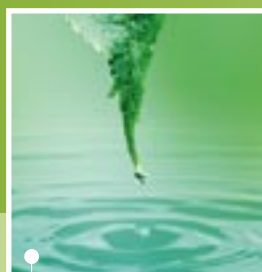


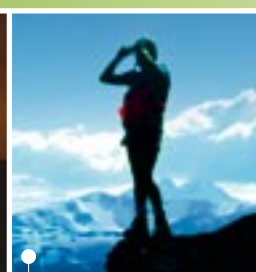
2004 ► ANNUAL REPORT



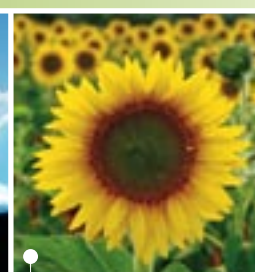
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Wisdom



Outlook



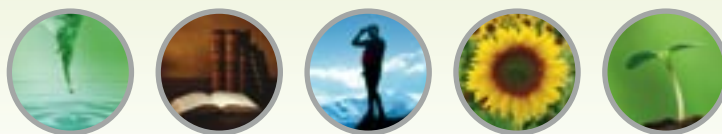
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## HIGHLIGHT

	The Bank			HNHFC (Consolidated)
	31.12.2003	31.12.2004	31.12.2004	31.12.2004
WORLDWIDE RANKING:				
The banker - by Tier 1 Capital (July)	240	222	-	-
The banker - by Total Assets (July)	182	192	-	-
CAPITAL ADEQUACY RATIO (%)	11.56	12.29		

	Millions of N.T. Dollar		Millions of U.S. Dollar	Millions of N.T. Dollar
	31.12.2003	31.12.2004	31.12.2004	31.12.2004
FINANCIAL ITEMS:				
BALANCE SHEET ITEMS:				
Total Assets	1,424,457	1,508,529	47,486	1,590,661
Total Deposits and Remittances Payable	1,132,562	1,217,326	38,319	1,211,095
Total Loans, Discounts and Bills Purchased	857,867	885,730	27,881	895,413
Stockholders' Equity	58,679	65,040	2,047	80,614
INCOME STATEMENT ITEMS:				
Interest Revenues	31,956	31,870	1,003	33,224
Total Operating Revenues	49,834	47,894	1,508	61,714
Income (Loss) before Income Tax	11,627	13,000	409	14,019
Net Income (Loss)	9,007	9,963	314	10,772

ADDITIONAL DATA:				
Employees	6,598	7,322	-	9,631
Domestic Branches	181	182	-	241
Domestic Sub-branches	14	13	-	17
Overseas Branches	5	5	-	5
Overseas Representative Offices	1	2	-	2

Note: The Exchange Rate as of December 31, 2004 was NT\$31.768 to US\$1.

# Cohesion

Realizing the Ideal of **Wisdom**



## MESSAGE TO OUR SHAREHOLDERS



Taiwan's exports, production and investment all exhibited satisfactory growth in the first half of 2004 in reflection of the economic rebound in the world's major economies. Taiwan's economy in the first and second quarters of 2004 continued to strengthen, posting growth of 6.72% and 7.88%, respectively, continuing the trend in the last two quarters of 2003, which saw growth levels of 4.17% and 5.88%. A number of negative factors emerged in the second half of the year, however, impacting growth. For example, international crude prices soared. In addition, interest rates on Taiwan and overseas began to rise, China's government continued its policy to prevent overheating, the New Taiwan Dollar rose sharply, cross-straits tensions increased, a number of natural disasters occurred and the domestic political situation was unstable after the local presidential election. Economic growth began to slow, to 5.27% in the third quarter and to 3.25% in the fourth quarter. For the year as a whole, initial strength gave way to weakness. Despite the challenging environment, Hua Nan Commercial Bank continued to post impressive results. Compared with the year earlier, the bank's operations showed significant growth, whether it be in terms of profitability, operational structure or development of operations. In 2004, the bank posted pre-tax profits of NT\$13 billion, which was 107.94% of its forecast and an 11.82% growth from 2003. Secondly, the bank continued to address the issue of distressed assets, which has plagued it for many years. The bank's overdue loan ratio in 2004 fell to 2.27% from 3.33% in 2003. It also sold collateral behind these distressed loans, bringing in nearly NT\$6.9 billion of income. This performance testifies that the bank sets an example among its counterparts for high quality assets and fiscal transparency.



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In light of the economic potential of Southeast Asia, the bank set up a representative office in Ho Chi Minh City. This move follows the bank's establishment of our Singapore branch. In addition to seeking opportunities in Southeast Asia and strengthening services for Taiwan businesses, these moves are aimed at expanding services in the Greater China region. This will be the core of competition in the banking sector in the future. The bank is working to establish its presence as early as possible.

In 2004, the bank completed a research project on organizational reform that will provide the basis for future. It has consolidated and strengthened back-office procedures, reducing operational costs. It has also worked to provide better support in sales and marketing operations. In 2004, it created a central operations center, which handles all bills of operational units and handles operational issues in a specialized and rapid manner, reducing workload among various business units and manpower costs. As a result, workers in various business units can devote their efforts to operations, raising work efficiency and profits.

In the first half of 2004, an economic revival in major global economies enabled Taiwan's economy to continue the rebound that began here in the final quarter of 2003. Economic growth in the first two quarters of 2004 accelerated to 6.72% and 7.88%, respectively—levels that were unprecedented in recent years. However, a deceleration was

seen in the second half of the year due to spiking oil prices, measures to control mainland China's economy, a high base and a gradual rise in interest rates seen throughout the world in order to ward off inflation. Taiwan's leading and coincident indicators slipped, and the monitoring indicators in October, November and December declined from yellow-red, signifying buoyant economic growth, to green, meaning stable growth. The Directorate General of Budget, Accounting and Statistics has preliminarily estimated GDP growth in the third and fourth quarters of 5.27% and 3.25%, and annual growth for 2004 of 5.71%. On the monetary front, a rapid rise in bank lending and an inflow of foreign investment funds pushed the M1A and M1B money supplies to peaks in April and May of 26.94% and 24.39%, respectively. Starting in June, foreign investment funds began to flow out. Coupled with a high base, the M1A and M1B annual growth rates had slowed to 14.77% and 14.35% growth in December. Buoyant liquidity in the banking system in the first half of the year was responsible for keeping the overnight rate at below 1%. In the latter half of the year, the shrinking size of bond-style mutual funds and modest tightness in the banking system triggered a gradual rise in the interbank overnight rate.

Thanks to the efforts made by board members, supervisors, all employees and the vision of shareholders, the bank was able to continue to post stable growth despite a complex operating climate. Hua Nan Commercial Bank was given a long-term rating of twAA- and short-term rating of twA-1 by Taiwan Ratings in July. The bank's outlook was listed as stable. In October, Moody's assigned ratings to the bank of A3 and P-1, with a stable outlook. The bank has many expectations for 2005. A summary of the bank's operational achievements, including operational measures, the state of research and development, results of operational plans, budget execution, income and expenditures, and profitability is printed below.

## 1. State of Business and Research & Development

The bank implemented a number of important operational measures in 2004 including :

- 1) establishment of a central operations center to handle all billing.
- 2) creation of a government bond futures settlement procedure to transfer scrip in line with the impending introduction of government bond futures.
- 3) amendment of agency sales of gold, silver and commemorative coins to enable such business to be carried out via computer.
- 4) establishment of an OTP safety mechanism for Internet banking.
- 5) simplification of withdrawal procedures.
- 6) strengthening the bank's implementation of its C Project that includes on-line electronic transactions and financing. Under this mechanism, the bank and the Formosa Plastics Group initiated an FPG on-line transaction platform to provide FPG's suppliers with financing services.
- 7) implementation of a plan to further promote loans for small- and medium-sized enterprises.
- 8) setting guidelines for handling of convertible bonds in relation to those bonds being used in extending credit.





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- 9) completion of a fixed asset collateral system covering fixed assets, stocks and bills ahead of the implementation of the Basel II accord at the end of 2006.
- 10) beginning the use of the Taiwan Corporate Credit Risk Index to assign ratings to corporate clients in an effort to expand corporate lending to new customers.
- 11) introduced a new program to expand consumer loan operations.
- 12) introduced an agricultural credit guarantee fund for agricultural loans and farmer consumer loans.
- 13) introduced a project to expand loan to various sectors for specific uses.
- 14) introduced interest rate options to provide customers with an interest rate hedging tool and to diversify foreign exchange products.
- 15) established a representative office in Ho Chi Minh City.
- 16) inaugurated Chinese yuan NDF and NDO trading at the Hong Kong branch.
- 17) introduced designated use foreign currency trust funds for investment in local securities.
- 18) introduced 「Trust of Encumbrance and Related Security Interest」.
- 19) introduced investment, personal finance and fixed asset consultancy services.
- 20) completed a cash card operating system and development of a lending and performance management system.
- 21) established an automatic credit evaluation system E-JCIC.
- 22) completed development of credit supervision and collateral management and analysis systems, as well as debt warehouse management, overdue loan internal control and asset protection systems.
- 23) creation of an OBU and foreign currency identification and information system.
- 24) establishment of an e-learning system to provide employees a means to seek more knowledge and raise their work performance.

The bank continued to encourage employees to express their ideas in research and development work. During the year, staff produced 254 R&D proposals, with the bank adopting 105 of these. A total of NT\$90,900 in bonuses were granted to those responsible for the ideas.

## 2. Results of Operational Plans and Budget Execution

The bank registered growth in all areas of operations in 2004 thanks to the hard work of employees. Profitability was positively impacted due to synergy created by the establishment of the holding company. Average deposits in 2004 (not including interbank deposits) stood at NT\$1.1 trillion, which was 104.32% of the bank's target for the year. Overall outstanding loans stood at NT\$836.2 billion, which was 104.53% of the bank's target. Meanwhile, foreign exchange operations amounted to US\$158.05 billion, translating to 132.37% of the target for the year.

