issuance in 2002	Oct. 14 and 15, 2002	Oct. 14 and 15, 2007	5.35%-floating rate	2,600,000
Type D,E,F,G,J,O of the first issuance in 2002	Oct. 14 and 15, 2002	Oct. 14 and 15, 2007	First computing : 4.20%	1,400,000
Type H of the first issuance in 2002	Oct. 14, 2002	Oct. 14, 2007	After the interests are computed once :5.25% - floating rate 1st computing : 5.80%-1.00 ×floating rate 2nd computing : 5.80%-1.05 ×floating rate 3rd computing : 5.80%-1.10 ×floating rate 4th computing : 5.80%-1.15 ×floating rate 5th computing : 5.80%-1.20 ×floating rate	300,000

				(NT\$
‘000)				
Bond type	Issue date	Maturity date	Interest rate	Amount NT\$
Type H of the first issuance in 2002	Oct. 14, 2002	Oct. 14, 2007	6th computing : 5.80%- 1.25 ×floating rate 7th computing : 5.80%- 1.30 ×floating rate 8th computing : 5.80%- 1.35 ×floating rate 9th computing : 5.80%- 1.40 ×floating rate 10th computing : 5.80%-1.45 ×floating rate	
Type I of the first issuance in 2002	Oct. 14, 2002	Oct. 14, 2007	(5.70% - floating rate) × interest factor	500,000
Type N of the first issuance in 2002	Oct. 14, 2002	Oct. 14, 2007	4.87% - floating rate	200,000
Type A,B,C,D,E,F,G of the second issuance in 2002	Dec. 19, 2002	Dec. 19, 2007	5.10% - floating rate	2,500,000
Type H,I,J, of the second issuance in 2002	Dec. 27, 2002	Dec. 27, 2007	5.15% - floating rate	2,500,000
				<u>10,000,000</u>

On January 20, 2003, the Board of Directors resolved to apply to the Bureau of Monetary Affairs, Ministry of Finance for the issuance of financial bonds amounted to NT\$20,000 million.

12. EMPLOYEE RETIREMENT BENEFITS

The actuarial measurement dates of pension plan assets and obligations were on December 31, 2002 and 2001. The following table sets forth the actuarial valuation of the plan's funded status and the amounts recognized in the balance sheets on December 31, 2002 and 2001.

	(NT\$ '000)	
	2002	2001
	NT\$	NT\$
Benefit Obligation:		
Vested benefit obligation	(27,868)	(20,929)
Non-vested benefit obligation	(331,926)	(232,462)
Accumulated benefit obligation	(359,794)	(253,391)
Present value of increase in future compensation levels	(234,994)	(227,300)
Projected benefit obligation (PBO)	(594,788)	(480,691)
Fair value of pension plan assets	511,319	429,399
Funding status	(83,469)	(51,292)
Unrecognized net asset at transition	(974)	(1,096)
Unrecognized pension losses	87,185	53,184
Additional liability	-	-
Prior service cost	-	-
Prepaid pension cost	<u>2,742</u>	<u>796</u>

For the years ended December 31, 2002 and 2001, net pension costs of the Bank were as follows:
(NT\$ '000)

	<u>2002</u>	<u>2001</u>
	NT\$	NT\$
Service cost	73,741	73,909
Interest cost	21,903	22,716
Expected return on pension plan assets	(21,433)	(22,148)
Amortization on net benefit obligation	(122)	(122)
Amortization on pension loss	<u>205</u>	<u>400</u>
Net pension cost	<u>74,294</u>	<u>74,755</u>

As of December 31, 2002 and 2001, the significant assumptions used in the calculations for the defined benefit plans were as follows:

	<u>2002</u>	<u>2001</u>
Discount rate	3.75%	4.75%
Annual increase in future compensation levels	3.25%	4.00%
Expected long-term rate of return on assets	3.75%	4.75%

The changes of the retirement funds assets in 2002 and 2001 were as follows:

	<u>2002</u>	<u>2001</u>
	NT\$	NT\$
Beginning balance	430,297	350,164
Deposits during the period	76,273	75,139
Interest and investment income during the period	11,158	16,167
Withdrawals during the period	<u>(5,031)</u>	<u>(11,173)</u>
Ending balance	<u>512,697</u>	<u>430,297</u>

As of December 31, 2002, the pension funds assets were primarily invested in the Central Trust of China (78.53%) and ROC listed stocks (21.47%).

13. SHAREHOLDERS' EQUITY

On October 26, 2001, in connection with the formation of Fubon Financial, the shareholder of the Bank resolved to exchange their shares into shares of Fubon Financial at a ratio of 1.7053 shares of the Bank for 1 share of Fubon Financial. As a result of such exchange, the Bank's 2,185,736,697 authorized shares (including 27,934,000 shares previously owned as treasury stock) became one hundred percent owned by Fubon Financial at December 19, 2001.

On April 19, 2002, the Board of Directors resolved to appropriate the year 2001 earnings as follows: (a) transfer NT\$885.2 million to legal reserve, and recover the special reserve transferred in prior years according to Securities Exchange Law No. 41 of NT\$346.4 million; (b) declare cash dividends and employees' bonuses of NT\$2,300 million and NT\$21 million, respectively. The declaration date was May 15, 2002.

According to file No. 092000457 issued by MOF, the employees' benefits and the directors' and supervisors' compensation of the year 2001 earning are disclosed as follows:

	Estimated earning <u>Appropriation</u> NT\$	(NT\$ '000) Actual earning <u>Appropriation</u> NT\$
Cash dividends distributed to employees	<u>21,000</u>	<u>21,000</u>
Stock dividends distributed to employees	<u>-</u>	<u>-</u>
Directors' and supervisors' compensation	<u>-</u>	<u>-</u>
Percentage of the stock dividends distributed to employees out of the outstanding shares	<u>-</u>	<u>-</u>
The imputed earnings per share after distributing employees' cash dividends and directors' and supervisors' compensation (NT\$)	<u>1.36</u>	<u>1.36</u>

The Board of Directors has not passed the resolution of the earning distribution until the audit report date. The planned datas were declared by Fubon Financial and are all available through the market observation post system.

As the Bank became a subsidiary of Fubon Financial on December 19, 2001 the Board of Directors has amended the Articles of Incorporation ("Articles") on March 22, 2002. The Articles stipulate that the Bank's net earnings will first be used to pay income tax, and then, cover prior years' deficits, if any, and 30% of the remaining balance should be transferred to legal reserve before any dividend payments. The remaining balance, after appropriating 1% to 5% for employees' bonus, can be distributed as dividends according to the resolution of the shareholders' meeting.

Before the Bank became a subsidiary of Fubon Financial, according to the regulations of SFC, the earnings of listed corporations shall not only be set aside as legal reserve but also, according to Securities Exchange Law No. 41, reserve the amount equal to any valuation or contra-account in the stockholders' equity in the fiscal year (such as unrealized losses of valuation on long-term investment, cumulative translation adjustments, etc.) from the net income and prior unappropriated earnings as special reserve. If the valuation or contra-account in stockholders' equity belongs to prior periods, the same amount from prior period earnings should be reserved as special reserve and can't be distributed. If the valuation or contra-account of stockholders' equity is reversed, the special reserve amount could be distributed.

The cash distribution can't exceed 15% of authorized share capital unless the legal reserve reaches the amount equal to the authorized share capital.

Except the legal reserve, the Bank can keep partial or all of its unappropriated earnings according to the resolution of shareholders' meeting.

The above dividend policy has been approved by the Board of Directors on March 22, 2002.

