

2002
Annual
Report

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Profile



International Bank of Taipei was founded on May 4, 1948 as Taipei Mutual Loans and Savings Company, and grew in step with Taiwan's economic development. On January 1, 1978, the bank was converted as Taipei Business Bank, with the specialized function of funding and assisting small and medium-sized enterprises. On May 14, 1998, to meet the demands of Taiwan's steadily increasing economic internationalization and keep up with the tide of financial liberalization, we upgraded to commercial bank and became International Bank of Taipei. The bank is in prime shape to scale new heights as an international commercial bank of the 21st century.

Since the bank was founded, its board of directors and supervisors have been selected from among the elite of industry and commerce. The founding chairman, Mr. Chen Feng-yuan, served in that position from May 1948 until his death in August 1982. The present chairman, Mr. S.C. Ho, has led the bank since his unanimous election to the chairmanship in March 1988.

The bank was started with capital of 20 million Old Taiwan dollars raised among local subscribers by Mr. Chen Feng-yuan. The following year, when the government reformed the monetary system and replaced the old currency with the New Taiwan dollar at a conversion rate of 40,000 to one, the bank's capitalization stood at just NT\$500. To lay an adequate foundation for the bank's future development, its capital was first raised to NT\$10 thousand, and then in December 1949 raised again to NT\$200 thousand. Thereafter, its capital structure was adjusted as necessary in accordance with its operating needs. On April 18, 1983, the bank was formally listed on the Taiwan Stock Exchange with capitalization of NT\$540 million, which has since been increased in stages to its current paid-up capitalization of more than NT\$20.1 billion.

When the bank was formed, it rented premises in Taipei City's Changan West Road. In 1953, it set up its headquarters in Poai Road, and in 1978 constructed its own new head-office building on a 500-ping plot of land in Nanking East Road. At present, the bank has 89 business units, comprising the Business, Trust, and International Banking Departments, Offshore Banking Branch, 83 domestic branches, and overseas branches in Macau and Hong Kong. The bank's operations now extend to every major population center around Taiwan, and provide a comprehensive service network. In addition, to position itself as a provider of commercial banking services for the Greater China region, and to keep abreast of government policy on the opening of direct links across the Taiwan Strait, the bank has been active in setting up overseas branches in Hong Kong and Macau. Our Hong Kong representative office was formally upgraded to branch status on April 25, 1998, and further upgraded to fully-licensed branch on January 30, 2003. Our Macau Branch opened for business on January 9, 1997, as the first branch of a Taiwan bank in the territory. It gives us the distinction of being Taiwan's only financial institution to operate branches in both Hong Kong and Macau, enabling us to provide the most convenient banking services to Taiwanese businesses operating on the two sides of the Taiwan Strait and putting us in a prime position to grasp commercial opportunities after the opening of direct cross-strait links.

Our formal upgrading as a commercial bank on May 14, 1998, singled us out as the first Taiwan business bank to complete such a transformation. To meet customer demand, conform to financial development trends, abide by sustainable business development practices, and open the way to scaling new pinnacles, in 2000 we began an active program of organizational restructuring. Based on modern management concepts of service integration and specialized division of labor, the changes are designed to enhance customer satisfaction and improve operational efficiency. Under this program, we have now established nine corporate banking centers and eleven consumer banking centers in Taipei City, Taipei County, and Taoyuan, as well as six appraisal centers, to help us strengthen our credit quality. At the same time, we are regearing our general branches to focus on providing a diverse range of financial planning products and services, with special areas for exclusive premium service to priority customers, manned with specialist personnel, to provide comprehensive services tailored to our customers needs.

In the course of its development, our bank has put itself through several major transformations and changes of structure. These have enabled us to shine as a beacon of Taiwan's economic success and embody the spirit of continuous healthy growth through improvement and innovation. In 2002, through accumulated profit and cash-capital injection, we increased the bank's capitalization to above NT\$20 billion. As well as expanding our equity capital, this put us across the threshold for establishment of a financial holding company, in preparation for the next stage of our transformation. In the future, to be better able to contend with the heightened banking competition after Taiwan's WTO accession, we will continue to strengthen our operations, employ the latest technology to reinforce our existing market advantages, strengthen our customer relationship management, expand the scope of our strategic alliances within the financial industry, and develop diverse financial products, as we pursue our strategic objectives of making our business banking more internationalized, our retail banking more community-centered, and our general banking more financial-management oriented. Through this course of action, we will firmly establish our new image as an international commercial bank of the 21st century.



To Our Shareholders

2002 was a troubled year for the international economy. The world's three leading economies all had intractable difficulties to contend with. The U.S. economy, weakened by the fallout from the 911 terrorist attacks, was also hit by the closure of its west coast ports. The added blow of a series of accounting scandals involving major listed companies pushed the Dow Jones and NASDAQ indexes into an unrelenting decline. In East Asia, Japan's economy remained stuck in the trough created by the bursting of its bubble economy. However, the burgeoning new industries of mainland China and South Korea continued to demonstrate their high potential. In the European Union, the difficulties of harmonizing member countries' disparate interests and the pending admission of new members from eastern Europe made it hard for the time being to break through bottlenecks impeding the EU economy's growth. According to a report issued by the World Bank in 2002, global GDP growth for the year was expected to be around 1.7%, with the U.S. economy growing about 2.3%, Japan's remaining unchanged, and Germany and France notching up growth in the region of 0.8%.

On the domestic economic front, as the global economy gradually picked up in the first half of 2002, Taiwan was finally able to emerge from the previous year's recession. The GDP growth rate bounced back from negative territory to record rises of 1.2%, 3.98%, 4.77%, and 3.17% respectively in the first to fourth quarters of 2002, with the growth rate for the year standing at about 3.27%.

In the stock market, Taiex continued on a largely downward course, with its weighted index falling from 5551 points at the start of the year to a low of 3845 on October 11, before a gradual rally took it back up to 4452 points at the close of the year. For the year as a whole, it shed almost 1100 points, and was off 1706 points from peak to trough, a sharper drop than its peak-to-trough loss of 1327 points in 2001.

In the foreign-exchange market, the NT dollar's exchange rate against the US dollar oscillated abnormally. Starting the year at 34.999:1, it gradually appreciated to a year's high of 32.876 on July 17, then depreciated to a low-point of 35.268 on October 16 before regaining some ground to end the year at 34.753. For the year as a whole, it appreciated by NT\$0.246 per US dollar, and fluctuated by NT\$2.4 between its year's high and low points, a disparity of 6.8%. Its average value for the year was 34.55, the lowest level since 1987.

Interest rates were affected by the lack of clarity in the state of the economic climate, which continued to dampen businesses' capital demand. Also, banks continued to maintain an extremely cautious lending position. As a result, money-market rates continued to fall. Though the Central Bank did not make any further adjustments to interest rates after its reduction of the rediscount rate to 1.625% on November 12, 2002, the average overnight call-loan rate dropped sharply from its then level of 1.65% to 1.212% in early February 2003 as the gap between it and the rediscount rate steadily widened.



S.C. Ho, Chairman



Hung Lin, Vice Chairman



K.C. Yu, President

In the performance of the domestic banking industry, local banks' pretax operating results showed unprecedented losses. Overall losses for the year amounted to NT\$104.5 billion, with about 20 banks coming out in the red, twice as many as the previous year. The total of bad debts cleared in the year amounted to NT\$413.8 billion, 160% higher than in 2001. The number of banks registering losses and the amount of bad debts cleared were both the highest ever recorded. The NPL ratio for domestic banks fell markedly to 6.12% from 7.48% in 2001, but the banks' aggregate net worth also fell by 10.9% to about NT\$1.4228 trillion.

To strengthen our bank's asset quality and protect shareholder rights, we cleared bad debts amounting to NT\$2.19 billion in 2002, about the same as the previous year. As a result, our NPL ratio was reduced from 4.77% at year-end 2001 to 4.3% at year-end 2002, maintaining its year-by-year reduction.

Global View Community Commitment Wealth management

Despite intense competition in the domestic banking industry, our bank still managed to achieve steady growth in all its lines of business. After setting aside NT\$2.08 billion as reserve for bad debts in 2002, our pre-tax profit for the year reached NT\$2.619 billion, a year-on-year growth rate of 2.14%. Total deposit balances amounted to NT\$287.3 billion, a growth of 4.7%. Loan outstandings grew 3.2% to NT\$213.2 billion, in spite of the adverse external financial environment and the drop of NT\$350 billion in loan outstandings experienced by the domestic banking industry. Foreign exchange contracts undertaken reached US\$14.8 billion, a growth of 28.5%. Our trade in short-term bills stood at NT\$2.4 trillion, about the same as the previous year. In trust operations, with the addition of three new funds in the year, which increased our range of custodian funds to 22 in all, the total volume of fund assets under our custody stood at NT\$162.3 billion as of year-end 2002, a growth of 21.4%. In credit card business, our number of cards issued stood at 520 thousand at the end of the year, an increase of 26.7%. Our reinvestment in Taipei Personal Insurance Agency and Taipei Property Insurance Agency yielded pretax net income of NT\$49.14 million and NT\$5.066 million respectively, growth rates of 2,585% and 119%. And our bank's reinvestment in Transcend Securities Investment Trust Co., Ltd., in which our shareholding increased from 20% in 2001 to 60% in 2002, earned a pre-tax profit of NT\$6.96 million.

In face of the changing trends and conditions of the financial markets, our bank plans to take the following steps in 2003 to strengthen our operations and improve our competitiveness:

(1) On the business organization side, we will (a) adjust our business locations and carry out downscaling where needed, with a view to reducing rental costs; (b) adjust the layout of our service outlets, to facilitate implementation of our graded customer-service system, with our bank lobbies divided into three main areas for automated services, counter services, and financial-planning services, respectively; (c) establish an internal service and outlet usage evaluation mechanism, and implement a profit-center system; (d) formulate an internationalization strategy, actively develop OBU operations, and upgrade the functions of the Hong Kong Branch and strengthen its involvement in financial markets in line with its upgraded licensing to full branch status; and (e) in preparation for the implementation of Basel II in 2006, establish a planning task force to formulate an internal rating based method as the basis for credit-risk capital needs; at the same time, set up an on-line credit-screening system, establish a customer databank, and through compilation and analysis of client data, strengthen early-warning of problem loans and pre-emptive risk management.

(2) Business development strategy: (a) develop a niche banking strategy, choosing consumer loans (instant-cash card business), small and medium enterprise loans (special loans for nurturing little giants), and financial-planning trust operations as the niche lines of business for all-out development, in order to maximize banking profits; (b) strengthen the functions of all-in-one investment and financial planning accounts, and introduce foreign currency account aggregation, to provide customers with more comprehensive and convenient financial management services; and (c) in response to the future trend of certificateless settlement of bond and treasury transactions, plan for the bank to engage in central-depository bond settlement.

(3) On the operations side: (a) strengthen the functions of the call center, foreign-exchange operation center, general branches, and all operations centers, to help our branches make an all-out effort to expand business sales. (b) strengthen information systems, completely renew branch information systems, speed up the replacement of old computing equipment, and establish a broadband environment to raise the operational efficiency of bank branches; (c) continue to expand the installation of our ATMs, the provision of ACH bank transfers and Mondex stored-value cards, and all electronic financial services; (d) build an enterprise financial services platform, develop an e-payment mechanism, and integrate e-factoring with mechanisms for funding of business accounts receivable and advancing cash for accounts payable, capital allocation, and credit-limit controls, to solve businesses' cash-flow problems and establish a complete B2B electronic cash-flow services; and (e) launch on-line screening and introduce electronic procedures for credit-assessment and lending, to achieve the effect of specialized division of labor and overall client development.

Looking ahead to 2003, there are still many uncertainties affecting the economic climate at home and abroad. There are still concerns that the U.S. will slide into a double-dip recession, and with interest rates already reduced to extremely low levels in most countries, there is limited scope for employing monetary policy as a means of economic stimulation. Consequently, the gradual loss of effectiveness of various monetary and fiscal policies for stimulating private consumption will likely slow down the pace of recovery from a second recession.

In its report on the global economic outlook issued in December 2002, the World Bank forecast that the world economy will grow 2.5% in 2003, with the U.S. economy growing about 2.6%, the Eurozone economy about 1.6%, and Japan's economy around 0.8%. In Taiwan, the Directorate-General of Budget, Accounting and Statistics (DGBAS) forecasts that domestic economic growth could reach 3.38% in 2003. In the country forecasts of the latest Global Economic Outlook report issued by Britain's Economist Intelligence Unit (EIU), the rating for Taiwan's business environment in the next five years (2003-2007) was raised to "very good" from "good" in the previous five years, and Taiwan ranked 3rd best in Asia after Singapore and Hong Kong but ahead of South Korea and Japan (ranked 4th and 5th respectively). This report presents a picture of stability in the outlook for Taiwan's investment environment.

In 2002, 14 financial holding companies were established in Taiwan. Although this put a lot of pressure on our bank's operations, by the timely expansion of our various strategic alliances, combined with our existing marketing advantages, we were still able to achieve an excellent operating performance for the year. In the future, as the business environment inevitably becomes even more difficult, we will depend on receiving the continued encouragement and support of our shareholders to ensure that the efforts of our hard-working staff can yield the optimum results. We sincerely thank you and ask that you continue to give us your highly valued favor and trust, so that we may welcome a rosy future together.

Stg Ho *Lin Heng* *Kuo-Chi-Yu*



Market Analysis



1. Macroeconomy

Economic Situation in 2002 :

2002 was a torrid year for the global economy. An assessment of the overall international situation shows that the slowing down of high-tech industry's recovery, the eruption of corporate accounting scandals in the U.S., port closures on the U.S. West coast, and uncertainty about the start of war between the U.S. and Iraq, were all factors in making the global economic outlook fall short of earlier optimistic expectations.

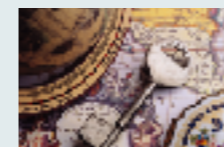
On the home front, following the gradual global upturn, Taiwan's economy rebounded from its negative growth in 2001, recording growth rates of 1.2%, 3.98%, and 4.77% in the first to third quarters respectively. For the whole year, the economy grew by about 3.27%. The growth rate of private consumption lagged behind economic growth at 2.04%, and while domestic investment shrank by 2.7%, it was a clear improvement on its 20.61% decline the year before. Private investment fell slightly, growth rate down to -0.75%, but again that was a marked improvement over the previous year's drop of -29.17%. Exports of goods and services grew 8.78%, and imports 6.23%, with net exports again serving as the mainstay of economic growth. The consumer price index (CPI) showed a very small fall in prices for the year, at -0.35% compared with -0.01% in 2000, indicating the stagnancy of domestic prices over the last two years. The exchange rate of the New Taiwan dollar against the U.S. dollar averaged 34.55 to one for the whole year, the local currency's lowest value since 1987. And short-term interest rates continued their downward drift, continuing to linger at basement levels through the 4th quarter.

Economic Outlook for 2003:

The World Bank's latest Economic Outlook Report for 2003 forecasts a global economic growth rate of 2.5% for the year. The report points out that dwindling consumer confidence, weakness in stock markets, the precarious state of Japan's banking system, and the severity of

Latin America's debt problems, compounded by uncertainties over the possible outbreak of war between the U.S. and Iraq, and the impact of war on the price of oil, are all negative factors that will hinder the pace of global economic recovery.