### 3. Income, Expenditures and Profitability

The bank's pre-tax profit in 2004 was NT\$13 billion, which was 7.94% over the bank's forecast. Income for the year stood at NT\$48.53 billion, with operating income comprising 98.68% of that total (interest income 65.67%, bad loan recoveries 14.33%, commission fee income 8.47% and other income 10.21%), while non-operating income accounted for 1.32%. Total expenditures were NT\$35.53 billion, which was 73.21% of operating income. Operating expense comprised 72.78% of that total (interest expense 30.94%, business and management expense 26.70%, provisioning 13.04% and other expense 2.10%). Non-operating expenses and losses comprised 0.43%. Pre-tax profit accounted for 26.79%.

In summary, despite domestic and international economic challenges during 2004 as well as political uncertainties and heated competition, the bank still posted an outstanding performance. In the days ahead, the bank will continue to operate under the holding company's principles of trust, sincerity and innovation, working to further diversify and automate operations as well as provide more services to the public. We humbly ask board members, supervisors and shareholders for their continued encouragement and direction as we strive to create an even better company.

Chairman



President



# Wisdom

▶▶ Planning a Wonderful Outlook



## BRIEF HISTORY

### 1. BRIEF HISTORY

K.K. Hua Nan Bank was founded in 1919 with capital of 10 million Yens. Founders included the prominent local entrepreneur, Mr. Lin Hsiung-cheng, and several Southeast Asian overseas Chinese investors. Founding ceremony was held on Jan. 29, 1919 and Mr. Lin Hsiung-cheng served as Chairman. The Bank was established for the purpose of promoting both domestic and international investment, and as such maintained a Head Office in Taipei. The Bank started business in Mar. 1919. Subsequently, the Bank set up branches in Canton, Haiphong, Saigon, Rangoon, Singapore, Tokyo and other cities throughout Asia, and this made contributions to the exploration of trades between Taiwan and Southeast Asia. During the 1930's Depression, private banks in Taiwan operated in difficulties. Some of them were merged under the government policy. With the endeavor of Mr. Lin Hsiung-cheng and his partners to keep the Bank stand up, the Bank was survived from being merged. Mr. Lin Hsiung-cheng served as Chairman from 1919 to 1944. In 1944, by taking the advantage of possessing majority of the Bank's shares, Bank of Taiwan reassigned Mr. Akekula as Chairman, and meanwhile Mr. Lin Hsiung-cheng served as Emeritus Chairman.

Following the retrocession of Taiwan to China on Oct. 25, 1945, as Chairman of Commercial Association of Taiwan, Mr. Lin Hsiung-cheng was selected as Taiwan Province representative to participate the ceremony of the R.O.C. capital reinstatement and to carry out the important mission to search for the support from the R.O.C. authorities for ensuring the continued viability of Hua Nan Commercial Bank. The Hua Nan Commercial Bank Organizing Committee formed on Oct. 16, 1946 in response to a government directive. Mr. Lin Hsiung-cheng served as Committee Director until his death a month later on Nov. 27. The banking authorities then appointed Mr. Liu Chi-kuang to serve as Director, and simultaneously expropriated the assets of K. K. Hua Nan Bank from the Japanese. The first Shareholders' Meeting





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was held on Feb. 22, 1947, at which time Mr. Liu was voted Chairman by the board of directors. The Bank was formally established as the Hua Nan Commercial Bank, Ltd. on Mar. 1 of 1947, with capital of 15 million Old Taiwan Dollars. Upon its inception, the Bank mainly focused on business activities within the Province of Taiwan, serving along with other banks to help financing the construction of a new Taiwan. In May 1947, the Bank merged with Taiwan Trust Company, the latter becoming the Bank's newly-formed Trust Department, and increased capital to Old Taiwan Dollars 25 million to enlarge the Bank's scope of business and build a solid capital base. By Jun. 1948 more than 60 branches staffed with high caliber employees had been established throughout Taiwan. Hua Nan Commercial Bank thus became well-known and highly regarded as a sound and solid financial institution.

In 1948 when Taiwan's economy began to fall seriously by the impact of the economic slump in Mainland China, the Bank revised its business focus, reducing low yield business while promoting more profitable business. During this time, the Bank again increased capital to Old Taiwan Dollars 1 bn. In the period since the monetary reformation of Jun. 15, 1949 through May 18, 2001, the Bank increased capital a number of times to reach the present amount of NT\$37,091,000,000 positioning the Bank as one of the soundest and largest bank in Taiwan

A large number of government-owned shares were released on Jan. 22, 1998, enabling the bank to complete privatization and embark upon a new era.

In order to adapt to the government financial reforms and prompt changes of financial environment, to achieve synergy through diversification, and to meet the needs in long-term development, the Bank and Entrust Securities Co. each convened Extraordinary Shareholders' Meeting respectively on November 14, 2001 and passed the agenda to establish Hua Nan Financial Holdings Co., Ltd. (HNFHC) by 100% stock conversion. Mr. Lin Ming-cheng was elected as the Chairman of the board. On Dec. 19, 2001 HNFHC started business and its shares listed on the Taiwan Stock Exchange. HNFHC, with registered capital of NT\$ 100 billion, maintained its head office in Taipei. The Bank accordingly becomes a subsidiary of HNFHC.

## 2. ORGANIZATION

The Shareholders' Meeting serves as the highest decision-making body of the important matters in the Bank's organizational structure. All matters including appointment of directors and supervisors, establishment and amendment of internal rules and regulations, increase of capital, appropriation of earnings and dividends, and other matters, are decided upon during Shareholders' Meetings of which there are two types --- Ordinary and Extraordinary. The Ordinary Meeting is held once a year, while the latter type is held when necessary as called for by the Directors or Supervisors.

The Board of Directors and Board of Supervisors serve to formulate strategy, carry out bank policies, and execute and supervise business activities. The Directors and Supervisors, who number fifteen and five, are separately appointed by the shareholders through the Shareholders' Meeting.

The Directors among themselves elect five Managing Directors, who elect a Chairman one another. Internally, the Chairman is the head of the Shareholders' Meeting, Board of Directors and Board of Managing Directors, while, externally, the Chairman represents the Bank.

A Board of Directors meeting is held once every three months. In case of emergency or if more than half of the

Directors so request, an Extraordinary Meeting may be held. The Managing Directors reside in the Bank acting on behalf of shareholders, and may assist in carrying out business activities. Under the Board of Directors, we established the Auditing Department with chief auditor being the department head responsible for all auditing related business.

The Board of Supervisors is formed by five Supervisors, who elect a Standing Supervisor one another. The Standing Supervisor is resident in the Bank, where he or she is charged with execution of supervisory duties.

The Bank was established as a company limited by shares in accordance with the regulations set forth in the Banking Laws. The head office is located in Taipei City. In terms of management, the Bank has one president who is responsible for all business activities and who acts in accordance with resolutions passed at the Board of Directors meetings. Three Executive Vice Presidents are appointed to assist the President. As of December 2004, in accordance with internal regulations governing organizational structure, the Bank maintained seventeen departments at the head office: Secretariat Department, Planning Department, Business Administration Department, Corporate Banking Department, International Administration Department, Trust Department, Credit Review & Management Department, Credit Card Department, Treasury Department, Personal Banking Department, Credit Department, Information Technology & Administration Department, General Affairs Department, Accounting Department, Personnel Department, Banking Department and International Banking Department. The Bank further maintains 182 branches within Taiwan, and 13 sub-branches around the island. The Bank also operates two warehouse. Overseas branches are located in Los Angeles, New York, Hong Kong, Singapore and London, with two representative offices in Shenzhen and Ho Chi Minh City. As of 31 December 2004 the Bank's manpower resources totaled 7,322 personnel.





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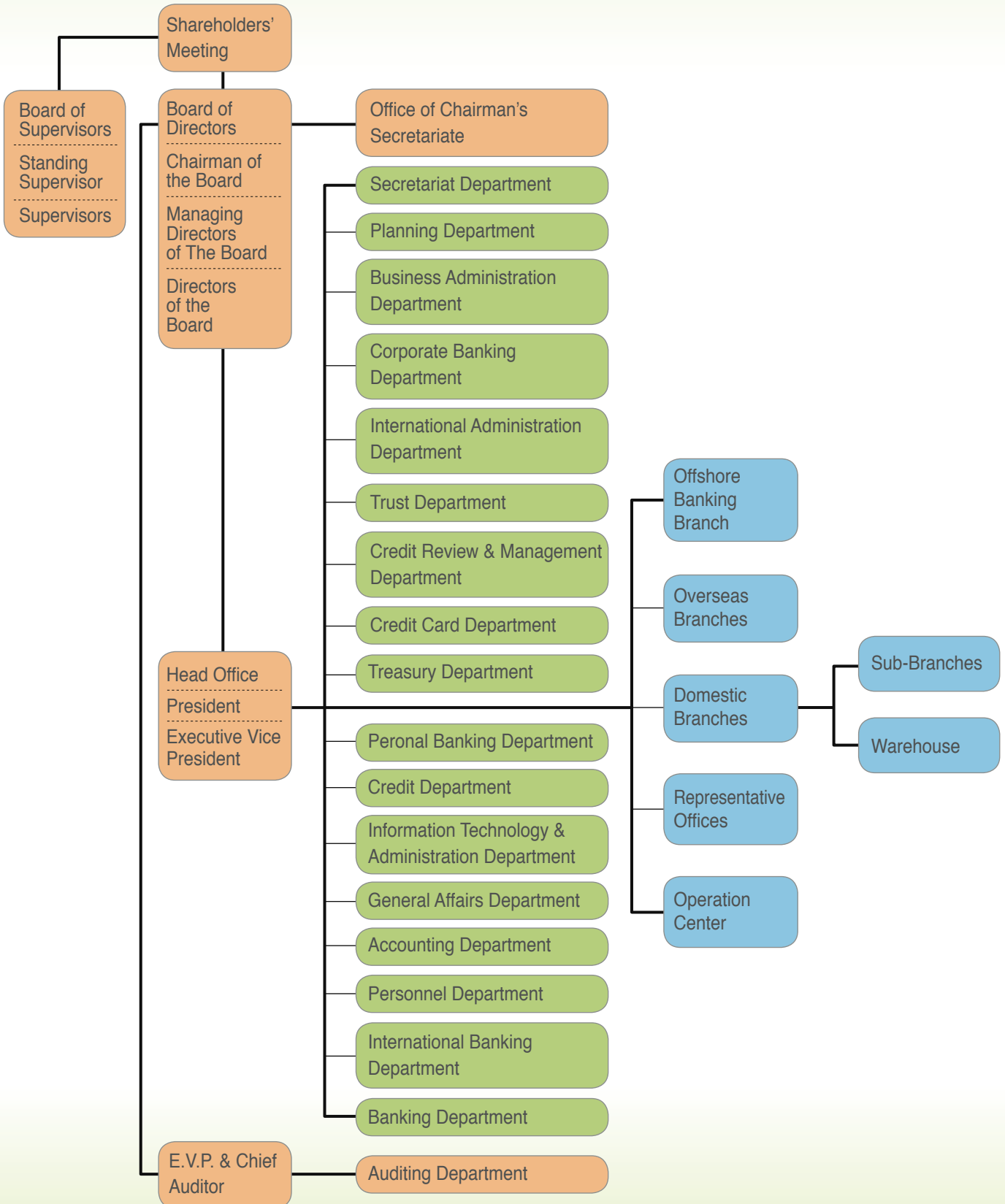