The Bank's previous outstanding shares purchased by the Bank in order to transfer to employees are recorded as treasury stocks in years prior to 2001. The changes in the treasury stock for the years ended December 31, 2002 and 2001 were as follows:

(unit : thousand shares)

<u>Period</u>	<u>Reason</u>	<u>Shares on Jan. 1, 2002</u>	<u>Increase during the year</u>	<u>Decrease during the year</u>	<u>Shares on Dec. 31, 2002</u>
For the year ended Dec. 31, 2002	According to "Rule of purchasing own stocks from Securities Exchange", purchasing shares in order to transfer to employees	<u>27,934</u>	<u>-</u>	<u>6,360</u>	<u>21,574</u>

<u>Period</u>	<u>Reason</u>	<u>Shares on Jan. 1, 2001</u>	<u>Increase during the year</u>	<u>Decrease during the year</u>	<u>Shares on Dec. 31, 2001</u>
For the year ended Dec. 31, 2001	According to "Rule of purchasing own stocks from Securities Exchange", purchasing shares in order to transfer to employees	<u>27,784</u>	<u>150</u>	<u>-</u>	<u>27,934</u>

Securities Exchange Law regulates that corporation's purchase of their own stocks cannot be above 10% of the issued shares, and the dollar amount of purchase cannot be more than the retained earnings plus reserve for capital increase and realized capital surplus. The Bank reclaimed treasury stock on September 25, 2000 and November 6, 2000. On the basis of auditors' report as of June 30, 2000 and September 30, 2000, the upper limits are 173.5 million and 172.5 million shares, respectively, and the upper limits in dollar amounts are NT\$4,361.4 million and NT\$4,947.9 million, respectively. Up to December 31, 2002 and 2001, the Bank purchased 21.6 million and 27.9 million shares, and the costs were NT\$245.3 million and NT\$313.2 million, respectively. Since the Bank has become a subsidiary of Fubon Financial on December 19, 2001(Note 1), the previously owned treasury stock of the Bank was exchanged for stock of Fubon Financial and was transferred to the account "other assets-restricted assets" at the treasury stocks' book value at the same date. However according to file No. 91111467 issued by MOF, the stocks should be regarded as treasury stocks and recorded as a reduction in shareholders' equity. The financial report for the year 2001 has been restated, accordingly.

According to the ROC Securities and Exchange Law, the treasury stock of the Bank cannot be pledged and cannot have any shareholders' rights until transferred.

In March 2002, the Board of Directors resolved to sell the treasury stock to employees and the SFC had approved the sale. The difference between the selling price and the cost amounted to NT\$6.5 million is credited to capital surplus-treasury stock.

14. NON-OPERATING EXPENSES

	(NT\$ '000)	
	<u>2002</u>	<u>2001</u>
	NT\$	NT\$
Loss on sale of bad loans	4,367,562	-
Loss on disposal of assets	120,199	94,208
Loss on deception of credit cards	118,850	206,220
Provision for decline in market value of foreclosed assets	-	50,000
Other	<u>27</u>	<u>8,919</u>
	<u>4,606,638</u>	<u>359,347</u>

15. INCOME TAX AND THE INTEGRATED INCOME TAX SYSTEM INFORMATION

Income tax

The Bank is subject to the maximum income tax rate of 25 percent. The provision (benefits) for income tax for the years ended December 31, 2002 and 2001 were as follows:

	(NT\$ '000)	
	<u>2002</u>	<u>2001</u>
	NT\$	NT\$
Current income taxes	48,715	148,582
Deferred income tax benefits	<u>(53,029)</u>	<u>(94,198)</u>
	<u>(4,314)</u>	<u>54,384</u>

The differences between "expected" income tax at the statutory income tax rate and the income tax as reported in the accompanying financial statements for the years ended December 31, 2002 and 2001 are summarized as follows:

	(NT\$ '000)	
	<u>2002</u>	<u>2001</u>
	NT\$	NT\$
Income tax at statutory rate	186,331	750,920
Interest income on commercial paper subjected to separate income tax at lower rate	(60,418)	(114,584)
Gain on sale of securities	(332,946)	(581,724)
Tax-exempt income derived from offshore banking unit	(235,961)	(124,309)
Investment gains accounted under the equity method	(242,651)	(144,904)
Unrealized gains on foreign exchange	1,837	(19,030)
Amount of allowance for loan losses over the limitation	255,114	28,231
Tax-free investment revenues	236,898	101,216
Allowance for deferred tax assets	109,855	-
Other adjustments	29,292	66,900
Income tax on commercial paper	<u>48,335</u>	<u>91,668</u>
	<u>(4,314)</u>	<u>54,384</u>

The deferred income tax benefits consisted of the following:

	(NT\$ '000)	
	<u>2002</u>	<u>2001</u>
	NT\$	NT\$
Recovery of decline in market value of long-term investments	7,573	875
Losses carried forward	(83,235)	(92,304)
Tax credit	<u>22,633</u>	<u>(2,769)</u>
	<u>(53,029)</u>	<u>(94,198)</u>

The income tax effects of temporary differences that gave rise to deferred tax assets as of December 31, 2002 and 2001 were as follows:

	(NT\$ '000)	
	<u>2002</u>	<u>2001</u>
	NT\$	NT\$
Deferred tax assets:		
Unrealized losses on decline in market value of long-term investments	30,059	37,632
Tax credit	73,574	96,207
Losses carried forward	<u>290,447</u>	<u>97,357</u>
	394,080	231,196
Allowance for deferred tax assets	<u>(114,908)</u>	<u>(5,053)</u>
	<u>279,172</u>	<u>226,143</u>

According to the law of Income tax, the losses could be carried forward 5 years to deduct from income. As of December 31, 2002, the details of the Bank's losses for past years were as follows:

<u>Year of the loss occurred</u>	<u>Declared (approved) amount of losses</u>	<u>Deductible amount</u>	<u>The extended year for the carried losses</u>
	NT\$	NT\$	
Year 2001	667,855	262,738	Year 2006
Year 2002	1,826,429	<u>878,837</u>	Year 2007
		<u>1,141,575</u>	

Management believes that it has adequately provided for tax liabilities in the accompanying financial statements, however, the risk remains that relevant authorities could take differing positions with regard to interpretative issues. The effect on the Bank tax returns previously filed could be significant.

The National Tax Administration of Taipei has reviewed the Bank's tax return through 2000 except 1999. As a result of such tax reviews, the tax authorities have assessed additional taxes on the Bank equal to NT\$42.3 million related to various matters. Management has appealed such assessments and believes the ultimate outcome of such assessments made, as well as the possible amounts that could be assessed on tax years not yet reviewed, related to such matters, will not have a material effect on the Bank's financial position or reported operating results.

The following tables provide information required to be disclosed related to the Integrated Income Tax System:

	(NT\$ '000)	
	<u>2002</u>	<u>2001</u>
	NT\$	NT\$
Imputed tax credits for shareholders	<u>154,905</u>	<u>32,995</u>
	<u>2002</u>	<u>2001</u>
Imputed tax credit rate of estimated (actual) earnings appropriation	1.85%(Note a)	13.86%(Note b)

Note a: The rate is based on the actual "imputed tax credits for shareholders" for the appropriation of retained earnings for the year 2001.

Note b: The rate is based on the actual "imputed tax credits for shareholders" for the appropriation of retained earnings for the year 2000.

	(NT\$ '000)	
	<u>2002</u>	<u>2001</u>
	NT\$	NT\$
Unappropriated retained earnings of The Bank - 1997 and before	1,382	1,045
Unappropriated retained earnings of The Bank - 1998 and after	<u>853,578</u>	<u>2,962,756</u>
	<u>854,960</u>	<u>2,963,801</u>

16. EARNINGS PER SHARE

The earnings per share of common stock for the years ended December 31, 2002 and 2001 were as follows:

(number of shares and amounts are in thousands, except per share data)					
For the year ended December 31, 2002					
	<u>Amount (numerator)</u>		Shares (denominator)	<u>Earnings per share</u>	
	<u>Income before income tax</u>	<u>Net income</u>		<u>Income before income tax</u>	<u>Net income</u>
	NT\$	NT\$		NT\$	NT\$
Income	745,325	749,639			
Net income for basic earnings per common stock	745,325	749,639	2,162,682	<u>0.34</u>	<u>0.35</u>
For the year ended December 31, 2001					
	<u>Amount (numerator)</u>		Shares (denominator)	<u>Earnings per share</u>	
	<u>Income before income tax</u>	<u>Net income</u>		<u>Income before income tax</u>	<u>Net income</u>
	NT\$	NT\$		NT\$	NT\$
Income	3,003,682	2,949,298			
Net income for basic earnings per common stock	3,003,682	2,949,298	2,157,803	<u>1.39</u>	<u>1.37</u>