Taiwan's economic growth rate in 2003 is expected at about 3.38%. Various economic indicators present the following projections: On the private investment side, the implementation of domestic investment incentive policies is expected to help push up growth to 4.54%. On the private consumption side, the gradual easing of the unemployment problem should restore growth to 3%, and consumer prices should continue to hover at around the zero growth mark. Exports and imports are both expected to continue expanding, by 6.86% and 6.40% respectively. With the gradual recovery of the economy, the rebound of the stock market, and the return of foreign-investor capital, the NT dollar is expected to gradually rise in value against the U.S. dollar, maintaining an average exchange rate of 34.50 to the U.S. currency over the year. On the interest rate front, as the economy gradually picks up, the average overnight call-loan rate is expected to rise slightly. But because the investment-lending situation is likely to remain depressed, capital demand will remain conservative, and the average interest rate is expected to climb only slightly to 2.20%.



2. Banking Industry

In 2002, many banks sought to increase their asset transparency by making a major effort to clear away bad loans and deal with problem debts. Added to the continuing low level of interest rates, it put banking operations under twice as much pressure. With traditional deposit and lending business continuing to contract, consumer-finance products, including credit cards, small consumer loans, and adjustable rate mortgages, became the new markets for gradually intensifying inter-bank competition. Some new banks and foreign commercial banks managed to achieve eye-catching profits by aggressively developing consumer-banking operations.

Looking at the prospects for the banking industry in 2003: Gradual economic recovery should spur the growth of investment demand, help enterprises to repay loans, and so reduce banks' non-performing loan problem. The government's continued commitment to financial reform should further improve the situation, and with banks continuing to actively clear out bad loans and vigorously develop consumer-banking operations, there is hope of a turn for the better in the banking industry's performance.





Our Progress in 2002



In 2002, Taiwan's domestic economic climate was affected by the marked slowdown in the global economic recovery, and its economy made only moderate gains. Private consumption and investment confidence both remained palpably weak. In face of the slower-than-expected recovery in the macroeconomic environment, we continued to enhance our system of regional centers and implement our core operational strategy of providing internationalized business banking, community-centered retail banking, and general banking that is oriented toward financial management.

On the business banking side, we amalgamated the Chungho and Hsintien Business Finance Centers into the Chingmei Business Finance Center, and combined the Yingkou Business Finance Center with six business units in the greater Taoyuan area to form the Taoyuan Business Finance Center. These steps helped us enhance our specialized division of labor and more effectively develop the particular characteristics of business in each region. Also, to strengthen the handling of loans to small and medium enterprises and the factoring of domestic and overseas receivables, our bank launched its computerized on-line screening and approval system, in line with our drive to bring credit assessment and loan approval fully into the electronic era.

On the consumer banking side, we launched a range of new products, including cash-card services, adjustable-rate mortgages with a transparent and open interest-setting formula, and "worry-free new-era loans" that were the first in Taiwan to come packaged together with insurance. These diverse consumer-finance products were targeted at meeting the needs of different customer segments. In addition, in line with customer demand, our general service branches were transformed into marketing outlets for financial management services, underlining the importance we place on expanding this area of business. At the same time, we continued to strengthen the professional training of our financial management staff, implemented a system for evaluating their abilities and performance, and mapped out measures for inducing well-qualified branch staff members to transfer to financial-management marketing positions.

In regard to other products and services, we continued to strengthen the functions of electronic financial products and expand automated service outlets. In 2002, 24 new ATMs were installed outside bank branches, and more ATMs were established in convenience stores, bringing their total number up to 30 as of year-end 2002. Additionally, we worked actively on planning trust-related products launching among others insurance trusts, OBU foreign-currency trusts, and retirement trusts, as well as introducing structured notes and other such new products. All of these were well received by our customers. In our credit card promotion strategy, we continued to raise the added value of our cards. As well as arranging gift rewards for card users, in October 2002 we unveiled our "Platinum Card" project, offering instant cash bonuses of 0.12% of transaction value to attract customers. With more than 50,000 applications for this card already received by December, and with transaction volume also showing a substantial rise, the results have been highly successful. In the future, we will continue to strive to meet market demand by providing our customers with rich, varied and personalized products and services.

1. Income Analysis

For the year, our pre-tax profit was NT\$2.62 billion. Operating revenue was NT\$14.49 billion, a fall of NT\$5.03 billion from the previous year. Within that total, interest revenue was NT\$11.65 billion, making up 80.44% of total revenue, down NT\$3.26 billion year-on-year. Other components of revenue were commission revenue of NT\$755 million, or 5.21%; net gains on money market dealings of NT\$1.9 billion, or 13.10%; net earnings from long-term equity investment of NT\$46.43 million, or 0.32%; net gains from foreign-exchange dealings of NT\$105 million, or 0.72%; and non-operating revenue of NT\$482 million, or 3.33%.

Operating expenditure was NT\$12.33 billion, a reduction of NT\$4.86 billion from the preceding year. Within that total, interest expenses were down NT\$4.29 billion year-on-year to NT\$6.2 billion, 42.99% of total revenue. Other operating expenses amounted to NT\$3.89 billion, 26.84% of total revenue. After expenditures, pretax net income was NT\$2.62 billion, 18.08% of full-year revenue.

2. Deposits and Financial Management

At year-end 2002, our balance of deposits stood at NT\$287.3 billion, up NT\$12.9 billion, or 4.71%, from 2001. In 2002, spurred by the bank's active promotion of all-in-one accounts, securities settlement accounts and custodian banking, NT dollar demand deposits topped the NT\$80 billion mark to reach NT\$82.5 billion at year-end, up NT\$8.4 billion year-on-year. And demand deposits as a ratio of total NT dollar deposits rose above the 30% level to 30.87%. NT dollar time deposits amounted to NT\$182.8 billion, up NT\$4.7 billion; and foreign currency deposits amounted to NT\$19.7 billion, down NT\$400 million. As to funds composition, NT dollar demand deposits made up 28.75% of total deposits, NT dollar time deposits 63.62%, and foreign currency deposits 6.88%.

On the financial products side, a large number of customers opened our all-in-one investment and money management accounts, integrating deposits, securities, insurance, utility-bills agency payment, credit cards, fund, and cash-card credit in a single multi-functional account, which we launched in October 2001. By the end of 2002, 144,487 of these accounts had been opened, generating an increase of NT\$3.83 billion in demand deposits.



On the financial management front, apart from strengthening staff training and marketing techniques, in the fourth quarter of 2002 we implemented an assessment system for financial management personnel and gradually moved branch officers to marketing positions in this area of our business. In the fourth quarter of the year, commission revenue from insurance and fund sales amounted to NT\$38.53 million, a sharp rise from its previous levels, and a clear indication that our branches are steadily optimizing their financial-management marketing results.

3. Loans

At year-end 2002, our aggregate loan outstandings stood at NT\$213.2 billion, up NT\$6.6 billion, or 3.22%, from 2001. Within that total were enterprise loans of NT\$123.5 billion, up NT\$3.2 billion year-on-year, and consumer loans of NT\$89.7 billion, up NT\$3.4 billion. Enterprise loans made up 58% and consumer loans 42% of total loan outstandings. Also, to maintain credit quality and strengthen our assets, we took special measures to enhance post-credit management and aggressively clear bad loans. As of year-end 2002, non-performing loans amounted to NT\$9.6 billion, with the non-performing loan ratio at 4.30%, down 0.47 percentage points from a year earlier.

In consumer lending, we made every effort to develop all kinds of loan products, helping the general public to smoothly obtain funding for buying homes, making consumer purchases, managing finances, getting married, opening small shops or using as temporary working capital, and so on. For example, our fixed-saving adjustable-rate mortgages offered customers home loans with a transparent and open interest-setting formula, our worry-free new era loans came attached with a free accident and injury group insurance policy, and our all-in-one instant cash cards gave customers access to simple, convenient, no-application and no-guarantor flexible funding. Also, our bank was exclusively commissioned by the Taipei City Government to provide housing loans for the city's government employees and teachers in 2002.

On the business banking side, to improve our business expansion efficiency and credit quality, in 2002 we amalgamated the Chungho and Hsintien Business Finance Centers into the Chingmei Business Finance Center, and combined the Yingkou Business Finance Center with six business units in the greater Taoyuan area to form the Taoyuan Business Finance Center. This organizational adjustment was designed with the aim of concentrating operations and augmenting the specialized division of labor so as to strengthen the development of SME financing, traditional industry loans and credit guarantees, factoring of accounts receivable, and other business finance services. In addition, to strengthen credit management, we launched an on-line screening and approval system, introduced electronic procedures for credit assessment, loan issuance, and real-estate appraisal, and set up an operating system within our business network for visiting factories in mainland China. As of year-end 2002, our outstanding loans guaranteed by the SME Credit Guarantee Fund amounted to NT\$9.7 billion, including NT\$6.1 billion guaranteed by the Fund, fifth highest amount among all domestic banks and a very good performance.

4. Electronic Banking

Electronic banking is one of the core elements of our bank's product development. To provide the general public with convenient financial-service channels, we have pushed the popularization of our telephone and Internet banking services, and continued to enhance our



Internet banking functions. To attract young customers, in 2002 we launched new Internet multi-function accounts geared toward meeting e-generation needs. As of year-end 2002, we already had nearly 10,000 customers using our Internet banking, as well as 405,000 using our telephone banking services.

In addition, we actively expanded our automated service equipment, and increased our ATMs in convenience stores. At the end of 2002, we had a total of 228 ATMs, with 80 cash-dispensing machines outside bank premises and 30 in different convenience stores.

In business cash-flow services, we introduced the e-payment electronic payment mechanism, to solve businesses' cash allocation, credit-limit management and other cash-flow problems, and to provide a complete B2B cash-flow network for business firms.

5. Foreign Exchange

In 2002, Taiwan's foreign trade halted its slump and returned to stability. Exports grew more strongly than imports over the twelve months, generating a trade surplus of US\$18.05 billion. Our bank's foreign exchange operations also produced excellent results. In 2002, our foreign exchange transaction volume reached US\$14.8 billion, up US\$3.3 billion, or 29%, from the preceding year.

2002 also turned a new page in the opening of cross-strait financial links. Domestic banks were given permission to use their OBUs for conducting direct-remittance transactions with banks in mainland China. To strengthen our service to Taiwanese business clients in the mainland, we actively built up friendly and mutually beneficial relations with banks in the mainland area, including state-owned banks, specialized banks, regional banks, and the mainland China branches of foreign commercial banks. By the end of the year, we had already made arrangements for conducting direct-remittance transactions with 27 mainland banks and nearly 70 mainland branches of foreign commercial banks. Nevertheless, our bank is still pursuing the objective of having Taiwan's most extensive network of correspondent locations in mainland China.

On the product side, we actively planned the integration of various foreign exchange products. We initiated an international account-receivable factoring service, to provide exporters with more varied financing channels and raise the efficiency of capital utilization. We also increased to 29 the number of our branches authorized to engage in foreign exchange transactions. At the same time, to keep abreast of the progress of financial internationalization, we continued to develop our international banking services and expand our global correspondent network, which now includes more than 1,500 banks.

6. Money Market and Short-Term Investment

As of year-end 2002, the bank's bill and bond holdings amounted to NT\$72.26 billion, including repurchase agreements totaling NT\$5.98 billion. Excluding repurchase agreements, our bills and bonds in hand increased by NT\$14.53 billion, or 28.07%, year-on-year. For the year, our bill and bond operations yielded capital gains of NT\$1.52 billion and interest revenue of NT\$435 million.

At the end of 2002, the bank's short-term investments had a total value of NT\$6.74 billion. Short-term investment operations yielded profit of NT\$104 million in the year.

7. Trust

Since the passage of the Trust Business Law, our bank has been actively developing trust business. In 2002, we received approval to operate several new kinds of trusts, including real estate, marketable securities, employee savings, employee stockholding, and nondiscretionary money trusts, to add to the insurance trusts, OBU foreign-currency trusts, and retirement trusts already in operation. In conjunction with our systems upgrading, we will continue to plan new kinds of trust products, to provide our customers with rich and varied financial planning tools.

In our mutual fund business, we undertook investment in 158 domestic trust funds managed by 29 securities investment trust companies and 283 overseas trust funds managed by 11 investment consulting companies. As of year-end 2002, our trust fund assets amounted to NT\$7.17 billion, an increase of NT\$5.11 billion, or 256%, over 2001. During the year, we also introduced structured notes and B-share funds to our list of financial products, and developed the fund-purchase function of our on-line banking services. In custodian banking, with the addition of three new funds, we raised our number of custodian funds to 22 and our total assets in custody to NT\$162.3 billion, a growth of 21.39%, putting us among the top five custodian banks in Taiwan.

8. Credit Cards

In credit card promotion strategy, to expand the scale of our card issuance, in 2002 the bank issued the "AEGON Life Insurance Co-branded Card" and "World of Pleasure at Leisure Card". Also, in October, we launched the "Platinum Card" project. This entitled card-holders to such privileges as admission to airport VIP lounges around the world, free airport parking for 15 days a year, NT\$20 million travel insurance, free car-towing service for a distance of 50 kilometers, immediate transaction notification by SMS, and so on. During the card's launch period, we also offered unusually high cash bonuses of 1.2% of transaction value to attract customers. The project quickly produced excellent results, enticing more 60,000 people to apply for cards within just three months, and generating a substantial increase in our card transaction volume.

In raising the added value of our credit cards, we presented our card-holders with special handbooks containing consumer information on food, clothing, accommodation, travel, education, leisure, and so on, and offering a range of special discounts. We also linked up with various businesses, including stores, travel firms, publishers, and hotels, to offer special privileges and benefits to our card-holders, and held market-promotion activities in collaboration with major department stores.

Altogether, we increased the total of our credit cards issued by 109,901 cards, to 520,919 at year-end. And we added 309 new businesses to those contracted to accept our cards, raising the total of 4,902 at the end of the year.