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### (1) ORGANIZATION CHART



## BOARD OF DIRECTORS AND SUPERVISORS

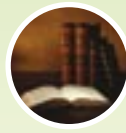
2004.11.29.

NAME	CURRENT POSITION	EXPERIENCE	EDUCATION
Ming-cheng Lin	Chairman, Hua Nan Commercial Bank, Ltd. Director, The Central Bank of China. Chairman, Memorial Scholarship Foundation to Mr. Lin Hsiung-Chen	Vice Chairman, Hua Nan Commercial Bank, Ltd. President, Ta-Yung Shing Yeh Corp.	Master of Laws, Keio University, Japan.
Teh-nan Hsu	Managing Director & President, Hua Nan Commercial Bank, Ltd.	President, Taiwan cooperative Bank.	Banking Department, Cheng Chi National University.
Yun Lin	Managing Director, Hua Nan Commercial Bank, Ltd. Professor, Dept. of Finance, National Taiwan University.	Chairman of Finance Dept., National Taiwan University.	Ph.D. Univ. of Illinois Urbana Champaign, U.S.A.
Hsieh-lung Teng	Managing Director, Hua Nan Commercial Bank, Ltd. S.V.P. & General Manager, Loans & Discounts Dept., Bank of Taiwan.	Vice President & Deputy General Manager, Loans & Discounts Dept., Bank of Taiwan.	Bank of Taiwan. Banking & Insurance Dept., National Taichung Institute of Commerce
Hsien-hsien Hsu	Managing Director, Hua Nan Commercial Bank, Ltd. Director, Prince Motors Co., Ltd. Assistant to the Chairman of Shin-Kong Wu Ho-Su Memorial Hospital	Director & Supervisor, Shin-Kong Life Insurance Co., Ltd.	Department of Economics, Meiji University, Japan.
Kao-chin Wang	Director, Hua Nan Commercial Bank, Ltd. Executive Vice President, Bank of Taiwan.	S.V.P. & General Manager New York Agency and Los Angeles Branch. Supervisor, Hua Nan Commercial Bank, Ltd.	National Taiwan University. North Dakota State University, U.S.A.
Ya-hwei Yang	Director, Hua Nan Commercial Bank, Ltd. Research Fellow, Chung-Hua Institution for Economic Research.	Director, Division of Taiwan Economy.	Ph.D. of Economics, National Taiwan University.





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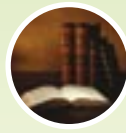
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NAME	CURRENT POSITION	EXPERIENCE	EDUCATION
Sou-shan Wu	Director, Hua Nan Commercial Bank, Ltd. Dean & Professor, College of management, Chang Gung University.	Chairman of management Science Dept., Director of management science Institute, National Chiao-Tung University. Academic Advisor to Ministry of Education.	Ph.D. in Finance, Insurance & Real Estate, University of Florida, U.S.A.
Shiu-hsiung Chen	Director, Hua Nan Commercial Bank, Ltd. President, Maxwell Electric co., Ltd.	President, Maxwell Electric co., Ltd.	M.B.A. City University of Washington, U.S.A.
Hsu-hsueh Chang	Hua Nan Commercial Bank, Ltd. Supervisor, Fu Chuan Enterprises Co., Ltd.	Supervisor, Fu Chuan Enterprises Co., Ltd.	Taipei First Girl High School.
James Hui-jan Yen	Director, Hua Nan Commercial Bank, Ltd. Chairman, Asia Jewelry Co., Ltd.	Chairman, Asia Jewelry Co., Ltd. Director, Memorial Scholarship Foundation to Mr. Lin Hsiung-Chen. Director, Chinese National Export Enterprises Association.	Tamkang University
Hui-wei Yen	Director, Hua Nan Commercial Bank, Ltd. Chairman, Taiwan Mineral Resources & Industry Co., Ltd. Supervisor, Evergreen realestate & construction Corp.	Director, Chang Hwa commercial Bank, Ltd. Instructor of University.	Ph.D. Hawaii Pacific University, U.S.A.
Tommy Lin	Director, Hua Nan Commercial Bank, Ltd. Special Assistant To The Chairman, Yong Da Construction Co., Ltd.	Fund Manager, Mercury Asset management Co., Ltd. (Japan)	J.D. Law, Univ. of California Los Angeles, U.S.A.

NAME	CURRENT POSITION	EXPERIENCE	EDUCATION
Po-wei Hsu	Director, Hua Nan Commercial Bank, Ltd. Chairman, Hua Nan Securities Co., Ltd.	President & CEO, En Trust Securities Co., Ltd.	Master of Chemical Engineer, University of South California, U.S.A.
Chin-yi Chen	President, Hua Nan Financial Holdings Co., Ltd. Workers' Union.	Vice President; Assistant Vice President & Deputy Vice President, Hua Nan Commercial Bank, Ltd.	Chen kuo College of Business.
Chan-sheng Chen	Standing Supervisor, Hua Nan commercial Bank, LTd. President, Central Deposit Insurance Corp.	Manager, Bank Examination Dept., The Central Bank of China. President, Central Deposit Insurance Corp.	Tamkang University Accounting Dept.
Wen-yuh Tsai	Supervisor, Hua Nan Commercial Bank, Ltd. Chairman of Sin-Jang CPAS office.	CPA, Audit, Tax- Planning, Business Management etc. Instructor of University.	M.B.A. Cheng Chi National University.
Justin J. L. Wei	Supervisor, Hua Nan Commercial Bank, Ltd. S.V.P. & General Manager, Public Treasury Dept., Bank of Taiwan.	Vice President & Deputy Chief Secretary, Board of Directors, Bank of Taiwan.	Master of Economics, Soochow University.
Shu-shai Yen Chen	Supervisor, Hua Nan Commercial Bank, Ltd. Manager, Wellin Investment Co., Ltd.	Director, Taipei Business Bank	Shih Chien University.



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## TOP MANAGEMENT AND DEPARTMENT MANAGERS IN HEAD OFFICE

Dec.31,2004

### **Teh-nan Hsu**

President

### **John Lai**

Executive Vice President

### **David, J.Y.Lee**

Executive Vice President

### **York.M.Y. Lai**

Executive Vice President

### **Johnson C.S. Chen**

Executive Vice President & Chief Auditor

### **Fuh-jiy Chang**

Senior Vice President & General Manager of  
Auditing Department

### **Young-tzew Hsu**

Senior Vice President & Chief Secretary of  
Secretariat Department

### **Mon-Shung Chung**

Vice President & General Manager of  
Planning Department

### **Shing-shyong Chen**

Senior Vice President & General Manager of  
Business Administration Department

### **Yun-peng Chang**

Senior Vice President & General Manager of  
Corporate Banking Department

### **Ching-yuh Wu**

Senior Vice President & General Manager of  
Accounting Department

### **Fan-Tsang Chung**

Senior Vice President & General Manager of  
Personnel Department

### **Dong-lee Hong**

Senior Vice President & General Manager of  
Credit Department

### **Chao-yang Lee**

Senior Vice President & General Manager of  
General Affairs Department

### **Carl, S.M.Huang**

Senior Vice President & General Manager of  
International Administration Department

### **Chi-chieh Lin**

Senior Vice President & General Manager of  
Information Technology & Administration  
Department

### **Ching-hsing Chen**

Senior Vice President & General Manager of  
Trust Department

### **Ming-Chu Liao**

Senior Vice President & General Manager of  
Credit Card Department

### **Jou-Che Kau**

Senior Vice President & General Manager of  
Credit Review & Management Department