17. RELATED PARTY TRANSACTIONS

Names and relationships of related parties

Name	Relationship with the Bank
Directors, supervisors and their spouses, close relatives, etc.(non-juridical)	Director and supervisor of the Bank. Spouses, close relatives, etc. of the Bank's directors and supervisors (a)
President, general manager and their spouses, close relatives, etc.	President and general manager of the Bank, spouses, close relatives, etc. of the president and general manager. (a)
Managers	Managers
Director, supervisors and major stockholders of the Bank's juridical representative	Director, supervisor and major stockholders of the Bank's juridical representatives and the chairman, directors of the entity.(a)
Fubon Insurance Co., Ltd.	One hundred percent - owned subsidiary of Fubon Financial
Fubon Life Assurance Co., Ltd.	One hundred percent - owned subsidiary of Fubon Financial
Fubon Securities Co., Ltd	One hundred percent - owned subsidiary of Fubon Financial
Fubon Securities Investment Trust Co., Ltd.	An affiliate (b)
Taipeibank Co., Ltd.	One hundred percent - owned subsidiary of Fubon Financial (c)
Fubon Bills Finance Co., Ltd.	Invested company measured by equity method
Fubon Leasing Co., Ltd.	Invested company measured by equity method
Fubon Construction Management Co., Ltd.	Invested company measured by equity method
Fubon Direct Marketing Co., Ltd.	An affiliate
Fubon Land Development Co., Ltd.	An affiliate
Chung-Hsing Land Development Co., Ltd.	An affiliate
Ming Tong Co., Ltd.	An affiliate
Dao Yin Investment Co., Ltd.	An affiliate
Fubon Art Foundation	An affiliate
Fubon Charity Foundation	An affiliate
Fubon Culture & Education Foundation	An affiliate
Citibank	An affiliate
Salomon Smith Barney Securities, Taiwan Limited	An affiliate

(a) The Bank became a subsidiary of Fubon Financial on December 19, 2001. The appointments of the new directors and supervisors have been assigned by the resolution of the Board of Directors' meeting on January 7, 2002.

(b) One hundred percent-owned subsidiary of Fubon Financial since June 10, 2002.

(c) One hundred percent-owned subsidiary of Fubon Financial since December 23, 2002.

Significant transactions and account balances with related parties as of and for the years ended December 31, 2002 and 2001 are as follows:

Deposits

(NT\$ '000)			
For the year ended December 31, 2002			
Name	Balance on Dec. 31	Percentage of deposits	Interest rate range
NT\$			
Other (Each related party does not account for more than 10% of total deposits)	<u>5,602,676</u>	<u>2.56%</u>	<u>0~7.5%</u>

(NT\$ '000)			
For the year ended December 31, 2001			
Name	Balance on Dec. 31	Percentage of deposits	Interest rate range
NT\$			
Other (Each related party does not account for more than 10% of total deposits)	<u>8,190,679</u>	<u>3.60%</u>	<u>0~13.00%</u>

The interest rate paid on deposits held by the Bank's directors, supervisors, and managers up to the maximum of NT\$480 thousand was according to the two-year time saving deposits interest rate plus 5% per annum and fixed rate of 13% per annum for the years ended December 31, 2002 and 2001, respectively. The part of deposit exceeding NT\$480 thousand will earn interest calculated at the demand savings rate.

The interest rates and other terms provided to the other related parties are the same as those offered to the general public.

Loans

(NT\$ '000)			
December 31, 2002			
Name	Balance on Dec. 31	Percentage of loans	Interest rate range
NT\$			
Other (Each related party does not account for more than 10% of total loans)	<u>825,609</u>	<u>0.57%</u>	<u>2.15~8.25%</u>

(NT\$ '000)			
December 31, 2002			
Name	Balance on Dec. 31	Percentage of loans	Interest rate range
NT\$			
Other (Each related party does not account for more than 10% of total loans)	<u>419,464</u>	<u>0.30%</u>	<u>3.70~8.43%</u>

Loans to the above related parties are under the same terms as those for other customers, except for the interest on employee loans, which are 3.40%~7.65% and 5.26%~6.76% for the years ended December 31, 2002 and 2001, respectively.

Short-term investments

Short-term investments under repurchase or resale agreements as of December 31, 2002 and 2001 were as follows:

Repurchase and resale agreements

		(NT\$ '000)			
		2002			
Name	Transaction type	Repurchase		Resale	
		Selling price	Repurchase price	Purchase price	Resale price
		NT\$	NT\$	NT\$	NT\$
Others (Each related party does not account for more than 10% of total transaction amount)	Bonds	1,985,000	1,985,643	-	-
Others (Each related party does not account for more than 10% of total transaction amount)	Commercial paper	-	-	858,891	859,345

		(NT\$ '000)			
		2001			
Name	Transaction type	Repurchase		Resale	
		Selling price	Repurchase price	Purchase price	Resale price
		NT\$	NT\$	NT\$	NT\$
Others (Each related party does not account for more than 10% of total transaction amount)	Bonds	3,504,341	3,508,626	3,573,188	3,574,871
Others (Each related party does not account for more than 10% of total transaction amount)	Commercial paper	-	-	10,339,932	10,358,059

Terms are the same as those for other customers.

Purchase or sale agreements

		(NT\$ '000)	
		2002	
Name	Transaction type	Purchase transaction price NT\$	Sale transaction price NT\$
Others (Each related party does not account for more than 10% of total transaction amount)	Commercial paper	3,927,397	-
Others (Each related party does not account for more than 10% of total transaction amount)	Bonds	38,684,875	46,014,309

		(NT\$ '000)	
		2001	
Name	Transaction type	Purchase Transaction price NT\$	Sale transaction price NT\$
Salomon Smith Barney Securities, Taiwan Limited	Bonds	36,678,892	-
Others (Each related party does not account for more than 10% of total transaction amount)	Commercial paper	3,670,299	-
Others (Each related party does not account for more than 10% of total transaction amount)	Bonds	37,749,715	61,938,940

Terms are the same as those for other customers.

Due from and due to related parties

The Bank's due from related parties as of and related interest revenue for the years ended December 31, 2002 and 2001 were as follows:

(NT\$ '000)					
Name	Highest balance for the year of 2002 NT\$	Balance on Dec 31, 2002 NT\$	Maximum limit NT\$	Interest rate %	Interest revenue NT\$
Fubon Bills Finance Co., Ltd.	<u>1,800,000</u>	<u>1,200,000</u>	<u>2,200,000</u>	<u>1.40~2.43</u>	<u>14,804</u>
Citibank	<u>50,000</u>	<u>50,000</u>	<u>2,000,000</u>	<u>1.43</u>	<u>29</u>
Citibank	<u>284,279</u>	<u>-</u>	<u>479,000</u>	<u>2.00~2.19</u>	<u>2,144</u>

(NT\$ '000)

Name	Highest balance for the year of 2002	Balance on Dec 31, 2002	Maximum limit	Interest rate %	Interest revenue
	NT\$	NT\$	NT\$		NT\$
Taipeibank Co., Ltd.	<u>2,000,000</u>	<u>1,000,000</u>	<u>2,000,000</u>	1.55~1.93	<u>1,506</u>
	US\$	US\$	US\$		US\$
Taipeibank Co., Ltd.	<u>18,000</u>	<u>-</u>	<u>48,000</u>	1.45~1.99	<u>130</u>
	EUR\$	EUR\$			EUR\$
	<u>2,000</u>	<u>2,000</u>	(Note)	3.11	<u>1</u>

Note: The due from banks between the Bank and Taipei Bank Co., Ltd., the common limitation is US\$48 million.

(NT\$ '000)

Name	Highest balance for the year of 2001	Balance on Dec. 31, 2001	Maximum limit	Interest rate %	Interest revenue
	NT\$	NT\$	NT\$		NT\$
Fubon Bills Finance Co., Ltd.	<u>2,160,000</u>	<u>1,800,000</u>	<u>2,200,000</u>	2.40~5.05	<u>51,739</u>
	NT\$	NT\$	NT\$		NT\$
Citibank	<u>600,000</u>	<u>-</u>	<u>2,000,000</u>	2.42~3.45	<u>164</u>
	US\$	US\$	US\$		US\$
Citibank	<u>323,238</u>	<u>284,279</u>	<u>479,000</u>	1.87~6.71	<u>6,297</u>

The Board of Directors of the Bank approved the above transactions. Terms are the same as those for other customers.