Our Goals for 2003

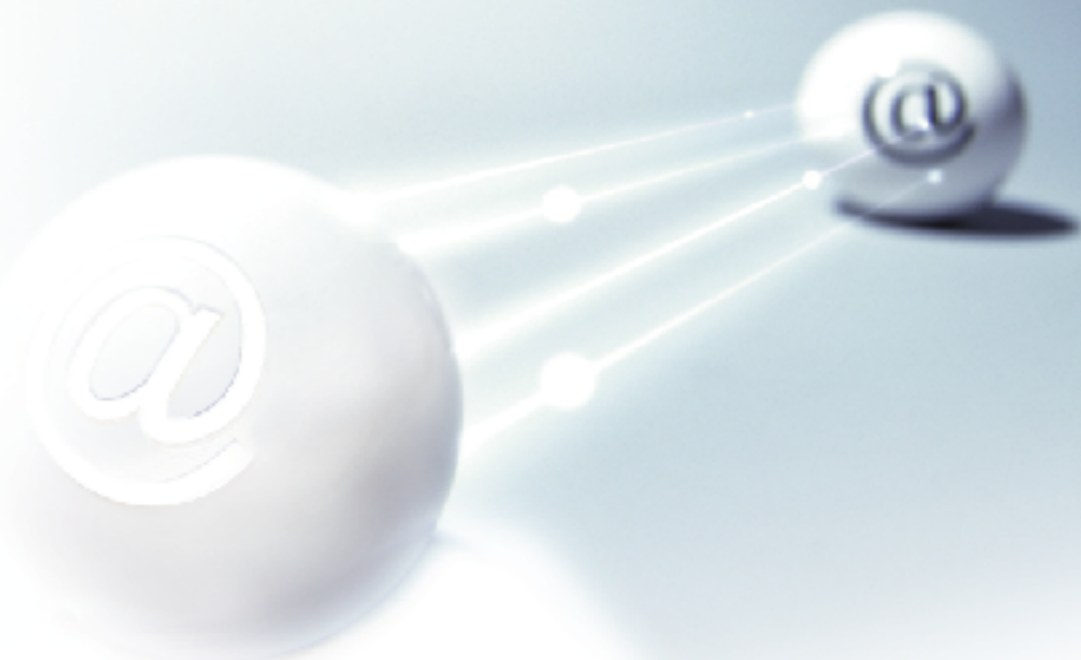


1. Business and R&D Plan

In 2003, we will strive to strengthen our banking operations and enhance our market competitiveness so that we are able to cope with changing financial market conditions. Our basic operational focus will be on making our business banking more internationalized, our retail banking more community-centered, and our general banking more financial-management oriented. We will continue to adjust our business locations, reduce our branch rental costs, and redesign the layout of our bank lobbies in line with financial-management service and marketing trends. Also, we will put into place an effective evaluation mechanism for interface between profit centers, to optimize the benefits of an organizational structure that features a system of regional centers and emphasizes specialized division of labor. Such steps will be taken with the aim of enhancing and adding value to our all-round customer development. Additionally, in our internationalization strategy, we will actively develop our OBU operations, and take advantage of the upgrading of the Hong Kong Branch to full-function status and the proximity of the Macau Branch to the emerging southern China region, to provide services for Taiwanese businesses developing their manufacturing bases in mainland China.

In our business development strategy, we will concentrate on consumer loans, SME loans, and financial-management trust products as the main areas for all-out business development. Also, we will continue to develop the functions of our all-in-one investment and financial management accounts. Our fundamental aim will be to improve the core products that give us a competitive edge and create maximum profit for the bank.

In the sphere of business streamlining, we will continue to strengthen the functions of all our business centers, centralize the handling of business that cannot be conducted on a sound economic basis in branches, and reduce bank branches' burden of routine work. We will also upgrade the bank's information systems, utilize data-mining techniques, and develop customer relationship management (CRM) mechanisms. At the same time, we will augment our



electronic banking functions and expand our automated service outlets. In all, our aim will be to extend the reach of our banking channels and provide customers with more diverse and convenient means of access to banking services.

The main points of our work plan for the year are as follows:

(1) Operations and Organization

(a) Adjust business locations and lobby layouts, and downscale business departments.

Redesign bank lobbies, expanding customer waiting space and dividing the lobbies into three main areas for automated services, counter services, and financial management services, respectively, to facilitate intersected product marketing and create an appropriate environment for delivering financial-management services to VIP customers. Also, reduce unused space in bank buildings, and endeavor to reduce rental costs through rent reduction, rent rebate, or removal to new premises.

(b) Establish an in-house service and transaction evaluation mechanism, and implement a profit center system.

Define profit and cost centers, establish an evaluation mechanism for transactions between profit centers, and set standard fees and conditions for profit center use of business center resources, to enhance the effectiveness of specialized division of labor and all-round customer development.

(c) Internationalization strategy:

Actively develop OBU operations, and participate in international investment and loan syndication. Keep abreast of the opening up of cross-strait financial transactions by making plans for the OBU to serve as a capital-deployment center for Taiwanese businesses operating in mainland China. Also, in line with the Hong Kong Branch's upgraded licensing to full-branch functions, expand the scope of its operations and strengthen its participation in financial markets. Through these and other steps, prepare for the future when, after domestic regulations have been relaxed, the bank can establish a representative office in mainland China and extend its services to mainland Chinese customers.

(d) Risk management:

In preparation for the implementation of Basel II in 2006, the bank has already established a planning task force, which will formulate an internal rating based method as the basis for credit-risk capital needs. At the same time, set up an on-line credit screening system, establish a customer databank, and, through compilation and analysis of client data, strengthen early-warning of problem loans and improve pre-emptive risk management.

(2) Business Development Strategies

(a) Niche banking strategy

Concentrate on consumer loans, SME loans, and financial-management trust services as niche lines of business for all-out development, and strengthen niche products in line with development trends in consumer banking, in order to generate maximum profits and enhance our bank's competitiveness.

i. Consumer lending

Place advertisements on television and in newspapers, magazines, the MRT system,

illuminated display cases at airports, and other media, to promote our consumer finance products. Focus on the promotion of relatively profitable cash cards to expand the scale of consumer finance operations, with the goal of achieving a 45% to 55% revenue split between consumer and business finance in 2003.

ii. Small and medium enterprise (SME) loans

Spread the bank's credit risk by reducing the proportion of large-scale corporate lending and expanding our SME client base, particularly nurturing SME clients with strong development potential. Make SMEs the main target of business lending, to increase our interest spread and augment our profits.

iii. Financial-management trust services

Strengthen the training of financial-management staff, to upgrade their specialist knowledge and skills and provide regular opportunities for refresher training. Allocate staff throughout our branch network to serve as financial management specialists for particular customer segments and make all-out efforts to promote financial-management products. Integrate insurance products, develop new financial-management trust products, and plan the introduction of various trust products such as employee benefit, employee retirement, real estate, and will trusts.

(b) Strengthen the functions of all-in-one investment and financial-management accounts

Integrate foreign currency services, combine different currency accounts into consolidated multi-currency accounts, and issue single consolidated statements, to provide our customers with more complete and convenient financial-management services.

(c) Plan new lines of business

Keep abreast of the rising trend for certificateless bond and treasury trades by planning for the bank to engage in central-depository bond settlement. Set up the necessary system and test schedule with a view to launching operations in the second half of the year. Develop new financial products to match customers' risk aversion and financial-management needs, and launch NT dollar-denominated government-bond margin trading, local and foreign currency interest-rate swaps, NT dollar option-linked deposits, cross-currency swaps, and so on.

(3) Operations management

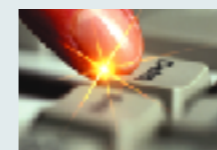
(a) Strengthen the logistical functions of all operations centers, and centralize the handling of routine branch operations according to considerations of scale and efficiency, to help branches focus their efforts on promoting business sales.

i. Call center

Pool the handling of customer telephone inquiries, credit-card problems, complaints, and other such matters, to reduce overall operating costs. Follow up on current plans for integrating customer data by launching telephone marketing, projected to go ahead in the second quarter, as a means of more actively promoting cross-marketing business development.

ii. Foreign exchange operations center

Progress from the present stage, in which foreign exchange and import-financing services are all handled by the International Banking Department, to completing in stages the centralization of export-financing service operations, to raise documentary inspection





Our Ultimate Goal...

quality and operational efficiency.

iii. General branch operations center

Further to our already implemented centralized handling of bills for collection of branches in Taipei City and County, centralize the handling of bills for collection of banks in the Taoyuan area, as projected for implementation in the first half of the year. Also in the second half of the year, continue to plan the centralized handling of checking-account check returns, seal verification, and insufficient funds notification and check return operations, and bring other areas of operations such as mailing out of bank statements, logistical support manpower, agency handling of other banks' negotiable instruments, and so on, under the umbrella of operations centers, to reduce bank branches' burden of routine work.

(b) Strengthen information systems, renew branch IT equipment, and establish a broadband environment to enhance branch operational efficiency.

i. Computerize seal verification and accounting

The already-completed installation of the bank's new seal verification system is expected to raise the efficiency of counter operations, save space, speed up the future centralized handling of negotiable instruments, and maximize the efficiencies of computerization. It will also benefit customers by facilitating their transaction of inter-branch business and saving their time. In conjunction with this, augment branch computerized accounting functions, linking existing computer operating systems to account handling procedures for direct central account settlement, and strengthen all kinds of subsidiary computerization, to save on manpower in branch account operations.

ii. Employ data-mining techniques and strengthen customer relationship management (CRM) mechanisms

With the building of our databanks steadily nearing completion, employ data-mining techniques to effectively extract solutions of prime importance to consumers from the large volume of market and customer data that we have collected. Establish customer relationship management that is really based on customer demand, and in the first quarter of 2003 plan the employment of data-mining techniques to promote the use of our Internet banking.

(c) Implement on-line screening and introduce electronic credit-assessment and lending procedures

Introduce electronic procedures at both head-office and business-unit levels to speed up the processing of loan applications. Implement on-line screening of consumer finance and credit card operations, to achieve our goals of speedy screening with speedy decisions and the establishment of fully electronic credit-assessment and lending operations.

(4) Electronic Banking Services

(a) Expand automated facilities

Step up the replacement of old ATMs, introduce more sophisticated deposit and cash-dispensing machines, and develop their value-added functions, to provide customers with greater convenience of service. Also cooperate with Geniron Company, inc. to lease ATMs in convenience stores, adding an expected 20 new locations to those already under lease by

the end of the year, mainly located in Taoyuan, Hsinchu, Taichung, Tainan, and Kaohsiung.

(b) Extend Automatic Clearing House (ACH) payment transfer services

Provide customers with more convenient and cheaper interbank services for handling all kinds of regular, repetitive, large-volume, small-amount payment transactions through ACH transfer. Add issuing bank on-line service to our already instituted receiving bank service.

(c) Plan Mondex cash stored-value card service

Take advantage of the permission already received from the Ministry of Finance for our bank to engage in Mondex cash stored-value card business by making plans for their issuance in combination with cash cards or credit cards. Pursue expectations that, after their formal issuance, we will be able to increase our commission income, enhance customer loyalty, and reduce cash-management operating costs. Also, act on agreement already reached with the National Athletics Meeting hosted by Taipei County to issue Mondex e-purses to all grades of games venue staff for use in place of cash.

(d) Build an enterprise financial services platform, develop an e-payment mechanism and e-finance to provide businesses with on-line financing, and integrate e-factoring with mechanisms for funding of business accounts receivable and advancing cash for accounts payable, capital allocation, and credit-limit controls, to solve businesses' cash-flow problems and establish a complete B2B payments network.

(e) Strengthen telephone banking functions, join up with mobile banking services developed by all major telecom companies, and plan to participate in KG Telecom's i-Mode project.

(f) Expand Internet banking functions, and set up a PKI security mechanism to provide the security demanded by B2B and B2C clients for their high-value transactions.

2. Plans for Disposal or Acquisition of Immovable Property or Long-term Investments in 2003: (None)

3. Capital Utilization Plan

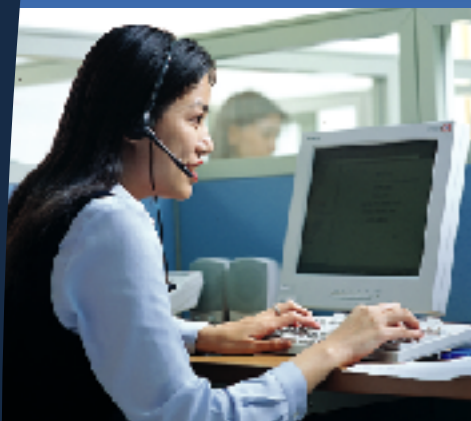
(1) In response to changes in the financial environment and to meet future development needs, as well as to raise the bank's level of capitalization to international standards, in 2002 the bank carried out a cash capital increase of NT\$1 billion, which was completed and fully paid up on October 9, 2002, and wholly utilized for business financing.

(2) The 1989 cash capital increase of NT\$100 million was already completed and fully utilized for business financing by year-end 1989.

(3) The bank has never issued bank debentures.



Financial Statements



Independent Auditors' Report

The Board of Directors and Stockholders
International Bank of Taipei

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of International Bank of Taipei as of December 31, 2002 and 2001, and the results of its operations and its cash flows for the years then ended, in conformity with guidelines for securities issuers' financial reporting and accounting principles generally accepted in the Republic of China.

T N Soong & Co
An Associate Member Firm of Deloitte Touche Tohmatsu
Taipei, Taiwan
The Republic of China

January 20, 2003

Notice to Readers

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

Supervisors' Report

To: The 2003 Shareholders' Meeting

In accordance with Article 219 of the Company Law, we have reviewed the 2002 financial statement of the Bank submitted by the Board or Directors and subsequent audit report by our appointed Certified public Accountants, T N Soong & Co., and found them correct.