### **Wu-Huang Hsu**

Senior Vice President & General Manager of  
Treasury Department

### **Jung-Cheng Kao**

Vice President & General Manager of  
Personal Banking Department

### **Pao-yen Lee**

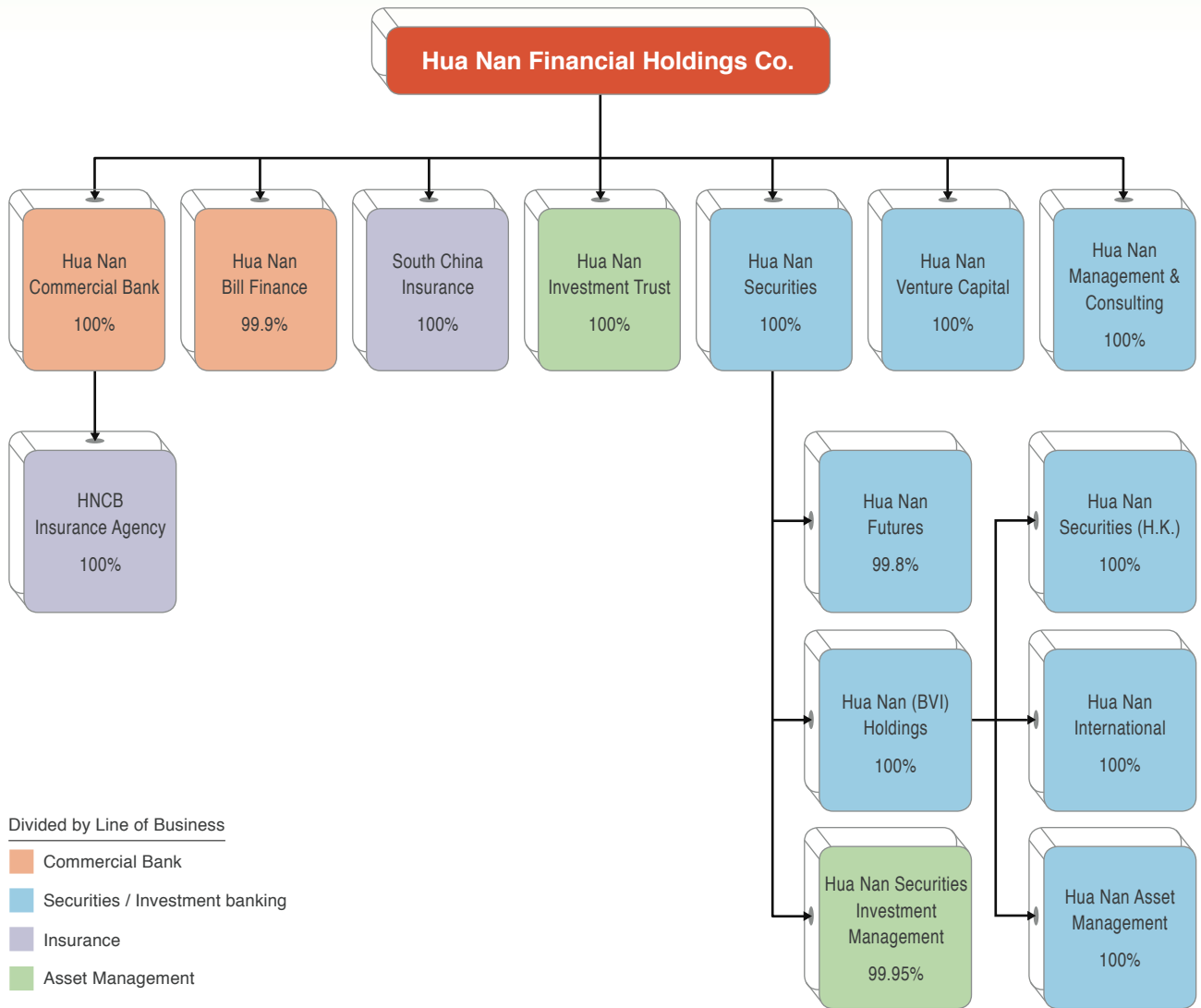
Senior Vice President & General Manager of  
Banking Department

### **Shou-nan Tsai**

Senior Vice President & General Manager of  
International Banking Department

**HUA NAN FINANCIAL HOLDINGS GROUP**

Dec.31,2004





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## MANAGEMENT OF THE HNFHC GROUP

### BOARD OF DIRECTORS

Chairman of the Board	
Ming-cheng Lin	
Managing Directors	
Teh-nan Hsu Shuh Chen Teng-lung Hsieh Hsien-heien Hsu Kao-Chin Wang Ya-hwei Yang Yun Lin	Shiu-hsiung Chen Hsueh-chang Hsu Chan-sheng Chen An-lan Hsu Chen Chih-yang Lin Tommy Lin Po-Wei Hsu
Supervisors	
Sou-shan Wu Wen-yuh Tsai Justin J. L. Wei	James Hui-jan Yen Kuei-Foug Wang
Executive Officers	
Teh-nan Hsu President  Mao-hsien Liu Executive Vice President & General Manager of General Administration Department  James H. J. Liu Executive Vice President & General Manager of Risk Management  Jeffrey C. F. Lee Executive Vice President & Chief Auditor	Chen-fang Chang General Manager of Marketing Department  Ching-yuh Wu General Manager of Treasury & Investment Department  Chi-chieh Lin General Manager of Technology & Administration Department

# Outlook

▶▶ Achieving an Intelligent **Future**





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BUSINESS PLAN



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## REVIEW OF OPERATIONS IN FISCAL YEAR 2004

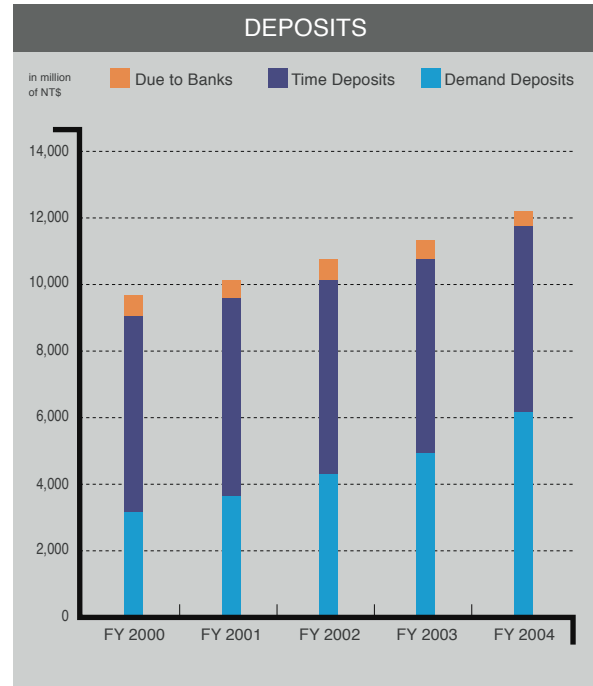
The bank's primary operations over the past year have been as follows:

### 1. Deposits

As of December 31, 2004, total deposits stood at NT\$1.217 trillion, an increase of NT\$84.57 billion from the end of 2003, translating to growth of 7.46%. After deducting deposits by other financial institutions, deposits stood at NT\$1.169 trillion, a growth of 8.30% on the year.

In terms of the type of deposits, demand deposits stood at NT\$617.44 billion, a rise of 15.27% from the end of the previous year, time deposits declined 1.44% to NT\$552.03 billion, and deposits by other financial institutions fell 9.48% to NT\$48.29 billion.

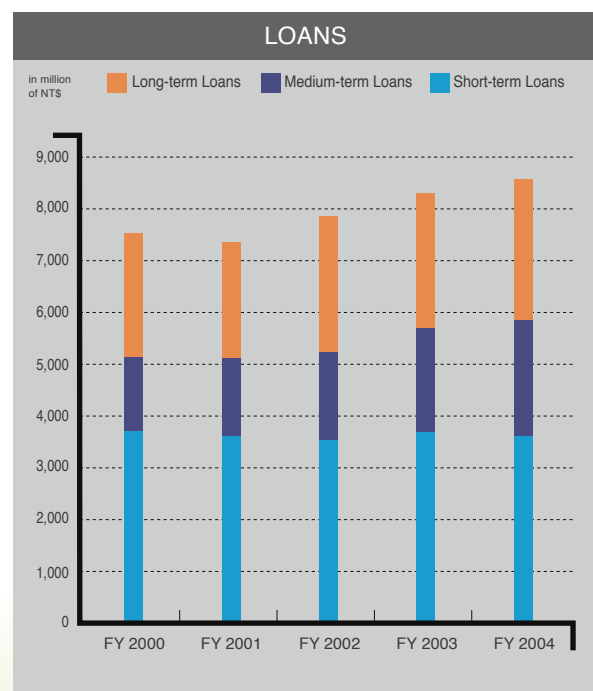
Demand deposits comprised 50.70% of all deposits, time deposits 45.33% and interbank deposits 3.97%.



### 2. Loans

In the first half of 2004, a continued global economic warm-up boosted domestic demand and corporate investment willingness. Amid an economic recovery, corporate demand for funds rose significantly. In the second half of the year, the American presidential election, cross-straits tension, measures in China to restrain growth and the year-end legislative election on Taiwan led to an economic consolidation. Thanks to the efforts of all staff, outstanding loans in 2004 stood at NT\$836.2 billion, which was 104.53% of the company's target for the year and equivalent to a rise of 10.01% from 2003.

Total loans as of December 31, 2003 (not including loans to other financial institutions or overdrafts) stood at NT\$874.18 billion. Of this, foreign exchange purchases and import/export negotiations stood at NT\$13.70 billion, or 1.57% of the total; discounts and overdrafts NT\$3.431



billion, or 0.39% of the total; short-term loans NT\$351.34 billion, or 40.19% of the total; medium-term loans NT\$233.6 billion, or 26.72% of the total; and long-term loans NT\$272.11 billion, or 31.13% of the total.

Outstanding loans as of December 31, 2004 rose 4.26% or NT\$35.74 billion, from the end of 2003. Of this, foreign exchange purchases and import/export negotiations rose NT\$1.624 billion, or 13.44%; discounts and overdrafts fell NT\$1.211 billion, or 26.09%, short-term loans fell NT\$6.246 billion, or 1.75%; medium-term loans rose NT\$24.29 billion, or 11.60%; and long-term loans rose NT\$17.28 billion, or 6.78%.

### 3. State of Personal Banking Operations

#### (1) Personal Lending Operations (including cash card)

As of the end of December, the amount of credit extended stood at NT\$271.78 billion, which was a rise of 16.39% from the end of 2003's NT\$233.5 billion. The breakdown is as follows:

1. Housing Loans: The total outstanding at the end of 2004 was NT\$198.3 billion, a rise of 8.1% from 2003.
2. Consumer Loans (including revolving credit): The total outstanding at the end of 2004 was NT\$18.9 billion, a rise of 67.3% from 2003.
3. Turnover Loans (including independent projects and partnerships): The total outstanding at the end of 2004 was NT\$46.4 billion, a rise of 19.6% from 2003.
4. Cash card loans: The amount mobilized at the end of 2004 was NT\$8.18 billion.