The Bank's due to related parties as of December 31, 2002 was as follows:

(US\$ '000)

Name	Highest balance for the year of 2002	Balance on Dec. 31, 2002	Interest rate %	Interest expense
	US\$	US\$		US\$
Taipeibank Co., Ltd.	<u>15,000</u>	<u>-</u>	1.71~1.83	<u>43</u>
	US\$	US\$		US\$
Citibank	<u>8,900</u>	<u>5,000</u>	1.39~1.86	<u>38</u>

Long-term investment transaction

In September 2001, the Board of Directors resolved to purchase 51.8 million shares of Fubon Bills Finance Co., Ltd. From September 2001 through November 2001 and June 2002, the Bank acquired the stocks from Ming Tong Co., Ltd., the major stockholders and managers of the Bank. The total investment at the end of 2001 and 2002 amounted to NT\$645.3 million at NT\$12.45 per share and NT\$78 thousand at NT\$12,975 per share, respectively. The transaction price per share is similar to the net worth per share of Fubon Bills Finance Co., Ltd. on the basis of its audited financial statements for the six months ended June 30, 2001.

Leases

Operating leases

The Bank leases the office premises of some branches from related parties as follows:

		(NT\$ '000)	
		<u>Rental expenses</u>	
<u>Name</u>	<u>Lease period</u>	<u>2002</u>	<u>2001</u>
		NT\$	NT\$
Chung-Hsing Land Development Co., Ltd.	2 5 years	56,874	70,655
Ming Tong Co., Ltd.	5 10 years	21,644	25,767
Fubon Insurance Co., Ltd.	2 5 years	66,072	70,625
Dao Yin Investment Co., Ltd.	5 years	8,264	8,010
Fubon Securities Co., Ltd.	5 years	1,500	548
Fubon Life Assurance Co., Ltd.	5 years	5,394	-

As of December 31, 2002 and 2001, the Bank paid related parties rent deposits, which were NT\$5.3 million and NT\$4.4 million, respectively. The rent was paid on a monthly or quarterly basis.

The Bank has entered into certain operating leases for security deposit counters with Fubon Securities Co., Ltd. The rent for the years ended December 31, 2002 and 2001 amounted to NT\$117.9 million and NT\$92.2 million, respectively.

The Bank leases properties to related parties as follows:

			(NT\$ '000)	
			<u>Rent revenue</u>	
<u>Name</u>	<u>Address</u>	<u>Lease period</u>	<u>2002</u>	<u>2001</u>
			NT\$	NT\$
Fubon Securities Co., Ltd.	B1, No. 476, Chung-Cheng Road, Tao-Yuan City	06/01/1997 to 05/31/2002	650	1,560
Fubon Securities Co., Ltd.	B1, No. 476, Chung-Cheng Road, Tao-Yuan City	06/01/2002 to 05/31/2007	1,040	-
Fubon Direct Marketing Co., Ltd.	F4, No. 62, Rui-Hu Street, Taipei City	08/01/2002 to 07/31/2007	1,466	-

Rent revenues are collected monthly.

Capital leases

The Bank leases stamp machines, card-made machines and computer equipment, etc. from Fubon Leasing Co., Ltd. for a period of three years. At the end of the third year, the Bank owns the leased machine and equipment without any additional obligation. The leased assets and payables are calculated at an interest rate of 13.65%. The depreciation and interest expenses are recognized every period when paying the rental fees. The depreciation expense is calculated under the straight-line method. During November 2001, the Bank cancelled the capital leasing contact of packaging equipment, and the Bank recognized a loss of NT\$2,673 thousand for breaching the contract. As of December 31, 2002 and 2001, the leased assets are as follows:

	(NT\$ '000)	
	<u>2002</u>	<u>2001</u>
	NT\$	NT\$
Lease assets in total	<u>2,050</u>	<u>13,150</u>

As of December 31, 2002, the total yearly rent payable in the future is as follows:

<u>Fiscal year</u>	(NT\$ '000)
	<u>Amount</u> NT\$
Year 2003	827
Year 2004	69

The Bank signed contracts with Fubon Land Development Co., Ltd., for the architectural consulting to assure the constructional quality and stage of the new building in Neihu. The total consulting fee is NT\$12.6 million, and the Bank had paid the balance as of June 30, 2001.

Derivative financial instruments

Trading contracts of derivatives held or issued between the Bank and related parties, as of December 31, 2002 and 2001 were as follows:

<u>Name</u>	<u>Financial instruments</u>	<u>2002</u>		<u>2001</u>	
		<u>Amount</u>	<u>Limitation</u>	<u>Amount</u>	<u>Limitation</u>
Citibank	Swap foreign currency transaction contracts	US\$ 20,000	US\$ 240,000	US\$ 393,238	US\$ 579,000
Citibank	Interest rate swap contracts of assets	US\$ 55,000	-	US\$ 4,000	-
Citibank	Interest rate swap contracts	NT\$ 3,500,000	US\$ 160,000	-	-
Citibank	Spot foreign currency transaction contracts	HKD\$ 2,340	US\$ 240,000	-	-
		JPY\$ 35,538	US\$ 240,000		
		US\$ 20,426	US\$ 240,000		
Fubon Securities Co., Ltd.	Interest rate swap contracts of assets	US\$ 5,000	-	-	-
Taipeibank Co., Ltd.	Spot foreign currency transaction contracts	US\$ 3,000	US\$ 160,000	-	-

The spot foreign currency transaction contracts held or issued between the Bank and Citibank, the common limitation is US\$240 million.

Insurance

The Bank has various insurance policies with Fubon Insurance Co., Ltd. The insurance coverage for electronic equipment, buildings, office facilities and comprehensive insurance amounted to NT\$2,908.6 million and NT\$2,828.9 million as of December 31, 2002 and 2001, respectively. In addition, the Bank purchased insurance to cover liability on safe-deposit with coverage of NT\$100 million and paid the premiums of NT\$7.5 million and NT\$6.0 million for the years ended December 31, 2002 and 2001, respectively. Furthermore, the insurance premiums paid for liabilities of transportation vehicles and public accident were NT\$3.2 million and NT\$2.8 million for the years ended December 31, 2002 and 2001, respectively.

As of December 31, 2002 and 2001, the Bank has an employee safety insurance policy with Fubon Life Assurance Co., Ltd. The premiums paid for the years ended December 31, 2002 and 2001 were NT\$15.0 million and NT\$10.8 million, respectively.

Other Transactions

For the years ended December 31, 2002 and 2001, the Bank received fees from Fubon Securities Investment Trust Co., Ltd. for safe custody NT\$102.1 million and NT\$87.9 million and sale of fund NT\$60.0 million and NT\$25.9 million, respectively.

The Bank entrusted Fubon Securities Co., Ltd. as its proxy for stock-related procedures. The fees paid were NT\$600 thousand and NT\$8.5 million for the years ended December 31, 2002 and 2001, respectively.

The Bank hired Fubon Construction Management Co., Ltd. for the valuation of properties held as collateral. The fees paid were NT\$4.2 million and NT\$5.7 million for the years ended December 31, 2002 and 2001, respectively.

The Bank hired Fubon Direct Marketing Co., Ltd. to perform marketing services and has paid NT\$3.5 million for the year ended December 31, 2001.

Donations

The Bank donated NT\$36.4 million and NT\$20.2 million to Fubon Charity Foundation for the years ended December 31, 2002 and 2001, respectively.

The Bank donated NT\$3.1 million and NT\$1 million to Fubon Art Foundation for the years ended December 31, 2002 and 2001, respectively.

The Bank donated NT\$0.4 million and NT\$1 million to Fubon Culture & Education Foundation for the years ended December 31, 2002 and 2001, respectively.