March 19, 2003

Tien-Dong Lin
Resident Supervisor

Jenq-Shyong Lien
Supervisor

Toney Chen
Supervisor

Balance Sheets



| ASSETS | 2002 | | 2001 | |
|---|-----------------------|------------|-----------------------|------------|
| | Amount | % | Amount | % |
| CASH (Note 3) | \$ 4,592,692 | 1 | \$ 5,165,249 | 2 |
| DUE FROM BANKS (Notes 4 and 20) | 3,229,355 | 1 | 6,717,300 | 2 |
| DUE FROM CENTRAL BANK (Note 5) | 14,908,298 | 5 | 14,258,107 | 5 |
| SECURITIES PURCHASED - NET (Notes 2, 6, 19 and 20) | 77,274,907 | 23 | 61,632,410 | 19 |
| RECEIVABLES - NET (Notes 2 and 7) | 4,656,525 | 1 | 3,896,045 | 1 |
| PREPAID EXPENSES | 584,593 | - | 618,003 | - |
| LOANS, DISCOUNTS AND BILLS PURCHASED - NET (Notes 2, 8, 19 and 26) | 222,575,284 | 66 | 215,775,443 | 68 |
| LONG-TERM EQUITY INVESTMENTS (Notes 2 and 9) | 597,850 | - | 409,002 | - |
| PROPERTY AND EQUIPMENT (Notes 2 and 10) | | | | |
| Cost and appreciation | | | | |
| Land | 3,096,509 | 1 | 3,085,604 | 1 |
| Buildings and improvements | 1,952,976 | 1 | 1,922,428 | 1 |
| Transportation equipment | 3,341 | - | 3,341 | - |
| Miscellaneous equipment | 1,252,968 | - | 1,172,674 | - |
| Total cost and appreciation | 6,305,794 | 2 | 6,184,047 | 2 |
| Accumulated depreciation | 1,411,734 | - | 1,323,674 | - |
| | 4,894,060 | 2 | 4,860,373 | 2 |
| Construction in progress and advances related to acquisition of equipment | 31,043 | - | 52,848 | - |
| Net Property and Equipment | 4,925,103 | 2 | 4,913,221 | 2 |
| OTHER ASSETS - NET (Notes 2, 11, 16 and 18) | 2,538,591 | 1 | 2,542,661 | 1 |
| TOTAL ASSETS | \$ 335,883,198 | 100 | \$ 315,927,441 | 100 |

(In Thousands of New Taiwan Dollars, Except Par Value)

| LIABILITIES AND STOCKHOLDERS' EQUITY | 2002 | | 2001 | |
|---|-----------------------|------------|-----------------------|------------|
| | Amount | % | Amount | % |
| LIABILITIES | | | | |
| Due to banks (Note 12) | \$ 605,673 | - | \$ 1,756,753 | - |
| Payables (Note 13) | 5,645,518 | 2 | 6,160,800 | 2 |
| Advances received | 141,955 | - | 118,607 | - |
| Deposits and remittances (Notes 14 and 19) | 287,328,834 | 85 | 274,527,397 | 87 |
| Due to Central Bank and other banks | 8,569,447 | 3 | 2,567,527 | 1 |
| Other liabilities (Notes 2, 18 and 26) | 2,151,711 | 1 | 2,067,101 | 1 |
| Total Liabilities | 304,443,138 | 91 | 287,198,185 | 91 |
| STOCKHOLDERS' EQUITY | | | | |
| Capital stock - \$10 par value | | | | |
| Authorized and issued - 2,013,687 thousand shares in 2002 and 1,803,810 thousand shares in 2001 | 20,136,870 | 6 | 18,038,103 | 6 |
| Capital surplus: | | | | |
| Gain on disposal of properties | - | - | 67,030 | - |
| Revaluation increment on land | 610,341 | - | 610,341 | - |
| Donations | 7,930 | - | 7,930 | - |
| Other | 1,321 | - | 1,321 | - |
| Total capital surplus | 619,592 | - | 686,622 | - |
| Retained earnings: | | | | |
| Legal reserve | 8,441,141 | 2 | 7,774,255 | 2 |
| Special reserve | 43,587 | - | 67,680 | - |
| Unappropriated earnings | 2,197,696 | 1 | 2,155,922 | 1 |
| Total retained earnings | 10,682,424 | 3 | 9,997,857 | 3 |
| Cumulative translation adjustments | 1,174 | - | 6,674 | - |
| Total Stockholders' Equity | 31,440,060 | 9 | 28,729,256 | 9 |
| CONTINGENCIES AND COMMITMENTS (Notes 2, 24 and 27) | | | | |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | \$ 335,883,198 | 100 | \$ 315,927,441 | 100 |

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

Statements of Income

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

| | 2002 | | 2001 | |
|---|---------------|-----------|---------------|-----------|
| | Amount | % | Amount | % |
| OPERATING REVENUES (Note 2) | | | | |
| Interest | \$ 11,652,409 | 81 | \$ 14,915,014 | 77 |
| Service fees | 755,000 | 5 | 632,879 | 3 |
| Income from sale of securities - net | 1,897,281 | 13 | 3,700,282 | 19 |
| Equity in net income of investees - net | 46,438 | - | 24,930 | - |
| Foreign exchange gain - net | 104,538 | 1 | 223,659 | 1 |
| Other | 29,823 | - | 22,626 | - |
| Total Operating Revenues | 14,485,489 | 100 | 19,519,390 | 100 |
| OPERATING COSTS | | | | |
| Interest | 6,227,223 | 43 | 10,521,157 | 54 |
| Service charges | 137,306 | 1 | 117,095 | 1 |
| Provisions for losses (Note 2) | 2,081,388 | 14 | 2,816,952 | 14 |
| Total Operating Costs | 8,445,917 | 58 | 13,455,204 | 69 |
| GROSS PROFIT | 6,039,572 | 42 | 6,064,186 | 31 |
| OPERATING EXPENSES | | | | |
| Administrative | 2,501,402 | 17 | 2,535,898 | 13 |
| General | 1,368,858 | 10 | 1,190,104 | 6 |
| Others | 18,020 | - | 16,880 | - |
| Total Operating Expenses | 3,888,280 | 27 | 3,742,882 | 19 |
| INCOME FROM OPERATIONS | 2,151,292 | 15 | 2,321,304 | 12 |
| NONOPERATING INCOME | | | | |
| Revenue from disposal of assets | 167,028 | 1 | - | - |
| Others | 315,430 | 2 | 259,779 | 1 |
| Total Nonoperating Income | 482,458 | 3 | 259,779 | 1 |
| NONOPERATING EXPENSES | 15,136 | - | 17,447 | - |
| INCOME BEFORE INCOME TAX | \$ 2,618,614 | 18 | \$ 2,563,636 | 13 |
| INCOME TAX (Notes 2 and 16) | 467,839 | 3 | 407,714 | 2 |
| NET INCOME | \$ 2,150,775 | 15 | \$ 2,155,922 | 11 |
| | Pre Tax | After Tax | Pre Tax | After Tax |
| EARNINGS PER SHARE (Note 17) | | | | |
| Basic earnings per share | \$ 1.35 | \$ 1.11 | \$ 1.34 | \$ 1.13 |

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

Statements of Cash Flows

For the Years Ended December 31, 2002 and 2001
(In Thousands of New Taiwan Dollars)

| | 2002 | 2001 |
|---|------------------|------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net income | \$ 2,150,775 | \$ 2,155,922 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | |
| Provisions for losses | 2,081,388 | 2,816,952 |
| Depreciation and amortization | 233,543 | 230,520 |
| Provision (reversal) of allowance for losses on securities purchased | 276,248 | (372,818) |
| Investment income (loss) recognized under equity method in excess of cash dividends | (34,098) | 3,684 |
| Gain on disposal of properties - net | (161,919) | 8,709 |
| Deferred income taxes | (21,685) | (142,278) |
| Changes in operating assets and liabilities: | | |
| Decrease (increase) in securities purchased - for trading purpose | (16,116,849) | 564,749 |
| Decrease (increase) in receivables | (775,849) | 421,004 |
| Decrease in prepaid expenses | 33,410 | 72,324 |
| Decrease in payables | (515,282) | (3,688,162) |
| Increase (decrease) in advances received | 23,348 | (57,008) |
| Net Cash Provided by (Used in) Operating Activities | (12,826,970) | 2,013,598 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Decrease (increase) in: | | |
| Due from banks | 3,487,945 | 1,653,800 |
| Due from Central Bank | (650,191) | (2,432,968) |
| Securities purchased - for investing purpose | 198,104 | 128,639 |
| Loans, discounts and bills purchased | (8,838,723) | (4,057,780) |
| Long-term equity investments | (154,750) | (70,700) |
| Acquisitions of properties | (194,002) | (246,309) |
| Proceeds from sale of properties | 182,818 | - |
| Other assets | (20,528) | (61,730) |
| Net Cash Used in Investing Activities | (5,989,327) | (5,087,048) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Decrease in due to banks | (\$ 1,151,080) | (\$ 5,616,592) |
| Increase in deposits and remittances | 12,801,437 | 6,173,952 |
| Increase (decrease) in due to Central Bank and other banks | 6,001,920 | (739,593) |
| Increase in other liabilities | 31,434 | 65,736 |
| Cash dividends | (360,762) | (693,367) |
| Remuneration paid to directors and employees | (73,709) | (76,112) |
| Issuance of common stock | 1,000,000 | - |
| Net Cash Provided by (Used in) Financing Activities | 18,249,240 | (885,976) |
| EFFECT OF CHANGE IN EXCHANGE RATE | (5,500) | 4,680 |
| NET DECREASE IN CASH | (572,557) | (3,954,746) |
| CASH, BEGINNING OF YEAR | 5,165,249 | 9,119,995 |
| CASH, END OF YEAR | \$ 4,592,692 | \$ 5,165,249 |
| SUPPLEMENTAL INFORMATION | | |
| Interest paid | \$ 6,868,299 | \$ 11,149,517 |
| Income tax paid | \$ 486,795 | \$ 591,988 |

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

Statements of Changes In Stockholders' Equity

For the Years Ended December 31, 2002 and 2001

| | CAPITAL STOCK ISSUED | | CAPITAL SURPLUS (Notes 2, 10 and 15) | | | |
|--|-----------------------|---------------|--------------------------------------|-------------------------------|-----------|----------|
| | Shares (in Thousands) | Amount | Gain on Disposal of Properties | Revaluation Increment on Land | Donations | Other |
| BALANCE, JANUARY 1, 2001 | 1,733,417 | \$ 17,334,177 | \$ 67,030 | \$ 448 | \$ 4,768 | \$ 1,321 |
| Appropriations of prior year's earnings: | | | | | | |
| Legal reserve | - | - | - | - | - | - |
| Stock dividends - 4% | 69,337 | 693,367 | - | - | - | - |
| Cash dividends - \$0.4 | - | - | - | - | - | - |
| Remuneration to directors and employees | 1,056 | 10,559 | - | - | - | - |
| Revaluation increment on land | - | - | - | 609,893 | - | - |
| Unclaimed dividends | - | - | - | - | 3,162 | - |
| Net income for 2001 | - | - | - | - | - | - |
| Cumulative translation adjustments | - | - | - | - | - | - |
| BALANCE, DECEMBER 31, 2001 | 1,803,810 | 18,038,103 | 67,030 | 610,341 | 7,930 | 1,321 |
| Appropriations of prior year's earnings: | | | | | | |
| Legal reserve | - | - | - | - | - | - |
| Stock dividends - 6% | 108,229 | 1,082,286 | - | - | - | - |
| Cash dividends - \$0.2 | - | - | - | - | - | - |
| Remuneration to directors and employees | 1,648 | 16,481 | - | - | - | - |
| Reversal of the reserve for capital surplus from gain on disposal of properties to unappropriated earnings | - | - | (67,030) | - | - | - |
| Issuance of common stocks - \$10/pershare (October 9, 2002) | 100,000 | 1,000,000 | - | - | - | - |
| Net income for 2002 | - | - | - | - | - | - |
| Cumulative translation adjustments | - | - | - | - | - | - |
| BALANCE, DECEMBER 31, 2002 | 2,013,687 | \$ 20,136,870 | \$ - | \$ 610,341 | \$ 7,930 | \$ 1,321 |

(In Thousands of New Taiwan Dollars, Except Cash Dividends and Issuance of Common Stocks Per Share)

| | RETAINED EARNINGS (Notes 2 and 15) | | | | CUMULATIVE TRANSLATION ADJUSTMENTS (Note 2) | TOTAL STOCKHOLDERS' EQUITY | |
|--|------------------------------------|---------------|-----------------|-------------------------|---|----------------------------|---------------|
| | Total | Legal Reserve | Special Reserve | Unappropriated Earnings | | | Total |
| | \$ 73,567 | \$ 7,222,680 | \$ 254,074 | \$ 1,838,586 | \$ 9,315,340 | \$ 1,994 | \$ 26,725,078 |
| | - | 551,575 | - | (551,575) | - | - | - |
| | - | - | - | (693,367) | (693,367) | - | - |
| | - | - | (149,115) | (544,252) | (693,367) | - | (693,367) |
| | - | - | (37,279) | (49,392) | (86,671) | - | (76,112) |
| | 609,893 | - | - | - | - | - | 609,893 |
| | 3,162 | - | - | - | - | - | 3,162 |
| | - | - | - | 2,155,922 | 2,155,922 | - | 2,155,922 |
| | - | - | - | - | - | 4,680 | 4,680 |
| | 686,622 | 7,774,255 | 67,680 | 2,155,922 | 9,997,857 | 6,674 | 28,729,256 |
| | - | 646,777 | - | (646,777) | - | - | - |
| | - | - | - | (1,082,286) | (1,082,286) | - | - |
| | - | - | (19,275) | (341,487) | (360,762) | - | (360,762) |
| | - | - | (4,818) | (85,372) | (90,190) | - | (73,709) |
| | (67,030) | 20,109 | - | 46,921 | 67,030 | - | - |
| | - | - | - | - | - | - | 1,000,000 |
| | - | - | - | 2,150,775 | 2,150,775 | - | 2,150,775 |
| | - | - | - | - | - | (5,500) | (5,500) |
| | \$ 619,592 | \$ 8,441,141 | \$ 43,587 | \$ 2,197,696 | \$ 10,682,424 | \$ 1,174 | \$ 31,440,060 |

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

Notes To Financial Statements

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

1. ORGANIZATION AND OPERATIONS

In 1978, the Taipei Regional Mutual Loans and Savings Company was converted into the Taipei Business Bank. In May 1998, the Bank's conversion into a commercial bank was approved by the Ministry of Finance, and the Bank changed its name to the International Bank of Taipei on May 14, 1998. As a commercial bank, the Bank engages in the following: (a) businesses prescribed by the Banking Law and Trust Law; (b) operations of an offshore banking unit (OBU); and (c) other businesses authorized by the Ministry of Finance. The Bank's stock is traded on the Taiwan Stock Exchange.

The operations of the Bank's Trust Department consist of planning, managing and operating a trust business. These operations are also regulated under the Banking Law and Trust Law.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Bank's significant accounting policies, which conform to the generally accepted accounting principles in the Republic of China, are summarized below:

■ Basis for financial statement preparation

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

■ Securities purchased

Securities purchased are carried at cost less allowance for decline in value.

Costs of equity securities sold are determined by the weighted-average method and those of other securities are determined by the specific-identification method.

Sales and purchases of bonds and short-term bills under agreements to repurchase or resell are treated as outright sales and purchases.

■ Nonperforming loans

Loans and other credits (including accrued interest) that are outstanding for at least six months are classified as nonperforming loans in accordance with the guideline issued by the Ministry of Finance.

■ Allowance for possible losses and reserve for losses on guarantees

The Bank makes provision for bad debts and losses on guarantees based on the evaluation of loans, overdue loans, bills, discounts, receivables, guarantees and acceptances for their specific risks or general risks.

Debts and guarantees with specific risks are evaluated internally for their collaterals, collectibility and customers' overall credit. The Bank makes full provisions for credits deemed uncollectible and makes provisions for at least 50% of credits for the credits with high uncollectibility in accordance with guidelines issued by the Ministry of Finance.

Based on guidelines issued by the Ministry of Finance, credits deemed uncollectible may be written off under a resolution issued by the Board of Directors.

■ Long-term equity investments

Long-term equity investments accounted for by the equity method are initially stated at cost and subsequently adjusted for the Bank's proportionate share in the net income or net loss of the investees. Cash dividends received are accounted for as reduction in the carrying values of the investments. The difference between the acquisition cost and the Bank's proportionate equity in the net asset of the investee companies is amortized over five years. When the financial statements of equity-accounted affiliates are not available on time, the investment income or loss for the current year is based on the net income or loss of investees in the preceding year using the equity interest as of the end of the current year.

Long-term equity investments accounted for by the cost method are carried at cost plus stock dividends received before 1984. The carrying values of those investments are reduced to reflect an other than temporary decline in value of unlisted stocks, with the related impairment losses charged to current income. Cash dividends received are recognized as investment income.

For all investments, stock dividends received after 1984 are accounted for only as increases in the number of shares held and are not recognized as income. Costs of stocks sold are determined by the moving-weighted-average method.

■ Properties

Properties are stated at cost or cost plus appreciation. The cost of renewals and betterment which extend the useful lives of properties is capitalized. The cost of maintenance and repairs is charged to expense as incurred.