#### (2) Cash Card Operations

1. The bank inaugurated cash card operations on February 27, 2004. By the end of the year, the bank had issued 191,000 cash cards, with 141,000 of the cards having been used, equivalent to a ratio of 73.8%. The amount of funds withdrawn using cash cards was NT\$8.18 billion.
2. The bank's interest income and handling fee income associated with card usage amounted to NT\$622 million in 2004.

### 4. Foreign Exchange and International Operations

Taiwan's economy and external trade showed stable growth in 2004 in reflection of the upbeat global economy. In 2004, the bank handled 1.745 million transactions of foreign exchange business, which was a rise of 12.92% from the previous year. Foreign exchange business in 2004 amounted to US\$158.050 billion, a rise of 25.77% from 2003. Amid the bank handled 78,970 import letters of credit and collections, a rise of 7.6% and amounting to US\$10.898 billion, an increase of 24.21% on the year. Meanwhile, a total of 115,562 export negotiations and





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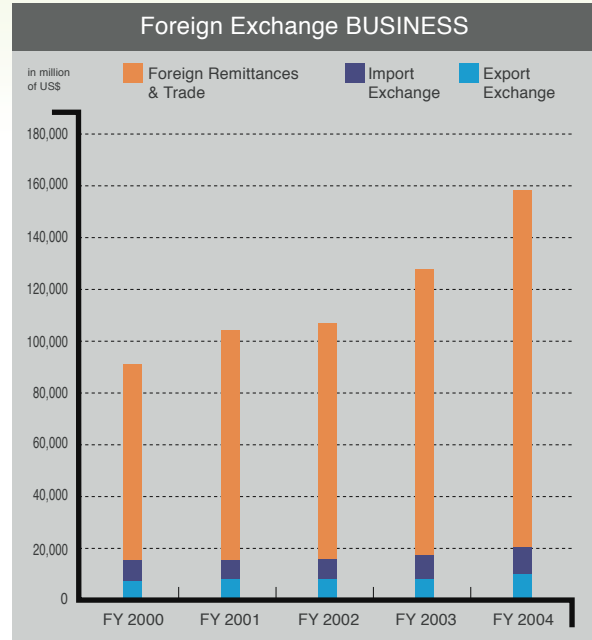


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collections were handled, a decline of 1.68% on the year and the amount of this business stood at US\$8.461 billion, a rise of 24.68% from 2003. The bank also handled 1.55 million transactions of foreign exchange remittance (including inward and outward remittance, purchase of foreign currency or sales of foreign currency) and foreign currency deposits, which was a growth of 14.48% from the previous year and the amount of this business stood at US\$138.690 billion, a rise of 25.96% from 2003.

#### Business at Overseas Branches and Offices

Pre-tax profits from Hua Nan's five overseas branches and OBU in 2004 stood at US\$54.34 million, which is a marginal decline of 0.98% from 2003. In 2004, deposits at these units stood at US\$1.726 billion, a rise of 13.55% from 2003. Loans from these units in 2004 stood at US\$1.606 billion, a growth of 7.79% from the previous year.



## 5. Securities

### Securities Underwriting:

Hua Nan served as underwriter for the stock of 13 companies in 2004, including stock underwriter for Tatung Systems Technology Inc. and another company, convertible bond underwriter for Cheng Fwa Industrial and five other such bonds, as well as underwriter for five mutual funds. Underwriting volume amounted to NT\$2.761 billion, and underwriting income came to NT\$23.6 million.

## 6. Trust

### (1) Trust funds with designated use to invest in local and foreign securities:

1. Foreign Currency Trust Funds: These are invested in foreign mutual funds, indexed bonds and government bonds. At the end of 2004, the amount of foreign currency trust funds stood at US\$305.9 million, with the increase in funds under management in 2004 standing at US\$212.9 million. Handling fee income for the year was NT\$189.59 million.
2. NT Dollar Trust Funds: These are invested in both domestic and international mutual funds and local structured products. At the end of 2004, the amount of trust funds under management stood at NT\$52.517 billion, with the amount of funds handled in 2004 standing at NT\$93.522 billion. These operations generated handling fee income in 2004 of NT\$267.25 million.

3. Composite Account Trust Funds: The amount of these trust funds as of the end of 2004 was NT\$4.353 billion, generating handling fee income of NT\$2.6 million.

#### **(2) Custodial Services:**

As of the end of 2004, services were provided for 40 mutual funds. Presently, 101 clients have commissioned Hua Nan Bank for custodial services, with the commissioned custodial amount at NT\$159.32 billion. Handling fee income in 2004 was NT\$160.8 million.

#### **(3) Securities Certification:**

Certification was handled for shares and bonds of 647 companies in 2004, with the amount certified reaching NT\$119.64 billion. Certification was handled for beneficiary certificates in 15 instances in 2004, with the total amount reaching NT\$35.09 billion. Handling fee income in 2004 was NT\$11.02 million.

#### **(4) Personal Trusts:**

As of the end of 2004, the bank had 593 trust clients (587 individual accounts and six corporate employee savings trusts). Assets stood at NT\$28.696 billion, with handling fee income at NT\$20.29 million.

#### **(5) Corporate Bond Issuance:**

The bank issued corporate bonds on behalf of 15 clients in 2004, amounting to NT\$21.4 billion, generating handling fee income of NT\$1.31 million.

## **7. Domestic Remittance and Agency Services**

In 2004, the bank processed NT\$8.52 trillion of outward remittances, a rise of 10.90% from the year earlier. Total bills collected on behalf of clients stood at 9.95 million, which was a decline of 1.90% from the year earlier. Hua Nan serves as an agent for the National Treasury to collect tax payments, and is an agent in accepting insurance premiums, telecom fees, utility bills, tuition, labor insurance premiums, national health insurance premiums and subscriptions for corporate rights issues. It also is an agent in bidding for government bonds, selling gold and silver coins, selling public welfare lottery tickets. Furthermore, it handles payment of interest and principal on government bonds, cash dividends on securities, and payment of public welfare lottery winnings.

## **8. Financial Products**

#### **(1) NT Dollar Interest Rate Swaps:**

The bank handled NT\$17.76 billion of this trading in 2004, generating handling fee income of NT\$14.47 million and interest income of NT\$100,000.

#### **(2) NT Dollar Investment Products:**

The bank handled NT\$217 million of this trading in 2004, generating handling fee income of NT\$1.63 million.



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## 9. Credit Cards

### (1) State of Credit Card Operations:

Item \ Period	December-end 2004	December-end 2003	Rise/Fall
Total number of cards issued	654,427	486,099	+168,328或34.63%
Total charged amount	1,047,868	936,542	+111,326或11.89%
Revolving interest	126,493	113,236	+13,256或11.71%
Total handling fee income	14,313	13,891	+422或3.04%

Hua Nan initiated international credit card business in 1995. In November 1996, it began international credit card collection operations. In April 1997, it began international banking card services and started collection services in June of that year. In September 2002, it issued its first EMV chip credit card (the national travel card), and on June 1, 2004 inaugurated combo card services. The status of operations as of the end of 2004 is as follows:

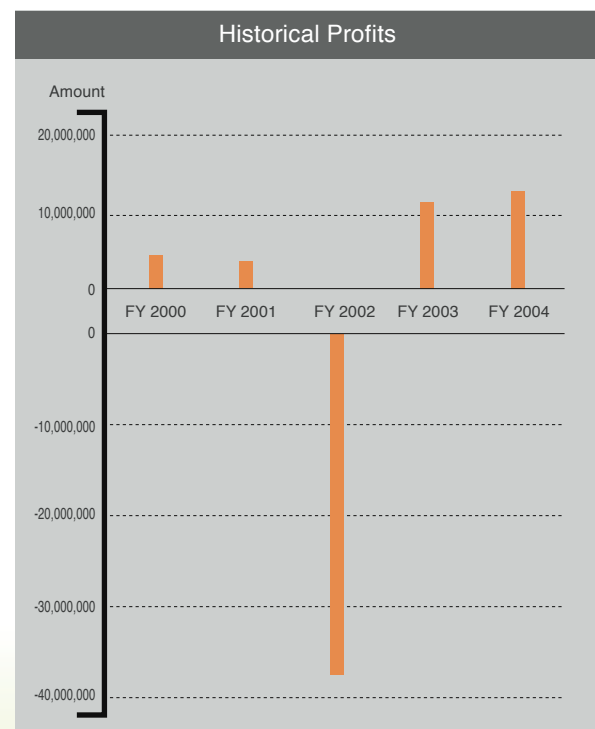
Item \ Period	December-end 2004	December-end 2003	Rise/Fall
Total number of stores	4,790	4,771	+19或0.40%
Total amount	3,224,923	2,299,325	+925,598或40.26%
Total handling fee income	54,211	38,302	+15,909或41.53%

#### 1. Credit Card Issuance:

As of the end of 2004, the number of cards in issuance stood at 654,427, an increase of 168,328 cards from the year earlier. The total amount of spending from those cards in 2004 was NT\$10.478 billion, a rise of 11.89% on the year. As of the end of December, the amount of revolving credit extended stood at NT\$1.265 billion, a rise of 11.71% from 2003. Handling fee income during the year was NT\$143.1 million, up 3.04% from 2003.

## 10. Operational Performance

In summary, the bank registered a strong performance in 2004 even in light of various domestic and international political and economic uncertainties and well as heated competition from counterparts. Pre-tax profit in 2004



stood at NT\$13 billion, which was 107.94% of its forecast. Total income for the year was NT\$48.532 billion, with operating income comprising 98.68% (including interest income 65.67%, bad loan recoveries 14.33%, handling fee income 8.47%, and other income 10.21%) and non-operating income 1.32%. Total expenditures stood at NT\$35.53 billion, which amounted to 73.21% of total income. Operating expense accounted for 72.78% of total expenditures (interest expense 30.94%, business and management expense 26.70%, provisioning 13.04% and other expense 2.10%) and non-operating expenses and losses amounted to 0.43%. Pre-tax profit comprised 26.79%.