18. CONTINGENT LIABILITIES AND COMMITMENTS

(1) Guarantees and letters of credit

As of December 31, 2002 and 2001, the Bank has the following credit related off-balance sheet liabilities and commitments:

	(NT\$ '000)	
	<u>2002</u>	<u>2001</u>
	NT\$	NT\$
Guarantees issued	11,803,608	14,332,990
Unused customer liabilities under letters of credit	2,067,824	2,291,216
Loan commitments	47,719,975	41,235,309
Credit card commitments	251,580,554	121,904,300
Commercial paper, financial guarantees and standby letters of credit commitments	6,578,724	8,874,803
Guaranteed notes outside the Bank	1,316,100	1,062,300
Forward commitments to repurchase bonds and securities	6,082,744	10,075,505
Contracted for the resale of bonds and securities	7,827,977	2,514,107

The Bank anticipates that not all of the above commitments will be utilized before the agreed-upon expiration or other termination clauses. The amount of unused commitment does not necessarily represent future funding requirements. For that reason, the nominal amount of the contract does not

represent the amount of the Bank's exposure to credit risk. The amount is potentially subject to credit risk arising from the possible inability of counterparties to meet the terms of contracts and the material deterioration in the collateral against such commitments.

Before entering into loan commitments, commercial paper arrangement, financial guarantees or letters of credits, the Bank evaluated the credit standing of counterparties. Certain counterparties were required to maintain collateral (in the form of cash, inventory or marketable securities) for all or part of the exposures prior to the approval and authorization process. The Bank has the right to dispose the collateral in case of default. Loan commitments with related collateral values (as determined by Fubon Bank) equal to, or exceeding such commitment amounts are 58.87% and 66.59% of all loan commitments as of December 31, 2002 and 2001, respectively.

Before entering into loan commitments the Bank's credit card holders were not required to maintain collateral for the lines of credit committed by the Bank. The Bank evaluates the present credit-worthiness of the cardholders regularly, and would adjust their credit lines if there were a material deterioration in the credit-worthiness of the cardholders.

For the years ended December 31, 2002 and 2001, the majority of the Bank's credit commitments expired within one year and were in the 3.15%~13.91% and 4.89%~12.19% interest rates range, respectively. The interest rate for the credit card receivables at December 31, 2002 and 2001 were both up to 19.69%. The Bank's commitments such as financial guarantees and letters of credit were conditional commitments to guarantee performance to third parties. These guarantee agreements primarily have expiration periods of up to one year and whereby the expiration dates were not concentrated in any specific period.

(2) Operating leases:

The Bank has entered into certain operating leases for its headquarters, branches and Trust Department. The significant provisions of the contracts as of December 31, 2002 were as follows:

- The lease periods range from one to fifteen years. Rent payments are made monthly except for Ming Shan Branch and Trust Department which rent payments are made quarterly.
- As of December 31, 2002, the estimated future lease payments under the lease contracts were as follows:

<u>Fiscal year</u>	(NT\$ '000)
	<u>Amount</u> NT\$
2003	242,133
2004	160,145
2005	133,568
2006	80,411
2007	34,030

Future minimum lease payments due in years after 2007 amount to NT\$134.3 million, of which the net present value is NT\$115.8 million.

(3) *Litigation*

The Bank is party to litigation arising in the normal course of its business. The management of the Bank has analyzed such matters and does not consider that it is currently necessary to provide for, or disclose specific matters related to such litigation in these financial statements as management believes such are not material.

(4) *Trust Related Activities*

The Bank undertakes certain trust and custodial activities on behalf of their clients. As of December 31, 2002 and 2001 off-balance sheet amounts related to such activities are as follows:

(NT\$'000)

	<u>2002</u> NT\$	<u>2001</u> NT\$
Custodial collections receivable	21,628,938	22,409,363
Balances of traveler's checks received on consignment	245,114	387,774
The assets that resulted from various trust agencies	33,383,134	22,866,633
Held by the Bank for safe custody	289,551,998	276,829,329
Intermediary for book-entry government bonds	42,536,500	44,691,500

(5) *In accordance with the ROC trust law, the trusted balance sheet and the details of the trusted assets are disclosed as follow:*

Trusted Balance Sheet
December 31, 2002
(NT\$'000)

<u>Trusted assets</u>		<u>Trusted liabilities</u>	
	NT\$		NT\$
Bank deposits	3,863	Trust capital	
Short-term investments		Cash	33,353,909
Funds	24,668,342	Marketable Securities	79
Bonds	6,760,060	Real estate	29,126
Foreign stocks	<u>1,924,616</u>		
	<u>33,353,018</u>		<u>33,383,114</u>
Real estate		Provision and retained	
Land	16,561	earnings:	
Buildings and		Net income	<u>20</u>
improvements	164		20
Construction in process	<u>9,528</u>		
	<u>26,253</u>		
Total trusted assets	<u>33,383,134</u>	Total trusted liabilities	<u>33,383,134</u>

Trusted Assets
December 31, 2002
(NT\$'000)

<u>Items</u>	<u>Amount</u> NT\$
Bank deposits	3,863
Short-term investments	
Funds	24,668,342
Bonds	6,760,060
Foreign stocks	<u>1,924,616</u>
	<u>33,353,018</u>
Real estate	
Land	16,561
Buildings and improvements	164
Construction in process	<u>9,528</u>
	<u>26,253</u>
Total	<u>33,383,134</u>

19. OTHER

(1) Financial Instruments

A. Derivatives Financial Instruments

Pursuant to the "Appointed Bank Regulations" established by the Central Bank of China, the Bank is eligible to engage in forward and swap foreign currency transactions and interest rate swap transactions on behalf of its customers and for its own hedging purposes. The maximum maturity period per contract is one year.

The primary objective of holding forward contracts for hedging purposes is to limit exchange rate and interest rate exposures related to assets and liabilities denominated in foreign currencies and foreign currency commitments, and bearing fixed interest rates. In order to be highly effective in achieving offsetting changes in fair market value attributable to the hedged risk, the Bank designates derivative instruments negatively correlated to the proportionate changes in the fair market value of hedged item as hedging tools. Moreover, the positions are monitored on a timely basis.

(a) Derivatives financial instruments held or issued on behalf of customers

a) Notional amount and credit risk amount

	2002		2001	
	<u>Notional amount</u>	<u>Credit risk amount</u>	<u>Notional amount</u>	<u>Credit risk amount</u>
<u>Financial instruments</u>	NT\$	NT\$	NT\$	NT\$
Total Forward contracts	<u>121,384</u>	<u>4,166</u>	<u>702,402</u>	<u>13,575</u>

(NT\$'000)

The Bank's exposure to credit risk from financial instruments is measured based on guidelines set by the MOF. The credit risk amount, accounting for potential market risk and credit risk, and measured at fair market value, represents the possibility that an accounting loss to the Bank may occur as a direct result of the counterparts' failure to meet their contractual obligations. To limit credit exposure arising from such transactions, the Bank evaluates the credit standing of the counterparts in accordance with the Bank's policies and procedures of credit monitoring and approval.

- b) The Bank expects to engage in approximately NT\$1,106 million (unaudited) notional amount of derivative financial instrument contracts on behalf of customers for the year ended December 31, 2003.
- c) For the years ended December 31, 2002 and 2001, the Bank incurred transactional exchange gain amounted to NT\$37.3 million and NT\$1.4 million, respectively, for forward transactions.
- d) The amounts of assets and liabilities recorded by the Bank related to derivative financial instruments entered into on behalf of clients as of December 31, 2002 and 2001 were as follows:

<u>Category</u>	(NT\$'000)	
	<u>2002</u> <u>Book value</u> NT\$	<u>2001</u> <u>Book value</u> NT\$
Currency bought:		
Forward proceeds receivable-foreign currencies	3,535	17,846
Forward exchange settlement payable	232	12,162
Currency sold:		
Forward proceeds receivable	-	1,522
Forward exchange settlement payable-foreign currencies	98	4,283

(b) Derivative financial instruments held or issued for hedging purposes

a) Nominal amount, and credit risk

<u>Financial instruments</u>	(NT\$'000)			
	<u>2002</u>		<u>2001</u>	
	<u>Notional amount</u> NT\$	<u>Credit risk amount</u> NT\$	<u>Notional amount</u> NT\$	<u>Credit risk amount</u> NT\$
Foreign exchange swap contracts	5,392,513	17,802	14,141,038	29,474
Interest rate swap contracts of assets	3,885,580	3,712	763,503	175
Interest rate swap contracts	14,500,000	14,500	-	-
Forward contracts	812,809	1,665	-	-
Non-delivery deposit forward (NDF) contracts	1,043	208	105,021	210

The Bank's exposure to credit risk from financial instruments is measured based on guidelines set by the MOF. The credit risk amount, accounting for potential market risk and credit risk, and measured at fair market value, represents the possibility that an accounting loss to the Bank may occur as a direct result of the counterparts' failure to meet their contractual obligations. To limit credit exposure arising from such transactions, the Bank evaluates the credit standing of the counterparts in accordance with the Bank's policies and procedures of credit monitoring and approval.