Depreciation is computed using the straight-line method over estimated service lives ranging as follows: Buildings and improvements, 15 to 60 years; transportation equipment, 5 years; and miscellaneous equipment, 3 to 15 years. Depreciation on revalued property is provided on the basis of their remaining useful lives at the time of the revaluation. The carrying value of property and equipment, which were fully depreciated using the foregoing service lives, but are still being used by the Bank are depreciated over their remaining estimated service lives.

Upon the sale or disposal of items of properties, the related cost, appreciation and accumulated depreciation are removed from the accounts, and any resulting gain or loss is credited or charged to income. Before 2000, any such gain, less applicable income tax, was reclassified to capital surplus in the same year.

■ Foreclosed collaterals

Foreclosed collaterals are recorded at cost (included in other assets) and revalued using the lower of cost or net realizable value as of the balance sheet dates.

■ Pension costs

Provisions for pension costs are based on actuarial calculations. The unrecognized benefit obligation at transition is amortized over seven years. Unrecognized net transition obligation and prior service cost are amortized over the average remaining service lives of the plan members.

■ Recognition of interest revenue and service fees

Interest revenue on loans is recorded on accrual basis. No interest revenue is recognized in the accompanying financial statements on loans and other credits

extended by the Bank that are classified as nonperforming loans. The interest revenue on those loans is recognized upon collection.

Under regulation of the MOF, the interest on rescheduled loans and loans which debtors has financial difficulty should be recorded as deferred revenue. Only receive the interest from debtors can be recognized as interest revenue.

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

■ Income tax

Deferred income taxes are recognized for the tax effects of temporary differences, unused tax credits, and operating loss carryforwards. Valuation allowance is provided for deferred tax assets that are not certain to be realized.

Tax credits resulting from employee training are recognized in the current period.

Income tax on interest derived from short-term negotiable instruments, which is levied separately, and any adjustment of income taxes of prior years are added to or deducted from the current year's tax provision.

Income tax (10%) on unappropriated earnings is recorded as income tax in the year when the shareholders resolve to retain the earnings.

■ Contingencies

A loss is recognized when it is probable that an asset has been impaired or a liability has been incurred and the amount of loss can be reasonably estimated. The loss is disclosed in the financial statements when the loss might have already occurred and the amount of loss cannot be reasonably estimated.

■ Foreign-currency transactions

The Bank maintains its accounts in the respective currencies in which the transactions are denominated. All foreign-currency revenues and expenses are recorded in New Taiwan dollars at the rates of exchange in effect when the transactions occur. Foreign-currency assets and liabilities, except those arising from forward and swap contracts, are translated into New Taiwan dollars at the prevailing exchange

rates, and resulting gains or losses are credited or charged to income.

Gains or losses resulting from the restatement of the balances of foreign-currency transactions of overseas units as of the balance sheet dates are credited or charged to "cumulative translation adjustment" under stockholders' equity.

■ Derivative transactions

a. Forward exchange contracts

Forward exchange contracts entered into for trading purposes are recorded in New Taiwan dollars at the contracted forward rates. The gains or losses arising from the difference between the contracted forward rates and the rates on maturity date are included in income in the period the contracts are settled. The amounts of open contracts as of the balance sheet dates are restated using the rates applicable for the remaining term of the contracts, with the resulting gain or loss recognized in income in the current year. Receivables and payables arising from the trade contracts are netted at year-end, and the resulting balance is accounted for as either current asset or liability.

b. Interest rate swaps

The notional amounts in interest rate swap contacts are not recognized as either assets or liabilities since there is no obligation to exchange those amounts. However, a memorandum entry is made to note related transactions. The net amounts paid or received under the contracts as of the settlement date and on the balance-sheet dates are recognized as adjustments to interest income or expense of the item being hedged.

c. Currency swap contracts

Foreign-currency spot-position assets or liabilities arising from currency swap contracts, which are used mainly to accommodate customers' needs or to manage the Bank's own currency positions, are recorded at spot rates when the transactions occur, while the corresponding forward-position assets or liabilities are recorded at the contracted forward rates. The difference between the contract date rate and the contracted forward rate is amortized using the straight-line method over the term of the contract and recorded as interest income or expense. As of balance sheet date, the receivables arising from outstanding contracts are netted against the related payables.

d. Cross-currency swap

The foreign currency amount of cross currency swap

contracts, which are intended for hedging purposes are recorded at spot rates when the transactions occur, while the corresponding forward-position assets or liabilities are recorded at the contracted forward rates. The difference between the contract date rate and the contracted forward rate is amortized using the straight-line method over the term of the contract and recorded as interest income or expenses. The net interest receivable or payable at each settlement is recorded as adjustment to the revenue or expense associated with the item being hedged.

e. Currency options

Premium paid or received for options is recorded as asset or liability, respectively, and are recognized as revenue or expense upon each settlement. Gain or loss on the exercise of the options is credited or charged to current income. Options not exercised as of the balance sheet dates are marked to market, and the resulting gains or losses are recognized either as assets or liabilities.

3. CASH

| | December 31 | |
|---------------------|---------------------|---------------------|
| | 2002 | 2001 |
| Cash on hand | \$ 3,113,052 | \$ 3,324,787 |
| Checks for clearing | 1,479,640 | 1,840,462 |
| | \$ 4,592,692 | \$ 5,165,249 |

4. DUE FROM BANKS

| | December 31 | |
|---------------------|---------------------|---------------------|
| | 2002 | 2001 |
| Call loans to banks | \$ 2,699,032 | \$ 6,247,528 |
| Due from banks | 530,323 | 469,772 |
| | \$ 3,229,355 | \$ 6,717,300 |

5. DUE FROM CENTRAL BANK

| | December 31 | |
|--|----------------------|----------------------|
| | 2002 | 2001 |
| Reserve for New Taiwan dollar deposits | \$ 13,897,864 | \$ 11,086,547 |
| Reserve for foreign currency deposits | 10,434 | 297,560 |
| Time deposit - interest rate at 1.875% | 1,000,000 | 2,874,000 |
| | \$ 14,908,298 | \$ 14,258,107 |

The reserve accounts represent deposits required by the Central Bank. The required deposit reserves on New Taiwan dollar (NT\$) - denominated deposits are determined at the end of each month using prescribed rates on the balances of various types of New Taiwan dollar-denominated deposits. The actual reserves required were only \$6,668,148 and \$6,301,078 as of December 31, 2002 and 2001, respectively. These reserves are subject to withdrawal restrictions.

The requirement to have deposit reserves for foreign-currency-denominated deposits took effect on December 8, 2000. The reserve is determined using prescribed rates. These reserves, however, may be withdrawn and are non-interest earning.

6. SECURITIES PURCHASED - NET

| | December 31 | |
|---------------------------------------|----------------------|----------------------|
| | 2002 | 2001 |
| Time deposits | \$ 28,818,794 | \$ 20,323,445 |
| Commercial paper | 15,183,950 | 16,754,853 |
| Bonds | 19,953,198 | 15,975,143 |
| Mutual funds | 5,813,447 | 4,850,791 |
| Treasury bills | 6,902,788 | 3,415,185 |
| Listed and over-the-counter stocks | 929,412 | 376,034 |
| Bank acceptances | 24,095 | 11,488 |
| | 77,625,684 | 61,706,939 |
| Less - allowance for decline in value | 350,777 | 74,529 |
| | \$ 77,274,907 | \$ 61,632,410 |

As of December 31, 2002 and 2001, the aggregate market value of bonds, stocks and mutual fund were \$28,059,519 and \$21,853,898, respectively.

7. RECEIVABLES - NET

| | December 31 | |
|--------------------------------------|---------------------|---------------------|
| | 2002 | 2001 |
| Accrued interest | \$ 1,619,062 | \$ 1,893,785 |
| Credit cards | 1,263,138 | 899,974 |
| Acceptance receivable | 880,195 | 862,519 |
| Factoring receivable | 323,231 | - |
| Other | 591,626 | 255,715 |
| | 4,677,252 | 3,911,993 |
| Less - allowance for possible losses | 20,727 | 15,948 |
| | \$ 4,656,525 | \$ 3,896,045 |

8. LOANS, DISCOUNTS AND BILLS PURCHASED - NET

| | December 31 | |
|--|-----------------------|-----------------------|
| | 2002 | 2001 |
| Bills purchased and discounts | \$ 1,268,842 | \$ 1,172,853 |
| Short-term unsecured loans and overdraft | 47,804,434 | 48,985,451 |
| Short-term secured loans and overdraft | 25,221,338 | 33,197,933 |
| Medium-term unsecured loans | 37,260,795 | 32,909,191 |
| Medium-term secured loans | 27,613,479 | 27,527,859 |
| Long-term unsecured loans | 11,145,412 | 10,979,986 |
| Long-term secured loans | 64,155,845 | 52,242,020 |
| Nonperforming loans | 10,965,509 | 11,785,052 |
| | 225,435,654 | 218,800,345 |
| Less - allowance for possible losses | 2,860,370 | 3,024,902 |
| | \$ 222,575,284 | \$ 215,775,443 |

The balances of loans as of December 31, 2002 and 2001, for which accrual of interest revenues had been discontinued, amounted to \$10,965,509 and \$11,785,052, respectively. The unrecognized interest revenue on these loans amounted to \$1,440,555 and \$1,406,596 for the years ended December 31, 2002 and 2001, respectively.

For the years ended December 31, 2002 and 2001, the Bank carried out legal procedures required before the Bank can write off credits.

Details of the changes in the allowance for possible losses of loans, discounts and bills purchased are summarized below:

For the Year Ended December 31, 2002

| | Specific Risk | General Risk | Total |
|----------------------|---------------|--------------|--------------|
| Balance, January 1 | \$ 1,745,496 | \$ 1,279,406 | \$ 3,024,902 |
| Provision | 1,959,452 | 62,853 | 2,022,305 |
| Write-off | (2,186,837) | - | (2,186,837) |
| Balance, December 31 | \$ 1,518,111 | \$ 1,342,259 | \$ 2,860,370 |

For the Year Ended December 31, 2001

| | Specific Risk | General Risk | Total |
|----------------------|---------------|--------------|--------------|
| Balance, January 1 | \$ 1,248,600 | \$ 1,272,042 | \$ 2,520,642 |
| Provision | 2,650,039 | 7,364 | 2,657,403 |
| Write-off | (2,153,143) | - | (2,153,143) |
| Balance, December 31 | \$ 1,745,496 | \$ 1,279,406 | \$ 3,024,902 |

9. LONG-TERM EQUITY INVESTMENTS

| | December 31 | | December 31 | |
|---|-------------|-----------------|-------------|-----------------|
| | 2002 | | 2001 | |
| | Amount | Share-holding % | Amount | Share-holding % |
| Equity method | | | | |
| Unlisted stocks: | | | | |
| Transcend Securities Investment Trust Co., Ltd. | \$ 171,669 | 60.00 | \$ 45,673 | 20.00 |
| IBT Property Insurance Agent Co., Ltd. | 5,985 | 99.99 | 3,750 | 99.99 |
| IBT Life Insurance Agent Co., Ltd. | 39,003 | 99.99 | 3,386 | 99.99 |
| | 216,657 | | 52,809 | |
| Cost method | | | | |
| Unlisted stocks: | | | | |
| Huan Hwa Securities Finance | 173,496 | 2.63 | 173,496 | 2.63 |
| Taiwan Financial Asset Service Corp. | 50,000 | 2.94 | 50,000 | 2.94 |
| Financial Information Service Co., Ltd. | 45,500 | 1.14 | 45,500 | 1.14 |
| Taiwan SME Development | 29,000 | 4.84 | 29,000 | 4.84 |
| Mondex Taiwan Inc. | 25,000 | 6.47 | - | - |
| Taiwan Television | 20,983 | 4.84 | 20,983 | 4.84 |
| China Technology Venture Management Co., Ltd. | 16,700 | 4.99 | 16,700 | 4.99 |
| Taiwan Futures Exchange Corp. | 12,500 | 0.63 | 12,500 | 0.63 |
| Taipei Forex Inc. | 6,000 | 3.03 | 6,000 | 3.03 |
| Lien An Co. | 1,250 | 5.00 | 1,250 | 5.00 |
| SWIFT | 764 | - | 764 | - |
| | 381,193 | | 356,193 | |
| | \$ 597,850 | | \$ 409,002 | |

The carrying values of equity-accounted investments and the related income were determined on the basis of audited financial statements, except for the 2002 and 2001 financial statements of IBT Property Insurance Agent Co., Ltd. and the 2001 financial statements of IBT Life Insurance Agent Co., Ltd. Management believes that had the financial statements of IBT Property Insurance Agent Co., Ltd. and IBT Life Insurance Agent Co., Ltd. been audited, the effect of any adjustments on the Corporation's financial statements would not be significant.

The subsidiaries' individual total assets and operating revenues of the subsidiaries were less than 10% of those of the Bank. In addition, of the subsidiaries with total assets or total operating revenues aggregating less than 30% of those of the Bank. Thus, the Bank did not prepare consolidated financial statements.

10. PROPERTY AND EQUIPMENT

| | December 31 | |
|--|--------------|--------------|
| | 2002 | 2001 |
| Cost and appreciation | \$ 6,305,794 | \$ 6,184,047 |
| Accumulated depreciation: | | |
| Buildings and improvements | 565,110 | 500,440 |
| Transportation equipment | 3,238 | 3,176 |
| Miscellaneous equipment | 843,386 | 820,058 |
| | 1,411,734 | 1,323,674 |
| | 4,894,060 | 4,860,373 |
| Construction in progress and advances related to acquisitions of equipment | 31,043 | 52,848 |
| | \$ 4,925,103 | \$ 4,913,221 |

The Bank has revalued its properties in accordance with government regulations as follows: Land in 1961, 1964, 1967, 1974 and 2001; and other properties in 1961.

Depreciation expenses were \$218,681 in 2002 and \$210,378 in 2001.

Property insurance as of December 31, 2002 amounted to \$2,747,501.

11. OTHER ASSETS - NET

| | December 31 | |
|---|--------------|--------------|
| | 2002 | 2001 |
| Idle properties and properties leased to others - net | \$ 1,430,231 | \$ 1,501,110 |
| Refundable deposits | 274,611 | 284,060 |
| Deferred income taxes | 314,075 | 292,390 |
| Deferred pension cost | 302,805 | 260,200 |
| Foreclosed collaterals | 189,189 | 175,106 |
| Miscellaneous | 27,680 | 29,795 |
| | \$ 2,538,591 | \$ 2,542,661 |

12. DUE TO BANKS

| | December 31 | |
|-----------------------|-------------|--------------|
| | 2002 | 2001 |
| Call loans from banks | \$ 434,750 | \$ 1,510,042 |
| Bank overdraft | 126,805 | 179,719 |
| Due to Central Bank | 19,449 | 37,382 |
| Due to banks | 24,669 | 29,610 |
| | \$ 605,673 | \$ 1,756,753 |

13. PAYABLES

| | December 31 | |
|---------------------|--------------|--------------|
| | 2002 | 2001 |
| Checks for clearing | \$ 1,479,640 | \$ 1,840,462 |
| Accrued interest | 1,081,565 | 1,742,234 |
| Acceptances | 899,979 | 871,737 |
| Accrued expenses | 285,768 | 238,130 |
| Other | 1,898,566 | 1,468,237 |
| | \$ 5,645,518 | \$ 6,160,800 |

14. DEPOSITS AND REMITTANCES

| | December 31 | |
|------------------------------------|----------------|----------------|
| | 2002 | 2001 |
| Deposits: | | |
| Checking | \$ 5,694,306 | \$ 5,133,720 |
| Demand | 30,881,714 | 25,581,331 |
| Time | 65,189,652 | 63,783,585 |
| Savings | 180,956,962 | 173,856,075 |
| Negotiable certificates of deposit | 4,509,200 | 5,878,600 |
| Remittances | 97,000 | 294,086 |
| | \$ 287,328,834 | \$ 274,527,397 |

15. STOCKHOLDERS' EQUITY

Under the Company Law, all components of capital surplus can only be used to offset a deficit. In addition, only the component arising from the issuance of shares in excess of par value and donation can be distributed as stock dividends, subject to the approval of stockholders.