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## MARKET ANALYSIS

A review of Taiwan's economic situation over the past year follows:

### 1. The Economy in General

Taiwan's economy exhibited strong growth in the first half of 2004 thanks to a rebound in major economies throughout the world and due to the relatively low base from the year earlier during the SARS outbreak. Growth in the first two quarters continued to build on the rebound seen in the fourth quarter of 2003. Robust trade within Asia enabled Taiwan's exports and imports in the first quarter to grow 22.4% and 31.2% on the year, both reaching levels not seen since 2001. Exports and imports in the first half of the year rose 25.7% and 35.6%, respectively. Bolstered by rising growth levels at both home and abroad, the monitoring indicators emitted the yellow-red signals for six consecutive months in the January-June period, indicating buoyant growth. GDP growth in the first and second quarters stood at 6.72% and 7.88%, a further rise from the 4.01% and 5.70% from the previous two quarters. GDP growth for the first half of the year stood at 7.29%.

The second half of the year, however, saw a turnaround. The economy was impacted by soaring crude prices, measures by China to restrain growth, a relatively high base and interest rate hikes throughout the world in order to ward off inflationary pressure. The global economy began to slow after August, and this was reflected to Taiwan's export numbers. Nonetheless, growth still managed to maintain a 10% level. Taiwan's leading and coincident indicators also began to weaken. The monitoring indicators remained in the yellow-red area in July, August and September, but fell into the green zone in October, November and December, indicating stable growth. The Directorate General of Budget, accounting and Statistics pegged GDP growth in the third and fourth quarters at 5.27% and 3.25%, and growth for the year as a whole at 5.71%.

### 2. Industrial Production

Industrial production in January declined 1.00% from the corresponding period in 2003 due to fewer working days associated with the Chinese Lunar New Year holiday. In February and March,



however, the global economic rebound and strong orders for information and electronics products enabled output to rise 29.95% and 15.94%, respectively, compared with the year earlier periods. In the second quarter, the favorable economic environment continued, enabling double-digit growth for each month, at 13.45%, 16.28% and 15.99%, respectively, for April, May and June. In July, however, growth began to slow in response to a weakening global economy, rising crude prices and China's measures to contain its economic growth. July's production rose 9.21% versus July 2003. Growth continued to ease and by November had slowed to 5.69%. In December, industrial production contracted 0.95% when compared with December 2003. For the year, industrial output grew 9.80%.

Export orders for 2004 reached US\$215.1 billion, a rise of 26.5% from 2003. Electronics, information and telecommunications products combined for over 40% of the export orders. Precision machinery orders rose 89.2% on demand from China. Orders from the United States and mainland China (including Hong Kong), together accounted for over half of all orders. Meanwhile, the highest growth in orders was seen from Europe, which rose 30.7% from the previous year.

### 3. Foreign Trade

Exports and imports exhibited double-digit growth in the first quarter of 2004 due to a recovery in the global economy and especially strong demand in Asia. Growth was 22.4% and 31.2%, respectively, both the highest since 2001. Different from previous years, however, was the growth in imports in East Asia as a result of rising oil and raw material prices. In Taiwan, for example, import growth outpaced that of exports, causing the net impact of exports on economic growth to decline. Except for June, import growth was higher than that of export growth. In May, imports exceeded US\$15 billion for the first time ever to reach US\$15.707 billion. Last year, Taiwan continued to rely on exports to fuel its economic growth, and this was especially true with regards to exports to China. Exports to China in the first three quarters grew 37.5% and comprised 25.9% of all exports. If Hong Kong is included, exports to China comprised 37% of all exports, highlighting Taiwan's increasing reliance on mainland China. Exports and imports both showed impressive growth in the peak fourth quarter period. In October, exports and imports both exceeded US\$15 billion, and imports in December even surpassed US\$16 billion. For 2004 as a whole, exports and imports amounted to US\$174.03 billion and US\$167.90 billion, growths of 20.7% and 31.9% from 2003. Taiwan registered a trade surplus in 2004 of US\$6.14 billion, down 63.7% from 2003.

### 4. Inflation

Oil prices continued their climb in the first quarter of 2004 due to increasing demand brought about by buoyant global economic growth. Thereafter, concerns about supply from Iraq, Russia and Venezuela caused crude prices to skyrocket. Wholesale prices of mined products in the first half of 2004 in Taiwan rose 18.5%, while petrochemical raw materials rose 17.0%. Coupled with rising prices for steel and plastics raw materials, the wholesale price index here rose from 2.39% growth in January to 4.70% growth in April and 7.43% growth in June. The consumer price index, however, only rose 0.85% due to keen competition in the domestic market and efforts to restrain price hikes. In the second half of the year, stubbornly high oil prices along with rising steel, petrochemical and base metal prices caused growth in the wholesale price index to skyrocket to 11.43% in September and 12.02% in December. For the year as a whole, the wholesale price index rose 7.06% from 2003. The consumer price index registered



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a relatively modest rise of 1.62%. While food prices rose due to natural disasters, competition for most products remained keen, preventing a hike in prices. In addition, housing prices consolidated and rents fell, limiting price pressure in the service sector.

## 5. Money Supply

The monetary supply in 2003 was impacted by rising demand for bank loans in light of the economic recovery and an inflow of foreign investment funds. Data were also impacted by relatively low bases in the first half of 2003. The annual growth rates of the monetary aggregates M1A and M1B accelerated from 18.53% and 18.10% in December 2003 to 26.94% and 24.39%, respectively, in April and May. Foreign stock investment funds, however, began to leave in June and figures were also impacted by a rising base from the previous year. Growth in the M1A and M1B began to wane, slowing to 14.77% and 14.35% in December.

The broad-based monetary aggregate M2 grew 7.45% in 2004, while the M2+bond-style mutual funds grew 8.14%. Both these levels exceeded target zones (2.5-6.5% for the M2 and 4.0-8.0% for the M2+bond-style mutual funds). Strong economic growth and rises in prices were the main reasons that monetary supply growth exceeded targets.

## 6. Domestic and Overseas Operations Network

As of the end of 2004, the bank has 182 branches spread throughout Taiwan (not including operations, foreign operations and trust units). It also has 13 sub-branches and one warehouse. At the end of the year, 54 of the bank's branches were authorized by Taiwan's Central Bank of China to engage in foreign exchange operations. In 2004, branches that were newly designated to handle foreign exchange business included the Chungshing and Peinankang branches. A total of 65 branches were authorized to buy and sell foreign currency notes and travelers checks. Other branches offered services to arrange import/export and foreign exchange business.

Meanwhile, the bank maintains overseas branches in Los Angeles, New York, Hong Kong, Singapore and London. It also has representative offices in Shenzhen and Ho Chi Minh City. At the end of 2004, the bank was able to carry out foreign exchange transactions with 2,271 banks worldwide throughout five continents, including 32 in Africa, 865 in Asia and the Middle East, 864 in Europe, 88 in Latin America, 333 in North America and 89 in Oceania, providing convenient services to its customers.

## 7. Outlook

Looking ahead to 2005, the bank has many reasons to be optimistic. It has an outstanding reputation in the local market and has a stable client base. It also boasts a high degree of innovation. Hua Nan also has a sizeable market share, which gives it a competitive advantage compared with its counterparts. In addition, the bank believes it still has room for further growth. As global economic momentum wanes, Taiwan's external trade growth will return to more normal levels. Slower growth will be the feature of this year's economy. Meanwhile, Taiwan's economy is bound to face more challenges than in 2004. The DGBAS has forecast GDP growth in 2005 of 4.21%, CPI growth of 1.7% and WPI growth of 1.0%.

## RISK MANAGEMENT

As the Basel II accord will be implemented at the end of 2006, Hua Nan set up a supervisory committee in May 2004 in preparation for the new standards. Five sub-committees were set up covering the areas of credit risk standards and laws, credit risk and internal evaluation, credit risk IRB, operations risk and market risk.

### 1. Market Risk

The new accord does not make any major changes with regards to market risk. The bank presently utilizes standardized methods in calculating market risk, which is in accordance with the basic requirements of the new accord. Given the rapid changes in financial products, the bank is working to further hone its risk management techniques. The bank in 2005 will begin using internal models to assess capital possibilities. This effort will require significant financial and manpower investment.

Market risk refers to risk associated with market prices moving in an undesired direction, which can lead to losses on or off the balance sheet. Market price refers to interest rates, stock prices, foreign exchange rates and prices of various products. Balancing market risk includes interest rate- and equities-related products as well as foreign exchange and other products. The bank presently adopts standardized methods in calculating capital requirements related to market risk.

### 2. Credit Risk

The credit risk IRB method sub-committee focuses on examining lending to specific small and medium-sized enterprises and initiating cooperation with consultants in an effort to establish a model to assess the possibility of errant loans. This model will be expanded and used for reference in extending credit to public companies seeking funds. Reputable domestic and foreign consultancy firms will be invited to assess the company's risk-related services. One consulting firm will be selected to aid in the completion of a comprehensive credit risk framework. This will improve the bank's procedures and efficiency in extending credit and help to establish a culture of risk management throughout the bank.

### 3. Operations Risk

With increasing information technology applications, the rise of e-commerce, the trend of mergers and acquisitions, the development of risk mitigation techniques and an increase in outsourcing, banks are facing a more diversified array of risk. According to the Basel II accord, operations risk covers internal operations, staff, systems problems or errors, or risk and losses from external units. Legal risk is also considered an operations risk, but strategic and reputation risk are not. The Basel II accord sets up standards for transferring or mitigating risk and makes clear definitions on what are judged to be operational risk losses. The accord also sets out rules on risk management





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and supervision to serve as the foundation for the sector. Capital charge regulations will have an impact on the domestic banking sector in the following areas:

- (1) Capital planning;
- (2) Creation of an operational risk organization culture;
- (3) Manpower training;
- (4) Announcement of information;
- (5) Adjustment of accounting methods;
- (6) Design and planning of risk management procedures;
- (7) Adjustment of organization structures;
- (8) Hardware and software investment.