The Bank only maintains its transactions with the counterparts who are well-known financial institutions with excellent credit standing. Consequently, the Bank does not anticipate any significant credit risk.

- b) The exchange rate risk and interest rate risk exposure derived from future foreign currency fluctuations and interest rate changes are expected to be offset by the effects of such changes on hedged transactions. Hence, the market price risk is not expected to be material.
- c) The Bank expects to engage in approximately NT\$15,555 million (unaudited) and NT\$19,129 million (unaudited) notional amount of derivative financial instrument contracts on behalf of customers for the years ended December 31, 2003 and 2004, respectively.

The Bank is engaged in interest rate swap contracts of assets. The Bank gives up the increase of bond price in the future to exchange a fixed interest rate for a floating rate. The Bank's expected future net cash flows were US\$5.0 million in 2003, US\$13million and NT\$25 million in 2004 and US\$93 million in 2007.

The Bank forecasted its working capital is adequate to meet its operation needs. On that account, there is no significant need for cash. In addition, the exchange rate was fixed for the foreign exchange swap contracts and the Bank does not anticipate any significant cash flow risk.

- d) For the years ended December 31, 2002 and 2001, the Bank had interest income for hedging purpose derivative transactions amounted to NT\$133.7 million and NT\$94.6 million, respectively, and interest expense amounted to NT\$39.0 million and NT\$74.1 million, respectively.
- e) The amounts of assets and liabilities recorded by the Bank related to derivative financial instruments entered for hedging purpose derivative transactions as of December 31, 2002 and 2001 were as follows:

<u>Category</u>	(NT\$'000)	
	<u>2002</u> <u>Book value</u> NT\$	<u>2001</u> <u>Book value</u> NT\$
Currency bought:		
Forward proceeds receivable-foreign currencies	2,046,086	21,028
Forward exchange settlement payable	1,466,309	-
Currency sold:		
Forward exchange settlement payable-foreign currencies	2,234,462	173,329
Forward proceeds receivable	1,685,280	-

f) Options

The Bank engaged in options transactions to comply with the new business of combined foreign currency deposits. Depositors include savings deposit clients and the internationally well-known banks, who would have to qualify under the risk management assessment of the Bank. The deposit clients are those who deposit their principal in the Bank and use the interest earned to buy the options. Therefore, the credit risk is very low. In order to eliminate the potential market risk, the Bank will buy opposite options at the same time when the clients buy their options.

For the years ended December 31, 2002 and 2001, the service revenues resulting from the option transactions are NT\$11.5 million and NT\$364 thousand and expenses are NT\$9.7 million and NT\$364 thousand, respectively. The contract amounts of call options and put options related to such deposit products are both US\$3.0 million and US\$113 thousand for the years ended December 31, 2002 and 2001, respectively.

(c) Capital at risk

Based on a formula established by the MOF, the Bank's capital at risk measure is based on the long and short position of the Bank's assets and liabilities denominated in foreign currency at the balance sheet date:

	<u>2002</u>	<u>2001</u>
	NT\$	NT\$
Exchange rate capital at risk value	17,368	122,148
Interest rate capital at risk value	482,209	806,480

B. Fair market value of financial instruments determined as of December 31, 2002 and 2001 are as follows :

	(NT\$'000)			
	<u>2002</u>		<u>2001</u>	
<u>Financial assets</u>	<u>Book value</u>	<u>Fair market value</u>	<u>Book value</u>	<u>Fair market value</u>
	NT\$	NT\$	NT\$	NT\$
Book value equivalent to fair market values	69,017,024	69,017,024	73,684,531	73,684,531
Short-term investments	37,674,975	38,962,715	36,735,473	37,938,688
Loans (net of non-accrual loans)	142,278,365	141,542,343	140,863,185	140,863,185

(NT\$'0

00)

	(NT\$'0			
	<u>2002</u>		<u>2001</u>	
<u>Financial liabilities</u>	<u>Book value</u>	<u>Fair market value</u>	<u>Book value</u>	<u>Fair market value</u>
	NT\$	NT\$	NT\$	NT\$
Book value equivalent to fair market values	239,912,000	239,912,000	236,724,813	236,724,813

It is the policy of the Bank to disclose fair value information on those financial assets or liabilities for which published market information is readily available, and where the fair value is materially different from recorded amounts. Sufficient market experience does not exist for purchases and sales of loans and other financial assets or liabilities for which published market information is not readily available. Accordingly, fair values cannot be reliably determined in all circumstances. In the opinion of management, the reported recoverable amounts of financial assets and liabilities not required to be reported at fair value in the accompanying balance sheet are generally the most valid and useful reporting values under the circumstances. The methods and assumptions for estimating fair values are as follows :

Short-term investments

The fair market value was based on either the end-of-month average quoted closing price of the reported accounting period or the latest settlement price at the end of the fiscal year. The fair market value of open-ended mutual funds was measured by the net asset value of the mutual funds on the balance sheet date. If a quoted market price was not available, a reasonable estimate of fair market value was based on financing or other data.

Receivables

Due to the short-term nature of accounts receivable, after accounting of provisions for uncollectable amounts, the net book value is considered a reasonable estimate of fair value.

Loans

The fair market values of loans were estimated based on certain characteristics of banking industry. On that account, the book value was a reasonable estimate of fair market value, taking into account of the current credit-worthiness of the borrowers. The fair market values of fixed-rate loans with medium to long-term maturity were estimated by discounting the future cash flows using the current rates.

Long-term debt investments:

The market rates of long-term debt investments could not be obtained. As a result, the Bank has estimated their fair value based on the issuers credit strength, and the overall terms and conditions of the debt.

Deposits

A significant portion of Fubon Bank's deposit liabilities is made with floating interest rates and the maturities for most deposit liabilities were less than one year. As a result, management believes the book value is a reasonable estimate of fair value.

C. The following information is disclosed for the Bank as of and for the years ended December 31, 2002 and 2001 in accordance with the SFAS No. 28.

(a) The movements in the allowance for loan and receivable losses were disclosed in Note 6.

(b) The maturity analysis of material assets and liabilities as of December 31, 2002 and 2001 were as follows:

	(NT\$				
	‘000)				
	2002				
	Within 3 month	3~6 month	6~12 month	Over 12 month	Total
	NT\$	NT\$	NT\$	NT\$	NT\$
Assets:					
Due from Central Bank of China	-	8,282,457	2,190,000	-	10,472,457
Due from banks	20,918,106	547,203	-	-	21,465,309
Short-term investments	15,547,380	604,219	435,041	21,088,335	37,674,975
Loans (net of non-accrual loans)	18,236,625	6,144,051	5,573,905	113,949,669	143,904,250
Long-term debt investments	<u>320,305</u>	<u>69,560</u>	<u>-</u>	<u>580,056</u>	<u>969,921</u>
	<u>55,022,416</u>	<u>15,647,490</u>	<u>8,198,946</u>	<u>135,618,060</u>	<u>214,486,912</u>
Liabilities:					
Due to banks	1,149,940	316,048	100,000	-	1,565,988
Deposits	<u>67,567,436</u>	<u>73,304,846</u>	<u>67,695,622</u>	<u>10,273,284</u>	<u>218,841,188</u>
	<u>68,717,376</u>	<u>73,620,894</u>	<u>67,795,622</u>	<u>10,273,284</u>	<u>220,407,176</u>
	(NT\$‘				
	000)				
	2001				
	Within 3 month	3~6 month	6~12 month	Over 12 month	Total
	NT\$	NT\$	NT\$	NT\$	NT\$
Assets:					
Due from Central Bank of China	945,000	11,404,277	245,000	-	12,594,277
Due from banks	32,442,693	389,143	10,000	-	32,841,836
Short-term investments	3,783,626	148,429	666,901	32,136,517	36,735,473
Loans (net of non-accrual loans)	20,403,428	6,165,504	14,116,678	100,893,439	141,579,049
Long-term debt investments	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,297,755</u>	<u>1,297,755</u>
	<u>57,574,747</u>	<u>18,107,353</u>	<u>15,038,579</u>	<u>134,327,711</u>	<u>225,048,390</u>
Liabilities:					
Due to banks	521,788	200,000	100,000	-	821,788
Deposits	<u>70,786,209</u>	<u>75,832,881</u>	<u>74,175,732</u>	<u>6,686,418</u>	<u>227,481,240</u>
	<u>71,307,997</u>	<u>76,032,881</u>	<u>74,275,732</u>	<u>6,686,418</u>	<u>228,303,028</u>