The Bank's Articles of Incorporation provide that the annual net income, less any accumulated losses in prior years, should be appropriated as follows:

- 30% as legal reserve;
- Special reserve, if needed;
- Dividends, these dividends need to be proposed by the Board of Directors (BOD) and approved by the stockholders;
- The remainder: Dividends to stockholders - 80%; bonus to directors and supervisors - 5%, and bonus to employees - 15%.

The appropriation of special reserve needs to be approved by the stockholders.

Under the Banking Law, cash dividends cannot exceed 15% of the aggregate par value of the Bank's outstanding capital stock until the legal reserve equals the aggregate par value of the outstanding capital stock of the Bank.

The Bank's dividends policy provides that at least 20% of dividends should be paid in cash.

On May 20, 2002, the stockholders resolved to approve the board of directors' March 22, 2002 proposal on the appropriations of earnings and bonus to employees, directors and supervisors, as follows:

| | Amount | Shares (Thousands) | Divide by the Number of Total Outstanding Shares as of December 31, 2001 (%) |
|--|------------------|-----------------------|---|
| Bonus to employees - in stock | \$ 16,481 | 1,648 | 0.09 |
| Bonus to employees - in cash | 51,161 | - | |
| Bonus to directors and supervisors - in cash | 22,548 | - | |
| | \$ 90,190 | | |

Assuming the bonus to employees, directors and supervisors was issued in cash (stock bonus for employees calculated at NT\$10.00 par value) and recognized as expense in 2001, the pro forma basic earnings per share for 2001 will decrease from NT\$1.20 to NT\$1.15. As of January 20, 2003, the board of directors had not resolved the appropriations of earnings made in 2002.

Information on the bonus for employees, directors and supervisors can be accessed through the Web site of the Taiwan Stock Exchange.

Under the Company Law, the appropriation for legal reserve should be made until the reserve equals the aggregate par value of the Bank's outstanding capital stock. This reserve can only be used to offset a deficit or, when reaching 50% of the aggregate par value of the Bank's outstanding capital stock, up to 50% thereof can be transferred to capital as stock dividend.

Under the integrated income tax system, noncorporate ROC-resident stockholders are allowed tax credits for the income tax paid by the Bank on earnings generated since 1998.

16. INCOME TAX

| | 2002 | 2001 |
|--|------------|------------|
| Income tax expense on income before income tax at statutory rate (25%) | \$ 632,360 | \$ 479,841 |
| Permanent difference | (218,205) | (211,712) |
| Temporary difference | (3,632) | 142,278 |
| Income tax expense - current | 410,523 | 410,407 |
| Income tax benefit - deferred | (21,685) | (142,278) |
| Tax on unappropriated retained earnings | 53,684 | - |
| Prior year's adjustment | 25,317 | 139,585 |
| Income tax expense | \$ 467,839 | \$ 407,714 |

The components of deferred income tax assets (shown as part of "other assets") were as follows:

| | December 31 | |
|---|-------------------|-------------------|
| | 2002 | 2001 |
| Allowance for possible losses | \$ 139,061 | \$ 188,595 |
| Accrued pension cost in excess of amount deductible for income tax purposes | 142,972 | 103,795 |
| Others | 32,042 | - |
| | \$ 314,075 | \$ 292,390 |

As of December 31, 2002 and 2001, the balances of the ICA aggregated \$150,142 and \$247,824, respectively. The 2002 projected and 2001 actual ratios of imputed tax credits to earnings are as follows:

| | 2002 | 2001 |
|----------------|-------|--------|
| Cash dividend | 6.94% | 16.75% |
| Stock dividend | 6.94% | 20.84% |

The tax credits allocated to stockholders are based on the balance of the imputation credit account (ICA) on the dividend distribution date. Thus, the 2002 projected tax credit ratio may change depending on the actual amount of the ICA balance on the dividend distribution date.

Among the unappropriated earnings as of December 31, 2002 and 2001, the remaining balances generated before January 1, 1998 amounted to \$73,728 and \$64,575, respectively.

The effective tax rate for both 2002 and 2001 was 25%.

Income tax returns through 2000 (excluding that for 1999) had been examined by the tax authorities. As a result of those examinations, for the income tax returns for 1995, 1997, 1998 and 2000, the tax authorities denied the creditability of \$114,339, equivalent to the 10% tax withheld from interest income on bonds pertaining to a period when those bonds were held by other investors.

The income tax returns for 1996, 1999 and 2001 had not yet been examined by the tax authorities but these returns also reflected a reduction of \$59,079 in income tax obligations similar to the creditability claim under question. In light of the tax authorities' earlier denial of the its creditability claim, the Bank had accrued liabilities and written off any assets recognized related to the foregoing withholding taxes as part of income tax expense in 2001. In August 2002, the highest administrative court decided that the National Tax Administration of Taipei find another disciplinary action to deal with the withholding tax issue.

17. EARNINGS PER SHARE

(Unit: New Taiwan Dollars)

| | 2002 | | 2001 | |
|--------------------------|---------|-----------|---------|-----------|
| | Pre Tax | After Tax | Pre Tax | After Tax |
| Basic earnings per share | \$ 1.35 | \$ 1.11 | \$ 1.34 | \$ 1.13 |

The calculation of earnings per share is as follows:

| | Amount (Numerator) | | Shares (Denominator) (Thousands) | Earnings Per Share (Dollars) | |
|--------------------------|--------------------|--------------|--|---------------------------------|-----------|
| | Pre Tax | After Tax | | Pre Tax | After Tax |
| Basic earnings per share | | | | | |
| 2002 | \$ 2,618,614 | \$ 2,150,775 | 1,934,520 | \$ 1.35 | \$ 1.11 |
| 2001 | \$ 2,563,636 | \$ 2,155,922 | 1,913,687 | \$ 1.34 | \$ 1.13 |

For the year ended December 31, 2001, the earnings per share retroactively adjusted for the 2001 stock dividend and stock bonus to employee declared in 2002 decreased from \$1.20 to \$1.13.

18. PENSION PLAN

The Bank has a pension plan for all regular employees. Benefits are based on service years and monthly average basic pay of the six months before retirement.

The Bank makes monthly contributions to a pension fund ("Fund I") administered by the employees' pension fund committee and deposited in the committee's name in the Bank. In June 1999, the Bank established another pension fund ("Fund II"), to which it makes monthly contributions equal to 2% of salaries. Fund II is administered by the workers' fund administration committee and deposited in its name in the Central Trust of China.

Certain pension information is as follows:

| | 2002 | 2001 |
|--|-------------------|-------------------|
| a. Components of pension cost: | | |
| Service cost | \$ 59,805 | \$ 42,450 |
| Interest cost | 72,365 | 70,884 |
| Expected return on plan assets | (41,527) | (49,996) |
| Amortization | 104,214 | 99,494 |
| | \$ 194,857 | \$ 162,832 |
| b. Reconciliation between the fund status of the plan and accrued pension cost: | | |
| Benefit obligation | | |
| Vested benefit obligation | \$ 508,434 | \$ 478,843 |
| Non-vested benefit obligation | 598,207 | 526,961 |
| Accumulated benefit obligation | 1,106,641 | 1,005,804 |
| Additional benefits based on future salaries | 299,526 | 385,075 |
| Projected benefit obligation | 1,406,167 | 1,390,879 |
| Plan assets at fair value | (803,836) | (745,603) |
| Fund status | 602,331 | 645,276 |
| Unrecognized net transition obligation | - | (74,935) |
| Unrecognized prior service cost | (302,923) | (327,485) |
| Unrecognized net loss | (299,408) | (242,856) |
| Additional minimum liability | 302,805 | 260,200 |
| Accrued pension cost | \$ 302,805 | \$ 260,200 |
| c. Vested benefits - undiscounted | \$ 644,687 | \$ 699,284 |
| d. Assumptions used in computing the present value of accumulated and projected benefit obligations | | |
| Weighted average discount rate | 4% | 5.25% |
| Rate of future increase in salaries | 2% | 2.50% |
| Rate of return on plan assets | 4% | 5.00% |
| e. Status of the plan: | | |
| | 2002 | 2001 |
| Contributions | \$ 194,857 | \$ 162,832 |
| Benefit payments | \$ 148,381 | \$ 227,631 |

19. RELATED-PARTY TRANSACTIONS

Significant transactions with related parties such as the investees under equity method, the Bank's directors, supervisors and managers as well as their relatives are summarized as follows:

| | December 31, 2002 | | | December 31, 2001 | | |
|----------|-------------------|--------------|--------------------|-------------------|--------------|--------------------|
| | Amount | % of Account | Interest Rates (%) | Amount | % of Account | Interest Rates (%) |
| Deposits | \$ 775,692 | 0.27 | 0-13 | \$ 1,053,853 | 0.38 | 0-13 |
| Loans | \$ 572,580 | 0.20 | 3.55-8.14 | \$ 940,864 | 0.44 | 4.72-8.25 |

As of December 31, 2002 and 2001, the bonds and short-term bills under agreements to repurchase with the related parties amounted to \$484,456 and \$561,724, respectively.

The above interest rates are similar to, or approximate, those offered to unrelated parties.

In compliance with Banking Law, except for consumer loans and government loans, credits extended by the Bank to any related party should be 100% secured, and the terms of those credits should be similar to those extended to unrelated parties.

20. ASSETS PLEDGED OR MORTGAGED

| | December 31 | |
|----------------------|---------------------|-------------------|
| | 2002 | 2001 |
| Securities purchased | \$ 4,702,200 | \$ 814,800 |
| Due from banks | - | 1,000 |
| | \$ 4,702,200 | \$ 815,800 |

The securities purchased and due from banks were deposited in the (a) Central Bank of China to secure the Bank's potential obligations from its trust activities, (b) courts of justice in connection with various collection

cases on overdue loans, and (c) National Credit Card Center to secure its potential obligations from its credit card activities.

As of December 31, 2002, certain negotiable certificates of deposit aggregating \$4,000,000, which is included in the securities purchased account, had been provided as collateral for day-term overdraft to comply with the Central Bank's clearing system of Real-time Gross Settlement (RTGS). Any overdraft amount not used by the end of a day can also be treated as the Bank's liquidity reserve.

21. CAPITAL ADEQUACY RATIO

The Banking Law and related regulations require that the Bank maintains its stand-alone and consolidated capital adequacy ratio (CAR) at a minimum of 8%. Thus, if the Bank's capital adequacy ratio falls below 8%, the Ministry of Finance may impose certain restrictions on the level of the cash dividends that the Bank can declare or, in certain conditions, totally prohibit the Bank from declaring cash dividends. As of December 31, 2002 and 2001, the stand-alone CARs of the Bank were 13.37% and 13.18%, respectively. The consolidated CAR as of December 31, 2002 was 13.47%.

22. AVERAGE AMOUNTS OF AND AVERAGE INTEREST RATES FOR INTEREST-EARNING ASSETS AND INTEREST-BEARING LIABILITIES

Average balance is calculated at the daily average balance of interest-earning assets and interest-bearing liabilities.

| | December 31 | | | |
|---|-----------------|------------------|-----------------|------------------|
| | 2002 | | 2001 | |
| | Average Balance | Average Rate (%) | Average Balance | Average Rate (%) |
| Interest-earning assets | | | | |
| Due from banks | \$ 11,181,187 | 1.86 | \$ 10,084,496 | 3.48 |
| Due from Central bank of China | 11,756,524 | 1.87 | 8,110,088 | 3.95 |
| Securities purchased | 65,503,473 | 3.82 | 56,736,712 | 9.35 |
| Loans, discounts and bills purchased | 208,736,200 | 5.17 | 202,615,187 | 6.82 |
| Interest-bearing liabilities | | | | |
| Due to banks | 3,508,234 | 1.78 | 4,248,126 | 3.54 |
| Demand | 25,618,233 | 0.62 | 22,553,288 | 1.40 |
| Savings | 54,401,795 | 1.75 | 45,248,532 | 3.34 |
| Time | 62,992,465 | 2.04 | 62,266,767 | 4.02 |
| Time-savings | 123,359,368 | 2.75 | 123,184,364 | 4.55 |
| Negotiable certificates of deposit | 4,836,590 | 2.27 | 6,684,970 | 4.09 |
| Due to Central Bank and other banks | 11,344,351 | 1.50 | 5,186,762 | 2.22 |
| Other liabilities - appropriated loan funds | 189,755 | 1.80 | 160,334 | 3.38 |

23. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

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

December 31, 2002

| | Due in One Year | Due Between One Year and Seven Years | Due After Seven Years | total |
|--------------------------------------|-----------------------|--|--------------------------|-----------------------|
| Assets | | | | |
| Cash | \$ 4,592,692 | \$ - | \$ - | \$ 4,592,692 |
| Due from banks | 3,229,355 | - | - | 3,229,355 |
| Due from central bank | 14,908,298 | - | - | 14,908,298 |
| Securities purchased | 77,625,684 | - | - | 77,625,684 |
| Receivables | 4,677,252 | - | - | 4,677,252 |
| Loans, discounts and bills purchased | 94,498,472 | 62,414,417 | 68,522,765 | 225,435,654 |
| | \$ 199,531,753 | \$ 62,414,417 | \$ 68,522,765 | \$ 330,468,935 |
| Liabilities | | | | |
| Due to banks | \$ 19,449 | \$ - | \$ - | \$ 19,449 |
| Due to central bank | 586,224 | - | - | 586,224 |
| Payables | 5,645,518 | - | - | 5,645,518 |
| Deposits and remittances | 281,122,947 | 6,205,887 | - | 287,328,834 |
| Due to Central Bank and other banks | 7,898,167 | 671,280 | - | 8,569,447 |
| | \$ 295,272,305 | \$ 6,877,167 | \$ - | \$ 302,149,472 |

December 31, 2001

| | Due in One Year | Due Between One Year and Seven Years | Due After Seven Years | total |
|--------------------------------------|-----------------------|--|--------------------------|-----------------------|
| Assets | | | | |
| Cash | \$ 5,165,249 | \$ - | \$ - | \$ 5,165,249 |
| Due from banks | 6,717,300 | - | - | 6,717,300 |
| Due from central bank | 14,258,107 | - | - | 14,258,107 |
| Securities purchased | 61,706,939 | - | - | 61,706,939 |
| Receivables | 3,911,993 | - | - | 3,911,993 |
| Loans, discounts and bills purchased | 104,132,744 | 59,018,247 | 55,649,354 | 218,800,345 |
| | \$ 195,892,332 | \$ 59,018,247 | \$ 55,649,354 | \$ 310,559,933 |
| Liabilities | | | | |
| Due to banks | \$ 37,382 | \$ - | \$ - | \$ 37,382 |
| Due to central bank | 1,719,371 | - | - | 1,719,371 |
| Payables | 6,160,800 | - | - | 6,160,800 |
| Deposits and remittances | 269,465,053 | 5,062,344 | - | 274,527,397 |
| Due to Central Bank and other banks | 1,867,387 | 700,140 | - | 2,567,527 |
| | \$ 279,249,993 | \$ 5,762,484 | \$ - | \$ 285,012,477 |

24. FINANCIAL INSTRUMENTS

a. Derivative financial instruments

The Bank uses forward exchange contracts, options and swaps, which enable customers to transfer, modify or reduce their foreign exchange rate risks. As an end-user, the Bank also uses interest rate swaps and cross currency swaps in connection with its risk management activities, primarily to hedge the effects of adverse foreign exchange or interest rate fluctuations on its foreign-currency net assets. The Bank hedges its market risk using instruments whose changes in market value have a highly negative correlation with those of the hedged items. The Bank also assesses the hedge effectiveness of the instruments periodically.