Of these, creation of an operational risk organization culture and collecting sufficient historical data on operations risk and losses are major hurdles that will need to be overcome. It is important that the board and high level management participate in and implement practical measures in this regard to set a basis for the broader use of the new systems and enable the bank to raise its risk management quality in line with the Basel II accord.



# Future

▶▶ Rounding Out a Life's Growth





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## BUSINESS PLAN

### 1. Business Plan for 2005

#### (1) Adjustment in Operations Network

1. The Chihkan branch was moved to the Annan district of Tainan City. Customers are being serviced by the Tainan branch, preventing any impact on service.
2. The Tainan branch was moved to the address of the original Chihkan branch.
3. The bank will consider moving branches in the event that a commercial district has declined or that one branch is too close to another one, causing overlapping in terms of customers and the waste of resources.



#### (2) Development of New Financial Products

1. To initiate multimedia on demand bill collection
2. To provide access to Internet banking in Taiwan, Hong Kong and China
3. To initiate an Internet ATM to facilitate business with customers
4. To aggressively seek lending opportunities on Taiwan and abroad
5. To strengthen the categorization and management of risk assets
6. To coordinate marketing activities with other Hua Nan Financial Holding subsidiaries and to carry out lending
7. To undertake electronic bidding operations in line with the government's Public Construction Commission to support public infrastructure projects
8. To introduce a credit evaluation system in coordination with the corporate information database created by the credit assessment department
9. To plan computer credit evaluation systems and on-line credit approval systems to effectively monitor credit risk and further boost computerized operations
10. To establish a personal credit approval system for small-sized loans, helping the bank to expand its market share of consumer loans
11. To differentiate client groups and utilize appropriate pricing strategies; to integrate housing and consumer loans, creating a comprehensive line of products
12. To expand strategic alliances, broadening marketing networks and helping to generate profits

13. To continue to promote the principles of simple, speed, smile and security, helping to better manage customers and achieve risk management
14. Began issuing electronic chip cash cards on January 17, 2005 in line with government policy
15. To continue to expand domestic and foreign investment targets for designated use trusts, such as mutual funds, structured notes, foreign government and institutional bonds and other securities
16. To promote personal trust operations, including education, insurance and retirement funds
17. To continue to promote equity trusts, inheritance plans and other fixed asset trusts
18. In line with planning by the Information Office, to attract Taiwan companies to use the bank's electronic global credit platform
19. To aggressively develop new foreign exchange products and to look into swaptions, providing customers with avenues to hedge against interest rate risk
20. To continue to introduce integrated foreign exchange products to satisfy the personal finance demands of customers
21. To hasten the integration of DBU, OBU and overseas branch Internet banking foreign exchange operations, providing comprehensive Internet banking services.
22. To continue to strengthen the function of the Shenzhen and Vietnam representative offices, preparing them to become branches
23. To establish FTP and ALM management systems in line with the holding company; to set reasonable pricing to boost the bank's competitive edge and income profits, monitoring all risk in the process
24. To issue subordinated debentures when appropriate to strengthen fiscal structure and raise the bank's capital adequacy ratio
25. To implement the second phase of paperless bills to reduce settlement risks
26. To further promote NT dollar interest rate swap operations
27. To develop new financial derivative products, providing customers with financial planning services

### **(3) Strengthening Competitiveness**

1. Will work in conjunction with other holding company subsidiaries to carry out joint marketing and will establish securities or insurance counters at its branches; cross-marketing will raise overall group performance
2. Will create regional operations centers to carry out a division of work and raise efficiency
3. Will continue to reform operational procedures and seek to train tellers versed in many fields
4. Will strengthen the implementation of the C Project in which the cash flow mechanism will be expanded to industries other than the high-tech sector
5. Will continue to develop Internet banking and telephone voice services
6. Will adjust the location of branches as necessary, and will install ATMs in convenience stores, supermarkets and wholesale marts



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7. Will develop bank insurance operations to increase non-capital returns
8. Will seek to be an agent for the collection of various funds, such as mutual fund subscriptions, cash subscriptions among public companies or the payment of dividends
9. Will seek to be the financial partner for Taiwan companies located in Taiwan, Hong Kong and China; will strengthen its DBU, OBU and Hong Kong branch Internet banking operations to expand its C Project into foreign exchange operations
10. Will provide strategic loans to companies in line with government policy to assist in corporate development
11. Will participate in providing credit services for major public works projects
12. Will strengthen trust product marketing strategies as well as research on various marketing outlets; will integrate efforts with other holding company subsidiaries to achieve synergy

#### (4) Operational Goals

After carefully reviewing the various factors that will impact the economic climate and operating environment in 2005, the bank has made the following operational targets for this year. The bank expects average deposits to be NT\$1.142 trillion, a rise of 8.25% from the average in 2004. Average loans for the year are expected at NT\$873.01 billion, a rise of 9.13% from 2004. The bank expects foreign exchange business to amount to US\$153.65 billion for the year, which is a 28.68% rise from 2004. Hua Nan forecasts pre-tax profits for 2005 of NT\$12.53 billion, which is a 4.06% rise from pre-tax profits for 2004.

## 2. Business Research and Development

### (1) New Areas of Business in 2004

#### 1. Cash Card System and Establishment of SMS System

The bank completed its cash card operations system (billing system), and development of a credit system and performance management system (including operational information, debt management, and supervisory support). The operations system has already gone online and the other systems will be online in the first quarter of 2005. The bank has instituted an SMS system to provide customers with better information services. The content of the messages includes the amount of funds utilized on a client's cash card, notification of payment due, cash card promotions, credit lines, information regarding scams, the movement of funds between banks, that e-chip banking cards can be used as cash cards as well as information regarding credit card purchases.

#### 2. Financial Evaluation E-JCIC System

An E-JCIC credit information system can be accessed in order to satisfy the need to evaluate information of a cash card applicant. The system also works in conjunction with the cash card operations system. The system utilizes ADSL lines and provides real-time credit examination services from JCIC. In addition to enabling credit information to be stored in the bank's database, the system raises the level of automation in evaluation and provides another avenue for operations units to access information.

### 3. Debt Management System

The bank has completed development of a credit supervision and management review system as well as systems governing collateral management and analysis, debt warehousing management, overdue loan internal controls, and debtor asset protection. Information covers NT dollar loans, import and export negotiations, foreign exchange transactions, cash cards and credit cards.

### 4. Import System

The bank has completed an integrated import on-line system that combines foreign exchange and import systems. Data is stored in a mainframe computer, facilitating maintenance and management, and fostering e-commerce needs.

### 5. Internet Platform for Small-sized Loans

- (1) This platform provides tools for small-amount C2C and C2B transactions to be carried out using the Internet, helping to achieve economies of scale in terms of profits.
- (2) Internet customers are able to easily set up accounts (becoming PayVA members) using nicknames and notification is carried out via e-mail. The bank's existing electronic service network is utilized (such as Internet banking, ATMs and branches). Internet retailers can sign contracts with the bank under which small-sized consumer transaction and payments are made under the system. The system also allows for easy monitoring of billing.
- (3) Well-designed operational procedures and safety mechanisms guarantee the successful movement of funds as the result of business transactions.

### 6. Trust Fund Management and Utilization System

A subscription, redemption and trading transfer system has been designed in line with needs of the trust department. The system offers a comprehensive array of products and boosts handling fee income for the bank.

### 7. New Taiwan Dollar Structured Investment Products (Fixed deposits + Interest Rate Swaps)

The bank offers structured products combining NT dollar-denominated fixed deposits and interest rate swaps, providing a wider range of personal finance products to meet customer needs. These products help to boost investment returns for customers.

### 8. e-Learning

- (1) This provides employees in their free time with a means to increase their knowledge, boosting work efficiency.
- (2) This platform can be divided into students, instructors, course management, supervisor and content management.

### 9. Corporate Database Management System

The bank has created a corporate database management system to be able to identify potential business opportunities and small- and medium-sized enterprises that boast strong profitability and that are targets for



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loans. Data is purchased from the Taiwan Economic Journal and then entered into the system. An interface has been designed to allow all operational units to access the data.

10. Foreign Exchange Document System A system documenting OBU and foreign exchange customers has been created.
11. The bank began offering interest rate options on August 3, 2004 to provide more diversified foreign exchange products to help customers hedge against interest rate risk.
12. The bank opened a representative office in Ho Chi Minh City on September 23, 2004, expanding its overseas presence.
13. The bank's Hong Kong branch began offering NDF and NDO business on November 29, 2004.
14. The bank began offering 「Trust of Encumbrance and Related Security Interest」 in June 2004.
15. The bank was granted approval in September 2004 to begin offering investment, fiscal management and fixed asset development consultancy services.

## (2) R&D Results of the Past Three Years

Over the past three years, the bank has accepted 409 R&D initiatives by employees, having paid out NT\$314,300 in bonuses. The ideas have helped improve bank operations, raise operational performance and strengthen service quality. The bank will continue to encourage employees to provide ideas for the betterment of the bank.

## (3) Future R&D Projects

1. The bank will continue to promote A Combo Card. It will continue to promote the card to existing customers and will also encourage new customers to apply for the card.
2. The bank will contract out its credit card billing system. The Unicard system the bank presently uses does not meet operational needs. As a result, the bank has set up a task force to change the system.
3. The bank will adjust the organization structure of its credit card department, boosting network, contracted stores, information, fiscal, and quality management.
4. The bank will establish a contracted store alliance and a customer loyalty system to meet the needs of the coming age of chip-based cards. Contracted stores will receive preferential treatment and customers will enjoy various promotions and payment options under a loyalty plan.
5. The bank will develop a personal consumer loan approval system. This system is aimed at simplifying the procedure involving the review of consumer loans and will reduce the time in which loans are granted. The system will go on-line in two phases. The first phase focuses on credit financing operations, while the second phase targets automobile loans and home mortgages.
6. The bank will establish an Internet ATM system. This will enable customers with combo cards from any bank to utilize a card reader attached to one's computer and access the bank's ATM services on-line. Plans for the bank's Internet ATM initially call for a monetary function (except for cash withdrawal). Other categories of service will gradually be offered. In addition, alliances with on-line retailers will be formed, promoting shopping on the Internet. This will expand B2C banking services and increase handling fee income.
7. The bank will establish a multimedia on demand system. With the arrival of the digital interaction age, the

bank is designing digital interactive media cash flow services. It will initiate multimedia services cooperation with various parties, enabling customers to easily use their home televisions or digital boxes in conjunction with the combo card of any bank to transfer funds, check balances, or pay taxes or other fees.