(c) As of December 31, 2002 and 2001, the interest bearing assets, interest bearing liabilities and the average interest rates were as follows:

	(NT\$'000)			
	2002		2001	
	<u>Average amount</u>	<u>Average interest Rate%(Annual rate)</u>	<u>Average amount</u>	<u>Average interest Rate%(Annual rate)</u>
Assets:	NT\$		NT\$	
Due from Central Bank of China (Note)	17,975,771	2.47	13,327,242	1.32
Due from banks	622,515	1.02	417,238	2.25
Call loans to banks	20,324,004	2.10	35,076,891	4.10
Short-term investments	41,248,379	8.34	35,473,140	10.80
Loans	121,859,356	5.13	136,620,598	6.69

	(NT\$'000)			
	2002		2001	
	<u>Average amount</u>	<u>Average interest Rate%(Annual rate)</u>	<u>Average amount</u>	<u>Average interest Rate%(Annual rate)</u>
Liabilities:	NT\$		NT\$	
Due to banks	313,646	3.03	318,550	4.16
Call loans from banks	2,300,393	1.82	781,110	3.17
Demand deposits	79,312,586	1.25	56,289,981	2.92
Staff demand saving deposits	881,541	6.43	829,046	10.39
Time deposits	59,826,345	2.60	79,106,676	4.43
Foreign currency time deposits	15,011,009	1.89	15,787,888	4.46
Time saving deposits	61,709,412	3.15	65,261,788	4.88

Note: Including certificates of deposits issued by Central Bank of China, recorded as cash and restricted assets.

(d) Risk-Based Capital Ratio

The Bank's risk-based capital ratio were as follows at December 31, 2002 and 2001:

2002	2001
13.89% (Note a)	11.47% (Note b)

Note a: The ratio was based on the audited financial statements as of December 31, 2002.

Note b: The ratio was based on its unaudited financial statements as of December 31, 2001.

(e) The Bank has not written-off loans without taking appropriate legal action.

20. ADDITIONAL DISCLOSURE ITEMS

(1) Information related to significant transactions

1) Loans to others:

See disclosure regarding loans granted by the Bank in Note 6.

2) Financial guarantees for others:

See disclosure regarding financial guarantees for other granted by the Bank in Note 18.

3) Securities held as of December 31, 2002 (number of shares and amounts are in thousands) are as follows:

Holding company	Security		Relationship with the issuer	Recording entry	The end of year 2002			Fair market value	Note
	Category	Name			Shares	Cost	%		
The Bank	Stock	Fubon Construction Management Co., Ltd.	Invested company measured by equity method	Long-term investments	4,273	46,204	30.00	42,003	-
"	"	Fubon Bills Finance Co., Ltd.	"	"	453,373	5,893,401	100.00	5,920,192	-
"	"	Fubon Leasing Co., Ltd.	"	"	99,990	838,094	99.99	731,188	-
"	"	Fubon Future Co., Ltd.	"	"	19,500	217,877	30.00	217,580	-
"	"	Fu-Yin Insurance Agent Co., Ltd.	"	"	190	33,478	95.00	33,478	-
"	"	Fubon Insurance Agent Co., Ltd.	"	"	198	2,153	99.00	2,153	-
"	"	Taipei Forex Inc.	-	"	80	800	0.40	1,163	Note 1
"	"	Fubon Securities Finance Co., Ltd.	An affiliate	"	35,715	337,011	5.67	426,431	Note 1
"	"	Pacific Tele Communication Taiwan Co., Ltd.	-	"	2,449	24,486	1.77	21,425	Note 1
"	"	Taiwan Aerospace Corp.	-	"	6,553	65,528	1.25	54,192	Note 1
"	"	Fubon Venture Capital Co., Ltd.	An affiliate	"	2,500	25,000	5.00	23,050	Note 1
"	"	Apex Venture Capital Co., Ltd.	-	"	5,000	50,000	4.67	47,900	Note 1
"	"	Taiwan International Mercantile Exchange Corporation	-	"	900	9,000	0.45	10,485	Note 1
"	"	Tai Mall Development Company	-	"	4,160	49,920	1.24	35,069	Note 1
"	"	Taiwan High Speed Rail Co., Ltd.	-	"	50,694	500,000	1.01	489,704	Note 1
"	"	Pacific Venture Capital Co., Ltd.	-	"	4,000	41,500	3.33	41,440	Note 1
"	"	Financial Information Service Co., Ltd.	-	"	4,550	45,500	1.14	64,337	Note 1
"	"	Primus Technology Fund	-	"	2,000	24,000	3.77	17,540	Note 1
"	"	Hsin Yu Cogeneration Co., Ltd.	-	"	814	10,005	0.33	6,235	Note 1

Holding company	Security		Relationship with the issuer	Recording entry	The end of year 2002				Note
	Category	Name			Shares	Cost	%	Fair market value	
The Bank	Stock	Sinostar Venture Capital Co., Ltd.	An affiliate	Long-term investments	2,000	20,000	4.17	19,180	Note 1
"	"	Taiwan Fixed Network Co., Ltd.	-	"	20,000	200,000	0.22	205,600	Note 1
"	"	Taiwan Assets Management Co., Ltd.	-	"	20,000	200,000	1.14	206,400	Note 1
"	"	Taiwan Financial Assets Service Co. Ltd.	-	"	5,000	50,000	2.94	50,750	Note 1
"	"	Fubon Financial Holding Co., Ltd.	The Bank is the subsidiary 100% held by the Company	"	41,654	1,164,336	0.50	1,156,718	-
"	"	Kuo-Yang Construction Co., Ltd.	-	"	422	21,717	0.14	1,404	-

Note 1: The market value of the invested company was calculated based on unaudited financial statements prepared by the invested company itself.

4) Accumulated stock purchases or sales for the same stock of NT\$100 million or 20% and more of the Bank's capital:

There are no such transactions entered into by the Bank in 2002.

5) Real estate purchases reaching NT\$ 100 million or 20% and more of the Bank's capital as of December 31, 2002 are as follows (number of shares and amounts are in thousands) :

Purchasing company	Recording entry	Date	Cost	Payment	Trading party	Relation-ship	The prior trading information if the trading party is related				Basis of the price	Purpose and usage	Other rights or/and obligation
							Owner	Relationship with the company	Date	Cost			
The Bank	Property and equipment	Nov. 2002	NT\$116,705 (Note)	(Note)	Yi Hsin Co., Ltd.	-	-	-	-	-	The base price of the auction held by lawcourt	warehouse	None

Note: On November 18, 2002, the Board of Directors resolved to transfer the foreclosed assets to property and equipment for the use of warehouse.

6) Real estate disposals of NT\$ 100 million or 20% and more of the Bank's capital:

There were no such disposals by the Bank in 2002.

7) Purchase and sales transactions with the related parties of NT\$ 100 million or 20% and more of the Bank's capital:

There were no such transactions entered into by the Bank in 2002.

8) Receivables from the related parties of NT\$ 100 million or 20% and more of the Bank's capital:

There were no such balances due the Bank at December 31, 2002.

9) Financial derivatives:

See information related to the Bank's financial derivative transactions for 2002 in Note 19.