The Bank is exposed to credit risk from counter-parties' defaults on contracts. Thus, the Bank enters into contracts with customers that have satisfied the credit approval process and have provided the necessary collateral. The transactions are then made within each customer's credit limits; guarantees deposits may be required, depending on the customers' credit standing. Transactions with other banks are made within the trading limit set for each bank based on the bank's credit rating and its worldwide ranking. The associated credit risk has been considered in the evaluation of the provision for credit losses.

As of December 31, 2002 and 2001, contract or notional amounts, fair values, and credit risks of outstanding derivative financial instruments were as follows:

| | December 31, 2002 | | | December 31, 2001 | | |
|-----------------------------------|------------------------------------|----------------|---------------|------------------------------------|----------------|---------------|
| | Contract or Notional Amounts | Credit Risk | Fair Value | Contract or Notional Amounts | Credit Risk | Fair Value |
| Hedging purposes | | | | | | |
| Interest rate swap contracts | \$ 3,407,710 | \$ 7,508 | (\$ 241,487) | \$ 3,185,637 | \$ 11,867 | (\$ 417,635) |
| Cross-currency swap contracts | - | - | - | 133,147 | - | - |
| For meeting clients' needs | | | | | | |
| Forward exchange contracts | 4,383,535 | 48,592 | 41,381 | 3,067,149 | 14,743 | (15,203) |
| Foreign currency swap contracts | 1,568,419 | 286 | (37,113) | 1,038,475 | 4,892 | (2,899) |
| Buy option | 1,188,966 | 27,622 | 25,351 | 281,148 | 1,426 | 370 |
| Sell option | 1,188,966 | - | (25,135) | 281,148 | - | (297) |

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

The notional amounts of many derivative contracts entered into by the Bank are for the purpose of calculating the net amounts to be settled upon maturity and do not represent the Bank's cash requirements. Thus, the Bank does not expect significant cash requirements when the derivatives mature.

The net gains or losses on derivative transactions for 2002 and 2001 were as follows:

| | 2002 | 2001 |
|---|-------------------|-------------------|
| Hedging purposes | | |
| Interest rate swap contracts (under interest revenue) | \$ 78,606 | \$ 149,793 |
| Cross-currency swap contracts (under interest revenue) | 1,470 | 10,623 |
| For meeting clients' needs | | |
| Foreign-currency contracts (under interest revenue and foreign exchange gain) | 12,232 | 6,626 |
| Option contracts | 10,644 | 1,430 |
| Net gains | \$ 102,952 | \$ 168,472 |

b. Fair values of nonderivative financial instruments

| | December 31, 2002 | | December 31, 2001 | |
|---|-------------------|----------------|-------------------|----------------|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| Assets | | | | |
| With fair value approximating carrying amount | \$ 250,236,765 | \$ 250,236,765 | \$ 246,096,204 | \$ 246,096,204 |
| Securities purchased | 77,274,907 | 78,989,146 | 61,632,410 | 62,358,869 |
| Long-term stock investments | 597,850 | 851,087 | 409,002 | 671,672 |
| Liabilities | | | | |
| With fair value approximating carrying amount | 302,446,725 | 302,446,725 | 285,320,231 | 285,320,231 |

Methods and assumptions used in estimating the fair values of nonderivative financial instruments were as follows:

1) The carrying values of cash, due from banks, due from Central Bank of China, receivables, due to banks, payables, deposits and remittances and due to central bank and other banks approximate their fair values because of the short maturity of these instruments. The carrying values of other assets and other liabilities also approximate the expected cash inflows or outflows at settlement dates. Thus, their carrying values also approximate their fair values.

2) If market prices for securities purchased and long-term stock investment are available, the fair values of these financial instruments are based on the market prices. If market prices are unavailable, estimates should be based on carrying value or net asset value.

3) Loans, discounts and bills purchased, and deposits are financial assets and liabilities mostly bearing floating interests. Thus, their carrying values represent fair value.

4) Fair values of guarantee deposits are estimated at their carrying amounts since such deposits do not have specific due dates.

Certain financial instruments and all nonfinancial instruments are excluded from disclosure of fair value. Thus the aggregate fair value presented does not represent the underlying value of the Bank.

c. Financial instruments with off-balance-sheet credit risks

The Bank has significant credit commitments related to

loans it extended and from its issuance of credit cards. Most of the credit commitments are for one year. For the years ended December 31, 2002 and 2001, the interest rates of loans ranged from 1.426%-16.5% and 2.75%-16%, respectively, and the interest rates of credit card loans reached as high as 18.25%. The Bank also issued financial guarantees and standby letters of credit to guarantee the performance of a client to a third party. The terms of these guarantees are usually one year, and their maturity dates are not concentrated in any particular period.

The amounts of financial contracts with off-balance-sheet credit risks were as follows:

| | December 31 | |
|--|--------------|---------------|
| | 2002 | 2001 |
| Noncancelable loan commitments | \$ 8,720,156 | \$ 11,421,998 |
| Credit commitments for credit card | 27,947,903 | 17,993,149 |
| Guarantees and issuance of letters of credit | 10,694,147 | 13,146,452 |

Since many of the commitments are expected to expire without being drawn upon, the total committed amounts do not necessarily represent future cash requirements. The Bank's maximum credit risk relative to these commitments is the amount of the commitment, assuming that the customer has used the full amount of the commitment and the collateral and other security prove to be of no value to the Bank.

The Bank makes credit commitments and issues financial guarantees and standby letters of credit only after careful evaluation of customers' creditworthiness. Based on the result of the credit evaluation, collaterals may be required before the credit facilities are drawn upon. As of December 31, 2002 and 2001, secured loans amounted to about 58.46% and 57.49% of the total loans, respectively. Collaterals held vary but generally include cash, inventories, marketable securities, and other property. When the customers default, the Bank will, as the case may require, foreclose the collateral or exercise other rights arising out of the guarantees given.

The Bank does not require collateral for credit card commitments. However, the creditworthiness of card

holders is reviewed periodically and the commitments are revised if deemed necessary.

25. INFORMATION ON CONCENTRATIONS OF RISK

Credit risk concentrations exist when the counter-parties in financial instrument transactions are individuals or groups engaged in similar activities, which would cause their ability to meet contractual obligations to be subject to the same changes in economic or other conditions. The Bank has no credit risk concentration arising from any individual counter-parties or groups of counter-parties engaged in similar business activities. Industries that account for 10% or more of the outstanding loans as of December 31, 2000 are listed below for reference:

| | December 31 | |
|---------------------|---------------|---------------|
| | 2002 | 2001 |
| Domestic | | |
| Corporate customers | | |
| Manufacturing | \$ 48,917,008 | \$ 37,788,261 |
| Trading | 24,216,783 | 26,294,077 |
| Service industry | 3,751,044 | 3,949,361 |
| Natural person | 94,979,711 | 86,259,440 |

The net position on foreign-currency transactions as of December 31, 2002 and 2001 was not significant.

26. ALLOWANCE FOR POSSIBLE LOSSES AND RESERVE FOR LOSSES ON GUARANTEES

Since the third quarter of 2000, the economic and financial environment has been beset by many economic and noneconomic difficulties from inside and outside Taiwan. Thus, the country's economic growth has decelerated, investment is reduced, unemployment has risen, the stock market is bearish, and the New Taiwan dollar devaluated. Certain businesses enterprises, including conglomerates and listed companies, failed to meet their obligations when these obligations became due. To stabilize the

situation, the government has taken various economy-boosting measures.

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

27. CONTINGENCIES AND COMMITMENTS

The Bank's contingencies and commitments, except for those disclosed in Notes of the Bank are summarized as follows:

a. As of December 31, 2002, contingencies and commitments in the ordinary course of business were as follows:

| | |
|---|--------------|
| Short-term bills and bonds sold under agreements to repurchase before November 21, 2003 | \$ 8,050,570 |
| Short-term bills purchased under agreements to resell before January 30, 2003 | 9,884,587 |

b. Lease contract

The Bank leases premises occupied by its branches under agreements that will expire on various dates before December 2010. In 2002, refundable deposits on these leases totaled \$141,620, and rentals were \$139,047. Future rentals are summarized as follows:

| Year | Amount |
|------|-----------|
| 2003 | \$ 83,964 |
| 2004 | 62,081 |
| 2005 | 44,865 |
| 2006 | 13,955 |
| 2007 | 9,878 |

Rentals for the years beyond 2008 will amount to \$24,728, the present value of which is about \$22,562 as discounted at the Bank's one-year time deposit rate of 1.85% on December 31, 2002.

c. Trust-related items, as shown in the following balance sheet and property list of trust items:

BALANCE SHEET OF TRUST

December 31, 2002

| Total Assets | Total Liabilities |
|-------------------------------------|-------------------------------|
| Short-term investments \$ 7,215,775 | Capital of trust \$ 7,215,775 |

PROPERTY LIST OF TRUST

December 31, 2002

| Investment Items | Amount |
|------------------|--------------|
| Trust fund | \$ 5,451,226 |
| Bonds | 1,764,549 |
| | \$ 7,215,775 |

28. SEGMENT AND GEOGRAPHIC INFORMATION

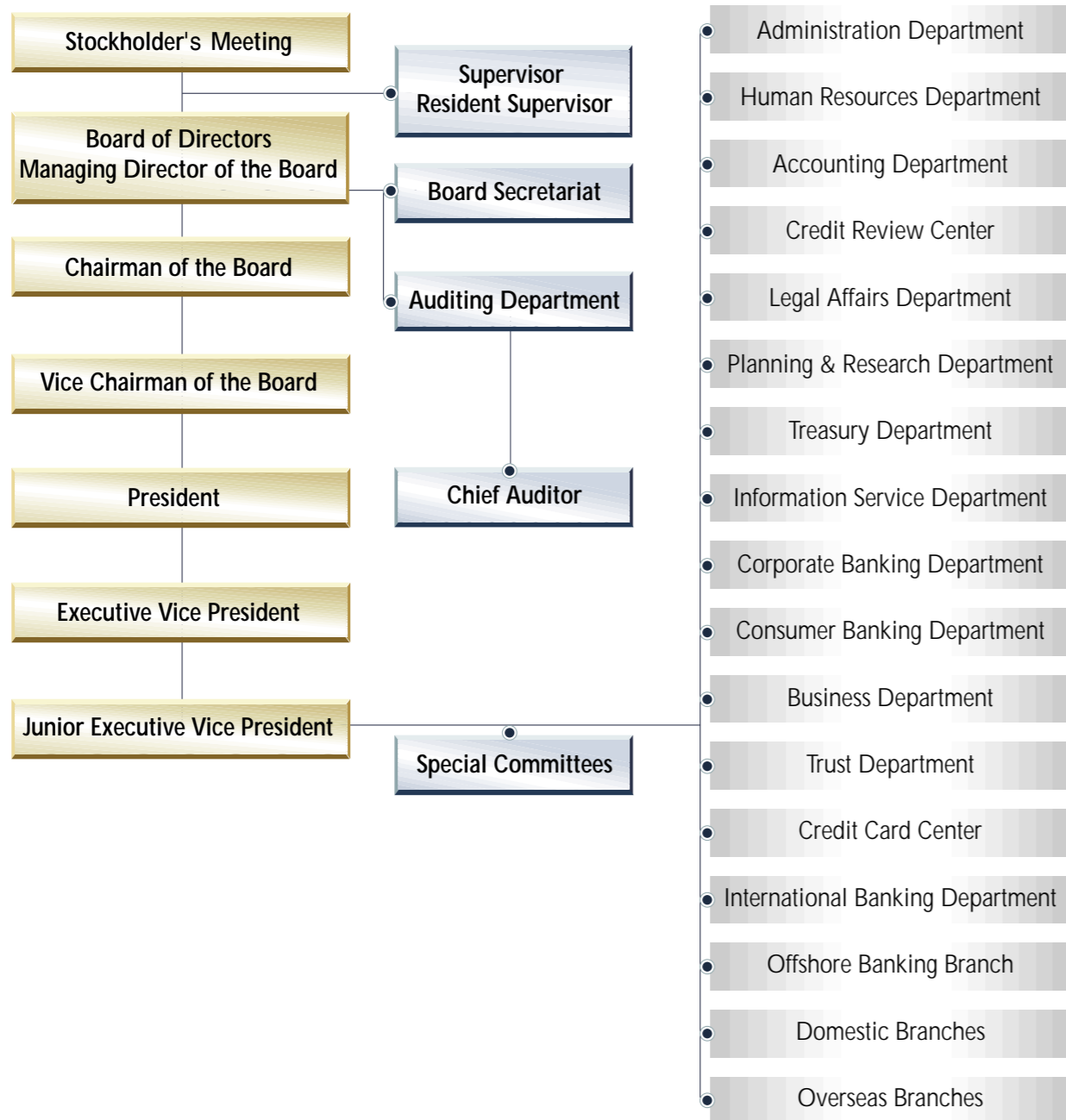
The Bank's operations all belong to one business segment banking. Also, all overseas units individually represent less than 10% of the bank's operating revenues and 10% of its total assets. Thus, no segment and geographic information is required to be disclosed.