(2) Information on the Bank's invested companies

The Bank has the ability to exercise significant influences or control directly or indirectly over the following entities at December 31, 2002 (number of shares and amounts are in thousands):

Investor	Investee	Investee's address	Operating item	Original invested amount		December 31, 2002			Investee's year 2002 income	Investee's year 2002 gain/loss recognition	Note
				End of year 2002	End of year 2001	Shares	Percentage (%)	Book value			
The Bank	Fubon Bills Finance Co., Ltd.	6F,169, Jen Ai Road, Sec.4, Taipei, Taiwan	Bond and stock underwriter, guarantee, and endorsement	3,910,329	3,900,291	453,373	100.00	5,893,401	914,775	924,719	Subsidiary of the Bank
The Bank	Fubon Leasing Co., Ltd.	3F,169, Jen Ai Road, Sec.4, Taipei, Taiwan	Sales, maintenance and leases of machine and equipment	999,900	999,900	99,990	99.99	838,094	1,203	1,203	Subsidiary of the Bank
The Bank	Fubon Construction Management Co., Ltd.	21F,169, Jen Ai Road, Sec.4, Taipei, Taiwan	Investigation, consultation, management and real estate evaluation of construction plans	30,000	30,000	4,273	30.00	46,204	3,957	1,187	-
The Bank	Fubon Future Co., Ltd.	2F, 9, Xiang Yang Road, Taipei, Taiwan	Future underwriter	196,170	196,170	19,500	30.00	217,877	43,684	13,529	-
The Bank	Fu-Yin Insurance Agent Co., Ltd.	6F,169, Jen Ai Road, Sec.4, Taipei, Taiwan	Life insurance agent	1,900	1,900	190	95.00	33,478	31,461	29,888	Subsidiary of the Bank
The Bank	Fubon Insurance Agent Co., Ltd.	3F,169, Jen Ai Road, Sec.4, Taipei, Taiwan	Property insurance agent	1,980	1,980	198	99.00	2,153	76	76	Subsidiary of the Bank

At December 31, 2002 the shares owned in other entities by these Bank investors were as follows:

A. Fubon Leasing Co., Ltd.

(A) Loans to others:

At December 31, 2002 there were no such loans.

(B) Financial guarantees for others:

At December 31, 2002 there were no such guarantees.

(C) Securities held at December 31, 2002 are as follows (number of shares and amounts are in thousands):

Holding Company	Security		Relationship with the issuer	Recording entry	The end of year 2002				Note
	Category	Name			Shares	Cost NT\$	%	Fair market value	
Fubon Leasing Co., Ltd.	Stock	Fubon Financial Holding Co., Ltd.	An affiliate	Long-term investments	9,974	383,920	0.12	276,977	-
"	"	Bcom Electronics Inc.	-	"	243	2,922	0.24	2,318	Note2
"	"	Pacific Resources Corporation	-	"	5,565	46,300	4.93	47,857	Note2
"	"	Hexawave Inc.	-	"	1,310	26,200	1.01	8,463	Note2
"	"	Cosmos Foreign Exchange International Co., Ltd.	-	"	240	2,400	2.00	1,983	Note1
"	"	Primus Technology Fund	-	"	2,650	26,500	5.00	23,238	Note1
"	"	Primus Cellular Co., Ltd.	-	Short-term investments	631	16,600	0.01	17,459	-

Note1: The market value of invested company was calculated based on unaudited financial statements prepared by the invested company itself as of December 31, 2002.

Note2: The market value of invested company was calculated based on unaudited financial statements prepared by the invested company itself as of June 30, 2002.

(D) Accumulated stock purchases or sales for the same stock reaching NT\$100 million or 20% and more of Fubon Leasing's capital.

At December 31, 2002 there were no such transactions.

B. There is no additional information required to be disclosed related to these investees companies as of December 31, 2002.

21. SEGMENT INFORMATION

(1) Industry segments

The Bank's principal activities include accepting deposits and extending loans. Disclosure of financial information of the Trust Department and International Department is not required since the division's revenues represent less than 10% of total operating revenues.

(2) Geographic segments

Except for the offshore banking unit commencing operations in August 1995, foreign operations are limited; therefore, no disclosure of geographic segment information is required.

(3) Foreign exchange revenues

No foreign exchange sales to non-banking customers of the Bank's operating units represent 10% or more of the Bank's operating revenue.

(4) Major customers

No single customer represents 10% or more of the Bank's operating revenues.

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Contact Information – Corporate Headquarter and Branches

Head Office	169, Jen Ai Road, Sec. 4, Taipei City	(02)2771-6699
Business Department	B1, 169 Jen Ai Road, Sec. 4, Taipei City	(02)2778-7717
Savings Department	96, Nan King E. Road, Sec. 2, Taipei City	(02)2511-5522
Chung Shan Branch	13, Min Sheng E. Road, Sec. 1, Taipei City	(02)2511-5511
Min Sheng Branch	138, Min Sheng E. Road, Sec. 3, Taipei City	(02)2718-5151
Jen Ai Branch	237 Chien Kuo N. Rd., Sec. 1, Taipei City	(02)2325-8878
Sung Shan Branch	421 Sung Shan Rd., Taipei City	(02)2728-1199
Chien Kuo Branch	196 Chien Kuo N. Rd., Sec. 2, Taipei City	(02)2515-1775
Tun Nan Branch	108 Tun Hua S. Rd., Sec. 1, Taipei City	(02)8771-9898
Cheng Chung Branch	9 Shiang Yiang Rd., Taipei City	(02)2388-5889
Tien Mu Branch	36 Tien Mu E. Road, Taipei City	(02)2876-3232
Mu Ja Branch	69, Hsing Long Road, Sec. 3, Taipei City	(02)8663-9889
Nei Hu Branch	62, Fen Liao Street, Taipei city	(02)2659-1088
Tu Cheng Branch	100 Sec.1, Chung Yiang Rd, Tu Cheng City, Taipei County	(02)2270-9898
San Chung Branch	279, Cheng Yi N. Road, Sanchung City	(02)2980-6688
Pan Chiao Branch	266, Wen Hua Road., Sec. 1, Panchiao City	(02)2254-9999
Hsin Tien Branch	266, Pei Hsin Road, Sec. 2, Hsintien City	(02)2912-9977
Hsi Chih Branch	175, Ta Tung Road, Sec. 1, Hsichih City	(02)2641-1689
Hsin Chuang Branch	445, Hua Cheng Road, Hsinchuang City	(02)8521-3399
Hsuang Ho Branch	3 Pao Sheng Road, Hsuangho City	(02)8923-0888
Tao Yuan Branch	476, Chung Cheng Road, Taoyuan City	(03)335-0335
Huei Long Branch	100, Wan Shou Road., Sec. 1, Kueishan Hsiang	(02)8209-7766
Chung Li Branch	119, Chung Pei Road, Sec. 2	(03)459-5766
Pa Teh Branch	968 Sec. 1 Jie Shou Rd., Pa The City, Tao Yuan County	(03)361-6565
Luo Tong Branch	286 Shing Tong Rd., Luo Tong Town, I-lan County	(03)956-6611
Hsin Chu Branch	141, Chung Cheng Road, Hsinchu City	(03)527-8988
Taichung Branch	196 Sec.2, Liou Chuan West Rd., Taichung City	(04)2222-1911
Northern Taichung Branch	333, Wen Hsing Road, Sec. 4	(04)2242-6222
Yuan Lin Branch	277 Jiu Kuan Rd., Yuan Lin Town, Chang Hua County	(04)836-9189
Chia Yi Branch	395, Jen Ai Road, Chiayi City	(05)223-1688
Tainan Branch	166-6, Chung Shan Road, Tainan City	(06)229-0266
Yuan Kang Branch	856, Ta Wan Road, Yungkuang City	(06)273-6099
Hsin Ying Branch	301 Min Chi Road, Hsinying City	(06)656-9889
Kaohsiung Branch	1, Liu Ho #1 Road, Hsin Hsing District, Kaohsiung City	(07)239-1515
Ling Ya Branch	39, Chung Hua Road, Sec. 4, Kaohsiung City	(07)331-8822
San Min Branch	48, Ta Shun Road, Sec. 2, San Min District, Kaohsiung City	(07)387-1299
Chien Chen Branch	289, Pao Tai Road, Chien Chen District, Kaohsiung City	(07)717-0055
Feng Shan Branch	223, Tz You Road, Fengshan City	(07)748-2088
Pintung Branch	459 Ho Ping Road, Pintung City	(08)733-6899