Board of Directors & Executive Officers

Dec. 31, 2002

| Title | Name | Inauguration Date | Term | Shareholding | |
|--------------------------|--|-------------------|---------|--------------|------------|
| | | | | Shares | Percentage |
| Chairman | Show-Chung Ho | May 6, 2000 | 3 Years | 45,045,534 | 2.24% |
| Vice Chairman | Hung Lin | May 6, 2000 | 3 Years | 528,054 | 0.03% |
| Managing Director | Jone's Investment Co., Ltd. Rep. Jone-Ting Ho | May 6, 2000 | 3 Years | 11,217,507 | 0.56% |
| Managing Director | Chin-Ta Kuo | May 6, 2000 | 3 Years | 2,229,716 | 0.11% |
| Managing Director | Ever Trust Investment Co., Ltd. Rep. Liang-Chin Lee | May 6, 2000 | 3 Years | 6,613,740 | 0.33% |
| Managing Director | Ming Shan Investment Co., Ltd. Rep. Yi-Chien Lo | May 6, 2000 | 3 Years | 26,819,050 | 1.33% |
| Managing Director | Shin Kong Wu Foundation Rep. Anthony T.S. Wu | May 6, 2000 | 3 Years | 8,444,681 | 0.42% |
| Managing Director | Chung-Bi Hsieh | May 6, 2000 | 3 Years | 2,069,055 | 0.10% |
| Director | Cheng-Ting Ho | May 6, 2000 | 3 Years | 18,081,796 | 0.90% |
| Director | Jason Kuo | May 6, 2000 | 3 Years | 5,755,888 | 0.29% |
| Director | Shin Kong Wu Foundation Rep. Pao-Ying Wu | May 6, 2000 | 3 Years | 8,444,681 | 0.42% |
| Director | Shin Kong Wu Foundation Rep. Yao-Ting Ho | May 6, 2000 | 3 Years | 8,444,681 | 0.42% |
| Director | Den Foong Investment Co., Ltd. Rep. Chien-Ting Ho | May 6, 2000 | 3 Years | 2,957,516 | 0.15% |
| Director | Ming Shan Investment Co., Ltd. Rep. Yi-Ru Lo | May 6, 2000 | 3 Years | 26,819,050 | 1.33% |
| Director | Chia-Wen Shiu | May 6, 2000 | 3 Years | 14,591,633 | 0.72% |
| Director | Chin-Ying Lin | May 6, 2000 | 3 Years | 10,760,553 | 0.53% |
| Director | Tate Construction Co., Ltd. Rep. Kan-Lin Yen | May 6, 2000 | 3 Years | 709,919 | 0.04% |
| Director | K. C. Yu | May 6, 2000 | 3 Years | 532,920 | 0.03% |
| Director | Bo Da Investment Co., Ltd. Rep. Chia-Hsien Chen | May 6, 2000 | 3 Years | 8,111,325 | 0.40% |
| Director | Yuan Heng Investment Co., Ltd. Rep. Chia-Wen Chen | May 6, 2000 | 3 Years | 6,094,118 | 0.30% |
| Director | Chuan-Hsing Chen | May 6, 2000 | 3 Years | 322,987 | 0.02% |
| Director | Yu-Chin Ho | May 6, 2000 | 3 Years | 268,201 | 0.01% |
| Director | Yuen Foong Paper Co., Ltd. Rep. Ching-Hui Ho | May 6, 2000 | 3 Years | 364,024 | 0.02% |
| Director | Yuen Foong Paper Co., Ltd. Rep. Si-Cheng Liu | May 6, 2000 | 3 Years | 364,024 | 0.02% |
| Director | Lien Ya Tang Scholarship Foundation Rep. Sheng-Wen Lien | May 6, 2000 | 3 Years | 888,551 | 0.04% |
| Director | Ming Shan Investment Co. Ltd. Rep. Rui-Hong Liao | May 6, 2000 | 3 Years | 26,819,050 | 1.33% |
| Supervisor | Ying Li Investment Co., Ltd. Rep. Tien-Dong Lin | May 6, 2000 | 3 Years | 3,867,071 | 0.19% |
| Supervisor | Jenq-Shyong Lien | May 6, 2000 | 3 Years | 5,702,964 | 0.28% |
| Supervisor | Shin Kong Wu Foundation Rep. Toney Chen | May 6, 2000 | 3 Years | 8,444,681 | 0.42% |
| President | K. C. Yu | May 6, 2000 | 3 Years | 532,920 | 0.03% |
| Executive Vice President | Chuan-Hsing Chen | May 6, 2000 | 3 Years | 322,987 | 0.02% |
| Executive Vice President | Yu-Chin Ho | May 6, 2000 | 3 Years | 268,201 | 0.01% |
| Executive Vice President | Shyh-Lu Huang | Mar. 22, 2002 | | 137,442 | 0.01% |

Organization Chart



2002 Correspondent Banks



Offices & Branches

Taipei City

Head office

36 Nanking E. Road, Sec. 3
Tel:(02)25063333
Fax:(02)25062462

Business Department

36 Nanking E. Road, Sec. 3
Tel:(02)25063333
Fax:(02)25063744

International Banking Department

2F 36 Nanking E. Road, Sec. 3
Tel:(02)25063333
Fax:(02)25162208

Offshore Banking Branch

2F 36 Nanking E. Road, Sec. 3
Tel:(02)25063333
Fax:(02) 25162208

Trust Department

8F 36 Nanking E. Road, Sec. 3
Tel:(02)25063333
Fax:(02) 25065791

Chung-Hsiao E. Road Branch

48 Chung-Hsiao E. Road, Sec. 4
Tel:(02)27717011-6
Fax:(02) 27314471

Cheng-Chung Branch

17 Po-Ai Road
Tel:(02)23817777
Fax:(02) 23753608

Chien-Cheng Branch

43 Chang-An W. Road
Tel:(02)25553261-6
Fax:(02)25588933

Chung-Shan Branch

1F 79 Chung Shan N. Road,
Sec. 2
Tel:(02)25717221-8
Fax:(02)25211353

Shin-Hu Branch

8 Rui-Guang Road, Nei-Hu
Tel:(02)87926888
Fax:(02)87926889

Ching Mei Branch

12 Che-Chien Road, Ching-Mei
Tel:(02)29328540-6
Fax:(02)29325964

Chung-Ching Pei Roo Branch

1F 139 Chung Ching N.
Road, Sec. 3
Tel:(02)25982463
Fax:(02)25987205

Gi-Nan-Roo Branch

39 Gi-Nan Road, Sec. 2
Tel:(02)23963001
Fax:(02)23963007

Hsin-Lung Branch

222 Hsin-Lung Road, Sec. 2
Tel:(02)29339831
Fax:(02)29352440

Ho-Ping Branch

260 Ho-Ping E. Road, Sec. 3
Tel:(02)27354533
Fax:(02)27350704

Hsin-Yi Branch

252 Hsin-Yi Road, Sec. 4
Tel:(02)27058322
Fax:(02)27069812

Jen-Ai Branch

316-2 Jen-Ai Road, Sec. 4
Tel:(02)27045711
Fax:(02)27045730

Lung-Chiang Branch

409 Lung-Chiang Road
Tel:(02)25095570-5
Fax:(02)25014719

Nan-Kong Branch

304, Chung-Hsiao E. Road,
Sec. 6, Nan-Kong
Tel:(02)27885265
Fax:(02)27885243

Nan-Men Branch

110 Nan-Chang Road, Sec. 1
Tel:(02)23917565
Fax:(02)23963816

Nei-Hu Branch

723 Nei-Hu Road, Sec. 1,
Nei-Hu
Tel:(02)27971600-4
Fax:(02)26276771

Pei-Tou Branch

166-6 Kuang-Ming Road,
Pei-Tou
Tel:(02)28912127
Fax:(02)28927438

Shi-Men Branch

75 Cheng Du Road
Tel:(02)23818255-8
Fax:(02)23818259

Sung-Shan Branch

680 Pa-Te Road, Sec. 4
Tel:(02)27611332-5
Fax:(02)27640456

Shih-Lin Branch

300 Cheng-Te Road, Sec. 4,
Shih-Lin
Tel:(02)28811867
Fax:(02)28830300

Swan-Yuan Branch

58 Tung-Yuan Street
Tel:(02)23038222-5
Fax:(02)23038226

Shih-Tung Branch

425 Chung-Shan N. Road,
Sec. 6
Tel:(02)28727155
Fax:(02)28727958

Sher-Tze Branch

111 Yen-Ping N. Road, Sec.
6, Shih-Lin
Tel:(02)28129477
Fax:(02)28150045

San-Hsin Branch

296 Chuang-Ching Road
Tel:(02)27232955
Fax:(02)27223064

Tung-Men Branch

156 Hsin-Yi Road, Sec. 2
Tel:(02)23943203-9
Fax:(02)23416639

Ta-An Branch

177 An-Ho Road, Sec. 2
Tel:(02)27367456
Fax:(02)27369600

Tung-Hu Branch

23 Tung-Hu Road, Nei-Hu
Tel:(02)26335555
Fax:(02)26315067

Yan-Ping Branch

286 Min-Sheng W. Road
Tel:(02)25580091
Fax:(02)25504783

Te-Hui Branch

16-5 Te-Hui Street
Tel:(02)25854880
Fax:(02)25862246

Tien-Mou Branch

222 Te-Hsin E. Road, Shih-Lin
Tel:(02)28337222-6
Fax:(02)28337143

Ting-Chou Branch

217 San-Yuan Street
Tel:(02)23378728
Fax:(02)23328910

Wan-Haw Branch

288 Kang-Ting Road
Tel:(02)23023485-9
Fax:(02)23067932

Yuan-Chun Branch

352 Yung-Chi Road
Tel:(02)27695323-8
Fax:(02)27649496

Taipei County

Chung-Ho Branch

51 Chung-Cheng Road,
Chung-Ho
Tel:(02)29441960-4

Fax:(02)29499266

Chong-Hsin Branch

44 Hsin-Hsin Road, San-
Chung
Tel:(02)29762159
Fax:(02)29762213

Chung-Hsin Branch

527 Chung-Hsin Road,
Sec.5, San-Chung
Tel:(02)29991418
Fax:(02)29990035

Cheng-I Branch

343 Cheng-I N. Road, San-
Chung
Tel:(02)29811355-9
Fax:(02)29869480

Chung-Kang Branch

401 Chung-Kang Road,
Hsin-Chuang
Tel:(02)29923123
Fax:(02)29978757

Chi-Suei Branch

459 Lien-Cheng Road,
Chung-Ho
Tel:(02)22234077
Fax:(02)22234079

Pan-Chiao-Chung-Shiao Branch

42 Chung-Hsiao Road, Pan-
Chiao
Tel:(02)29553678
Fax:(02)29575695

Hsin-Chuang Branch

341 Chung-Cheng Road,
Hsin-Chuang
Tel:(02)22016123
Fax:(02)22016277

Hsin-Tien Branch

290 Chung-Cheng Road,
Hsin-Tien
Tel:(02)29172202
Fax:(02)29181555

Hsi-Chih Branch

1 Hsi-Wan Road, Sec. 1,
Hsi-Chih
Tel:(02)26421561-4
Fax:(02)26421554

Hsi-Chih-Chang-Shu Branch

89 Chong-Hsin Road, Hsi-
Chih
Tel:(02)26949898
Fax:(02)26949552

Hsi-Sheng Branch

63 Hou-Kang 1st. Road,
Hsin-Chuang
Tel:(02)22027700
Fax:(02)22059457

Hui-Lung Branch

61 San-Chun Street, Shu-Lin
Tel:(02)26889030-2
Fax:(02)26889039

Hua-Chiang Branch

82 Hsin-Hai Road, Pan-
Chiao
Tel:(02)22572199
Fax:(02)22572202

Hai-Shan Branch

113 Shiue-Fu Road, Sec. 1,
Tu-Cheng
Tel:(02)22703800-6
Fax:(02)22703807

Kuang-Fu Branch

84-2 Chung-Shan Road, Sec.
2, Pan-Chiao
Tel:(02)29547761-4
Fax:(02)29576019

Min-An Branch

47 Min-An E. Road, Hsin-
Chuang
Tel:(02)22019115
Fax:(02)22054824

Nan-Roo-Chow Branch

203 Chang-An Street, Roo-
Chow
Tel:(02)22896186
Fax:(02)28477674

Nan-San-Chung Branch

400 Chung-Cheng N. Road,
San-Chung
Tel:(02)29820711
Fax:(02)29888188

Pan-Chiao Branch

23 Fu-Chung Road, Pan-
Chiao
Tel:(02)29671112-8
Fax:(02)29680737

Pei-San-Chung Branch

83 Tzu-Chiang Road, Sec. 4,
San-Chung
Tel:(02)29826239
Fax:(02)29801228

Roo-Chow Branch

16 San-Min Road, Roo-
Chow
Tel:(02)22818966
Fax:(02)22821670

San-Chung Branch

24 Chung-Hsin Road, Sec.
2, San-Chung
Tel:(02)29728787
Fax:(02)29727663

Shen-Keng Branch

156, Bei-Shen Road Sec. 3,
Shen-Keng
Tel:(02)26642626
Fax:(02)26625223

Shu-Lin Branch

290 Chung-Shan Road, Sec.
1, Shu-Lin
Tel:(02)26838668
Fax:(02)26838298

Suz-Yuan Branch

68 Fu-Lo Street, Hsin-
Chuang
Tel:(02)29968840-3
Fax:(02)29915440

Shi-Chou Branch

74 Du-Shing Road, Sec. 2,
Pan Chiao
Tel:(02)26876869
Fax:(02)26876880

Tai-Shan Branch

416 Ming-Chih Road, Sec.
2, Tai-Shan
Tel:(02)29030903
Fax:(02)29026356

Tan-Shui Branch

59, Min-Chuan Road, Tan-
Shui
Tel:(02)26241788
Fax:(02)28098944

Tu-Cheng Branch

233-6 Chung-Yang Road,
Sec. 2, Tu-Cheng
Tel:(02)22608122
Fax:(02)22600216

Wu-Ku Branch

84 Kung-Shang Road, Wu-Ku
Tel:(02)22917333
Fax:(02)22917123

Yung-Ho Branch

47 Yung-Ho Road, Sec. 2,
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Tel:(02)29274000
Fax:(02)29213835

Ying-Kou Branch

212 Chien-Kou Road, Ying-
Kou
Tel:(02)26786000
Fax:(02)26795448

Ying-Tau Branch

60 Ying-Tau Road, Sec. 2,
Ying-Kou
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Tang-Cheng Branch

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Road, Sec. 5
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Yuan Shan Branch

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Keelung City

Keelung Branch

88 Yi-Er Road
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I-Lan County

Lo-Tung Branch

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I-Lan Branch

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Tao-Yuan County

Chung-Li Branch

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Guan-Yin Branch

3 Guan Ye 5 Road, Guan-
Yin Tao-Yuan
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Lin Kou Branch

53, Wun Hua 1st. Road,
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Nan-Kan Branch

310 Chung-Cheng Road,
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Tao-Yuan Branch

841, Chung-Shan Road
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Hsin-Chu City

Ho-Kou Branch

2F, 22 Chung Hua Road,
Hu-Kou, Hsin-Chu
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Hsin-Chu Branch

472 Kuang-Fu Road, Sec. 1
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Kaohsiung City

Kaohsiung Branch

90 Chien Kuo 1 st. Road,
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Taichung City

Taichung Branch

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Chang Hua County

Yuan-Lin Branch

94.96 Chung-Cheng Road,
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Tainan Branch

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