8. The bank will establish a portal website system. This will include, 1) a B2C portal, enabling customers of the holding company to undertake one-stop shopping for all their financial services and products; 2) a B2E portion, which will use the latest network technology to provide business information and opportunities. Internal information management procedures will be utilized and employees of the holding company will be able to access an integrated website system.
9. The bank will develop an analytical-based customer relationship management system, including 1) a centralized sales information system, 2) an information exploration system, and 3) a sales management system.
10. The bank will develop a personal finance system, including 1) a financial planning sub-system, 2) a post-investment management sub-system, and 3) personal finance associate operations system.
11. The bank is establishing a centralized operations center, as well as bills handling centers in the central and southern parts of the island. It is also setting up a centralized contract system.
12. The bank is establishing a new FTP system and asset and liability management system, setting reasonable costs and helping to raise competitiveness and returns. This will allow for constant review of investment risks and strengthen the risk management mechanism.
13. The bank will aggressively develop financial derivative operations, providing related services necessary to the financial planning of customers.
14. The bank will continue to collect information on new financial products and map out possible investment targets, diversifying investment avenues and risk.
15. The bank is working to attract companies to its global electronic cash flow platform, enabling customers to obtain funds when necessary.
16. The bank will develop new foreign exchange products and is looking into offering swaptions.
17. The bank will continue to introduce foreign exchange structured products to meet the investment needs of customers
18. The bank will continue to strengthen the functions of the Shenzhen and Vietnam representative offices, preparing them to upgrade into branches
19. The bank will continue to select places overseas where Taiwan businesses have congregated to open more representative offices and branches.

### 3. Disposal or Acquisition of Fixed Assets or Long-term Investment Projects

- (1) Plans to dispose of long-term equity investments this year: None
- (2) Plans to acquire long-term equity investments this year: According to Article 36 of the Financial Holding Company Law, after banks have transformed into financial holding companies, bank investments should be





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determined by the holding company. Therefore, unless there are legal amendments, there will be no more long-term investment projects.

(3) Plans for disposal of fixed assets this year: None

(4) Plans to acquire fixed assets this year: The bank intends to purchase four-to-six premises for branches in 2005, providing better service to customers.

#### 4. Capital Utilization Projects

(1) The bank may issue financial debentures as it sees appropriate in order to boost capital structure, raise its capital adequacy ratio, have ample operational capital, and to be able to act in line with government policy of extending medium- and long-term credit to small- and medium-sized enterprises.

(2) Previous cash subscriptions, cash subscriptions that were not completed or capital utilization projects over the past three years that have not been realized: None

(3) State of Implementation: In 2004, the bank issued NT\$10 billion of financial debentures, comprised of NT\$4 billion of junior subordinated debentures and NT\$6 billion of subordinated debentures. The funds raised are being used to boost medium- and long-term lending, and helped to raise the bank's capital adequacy ratio by about 0.5 percentage point.



# Growth

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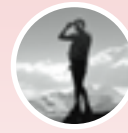




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## FINANCIAL STATEMENT

### FIVE-YEARS FINANCIAL SUMMARY

In thousands of NT \$

	31.12.2000	31.12.2001	31.12.2002	31.12.2003	31.12.2004
Operating revenues	73,429,930	69,727,159	49,927,752	49,834,137	47,893,818
Operating expenses	66,217,717	64,427,091	89,604,770	38,550,260	35,321,055
Operating income (Loss)	7,212,213	5,300,068	( 39,677,018 )	2,397,118	12,572,763
Non-operating income (Loss)	( 1,451,606 )	( 752,522 )	2,861,823	342,850	427,715
Income (Loss) before income tax	5,760,607	4,547,546	( 36,815,195 )	11,626,727	13,000,478
Net income (Loss)	4,816,968	3,974,104	( 27,187,822 )	9,006,874	9,962,622
Earning (Loss) per share (by NT Dollar)	1.30	1.07	( 7.33 )	2.43	2.69
Current assets	313,150,263	386,604,137	450,494,232	512,245,480	528,147,242
Loans, discounts and bills Purchased	823,782,076	822,150,101	807,047,059	858,999,364	885,729,850
Funds and long-term equity investment	7,133,822	9,094,996	13,557,933	11,369,148	51,794,768
Fixed assets	21,521,938	21,519,774	21,813,458	21,512,376	22,468,741
Other assets	13,781,883	14,435,861	22,570,384	20,330,511	20,388,161
Total assets	1,179,369,982	1,253,804,869	1,315,483,366	1,424,456,879	1,508,528,762
Current liabilities	143,750,222	135,943,864	150,438,458	170,099,139	133,051,071
Deposits and remittances	938,204,610	1,008,879,725	1,075,342,184	1,132,561,859	1,217,326,432
Bank debenture payable	3,299,200	13,500,700	25,000,000	50,670,000	60,670,000
Other liabilities	16,520,642	15,821,771	15,007,361	12,447,063	32,440,968
Capital stock	35,198,000	37,091,000	37,090,000	37,091,000	37,091,000
Capital surplus	18,896,281	18,405,586	18,405,586	12,618,838	15,388,081
Retained earnings (accumulated deficit)	23,536,150	24,183,443	( 5,786,748 )	9,006,874	12,664,684
Equities adjustment	( 35,123 )	( 21,220 )	( 14,475 )	( 37,894 )	( 103,474 )
Total liabilities and shareholders' equity	1,179,369,982	1,253,804,869	1,315,483,366	1,424,456,879	1,508,528,762

## T N Soong & Co and Deloitte & Touche

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English Translation of a Report Originally Issued in Chinese

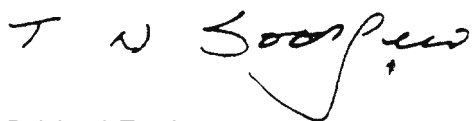
### INDEPENDENT AUDITORS' REPORT

The Board of Directors and the Stockholders  
Hua Nan Commercial Bank, Ltd.

We have audited the accompanying balance sheets of Hua Nan Commercial Bank, Ltd. (the "Bank") as of December 31, 2004 and 2003 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 statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hua Nan Commercial Bank, Ltd. as of December 31, 2004 and 2003 and the results of its operations and its cash flows for the years then ended, in conformity with the Guidelines Governing the Preparation of Financial Reports by Public Banks (amended on January 1, 2004), Guidelines Governing the Preparation of Financial Reports by Securities Issuers (amended on 2003) and accounting principles generally accepted in the Republic of China.



Deloitte & Touche

(T N Soong & Co and Deloitte & Touche (Taiwan) Established Deloitte & Touche Effective June 1, 2003)  
Taipei, Taiwan Republic of China

January 26, 2005



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## 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.

For the convenience of readers, the auditors' report and the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language auditors' report and financial statements shall prevail. Also, as stated in Note 2 to the financial statements, the additional footnote disclosures that are not required under generally accepted accounting principles were not translated into English.

**HUA NAN COMMERCIAL BANK, LTD.**  
**BALANCE SHEETS**  
**DECEMBER 31, 2004 AND 2003**

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

(The Exchange Rates as of December 31, 2004 and 2003 were NT\$31.768 and NT\$33.998 to US\$1)

ASSETS	2004		2003	
	Amount	%	Amount	%
CASH AND CASH EQUIVALENTS	\$ 27,898,980	2	\$ 26,082,520	2
DUE FROM THE CENTRAL BANK AND OTHER BANKS	127,204,364	8	142,389,474	10
SECURITIES PURCHASED, NET	347,202,148	23	321,984,122	23
RECEIVABLES, NET	25,841,750	2	20,389,488	1
PREPAYMENTS	3,072,749	-	2,532,245	-
BILLS PURCHASED, DISCOUNTS AND LOANS, NET	885,729,850	59	857,866,995	60
LONG-TERM INVESTMENTS				
Equity investments - equity method	9,313,767	-	9,369,148	1
Others	42,481,001	3	2,000,000	-
Total long-term investments	51,794,768	3	11,369,148	1
PROPERTIES				
Land (including revaluation increments)	11,812,156	1	11,884,057	1
Buildings (including revaluation increments)	11,091,141	1	10,924,329	1
Office equipment	4,396,056	-	3,943,504	-
Transportation equipment	952,061	-	914,556	-
Other equipment	2,082,266	-	1,784,813	-
Leasehold improvements	447,222	-	412,765	-
Cost and revaluation increments	30,780,902	2	29,864,024	2
Less accumulated depreciation	8,532,621	-	7,939,985	-
Construction in progress and advances on acquisitions of equipment	22,248,281	2	21,924,039	2
Net properties	22,468,741	2	22,211,253	2
OTHER ASSETS				
Deferred income tax asset, net	6,085,115	-	9,156,554	-
Others, net	11,230,297	1	10,475,080	1
Total other assets	17,315,412	1	19,631,634	1
<b>TOTAL</b>	<b>\$ 1,508,528,762</b>	<b>100</b>	<b>\$ 1,424,456,879</b>	<b>100</b>
LIABILITIES AND STOCKHOLDERS' EQUITY	2004		2003	
	Amount	%	Amount	%
LIABILITIES				
Due to the Central Bank and other banks	\$ 90,967,349	6	\$ 114,346,004	8
Bonds sold under agreements to repurchase	19,050,464	1	19,198,110	1
Payables	42,083,722	3	35,751,468	3
Advance collections	615,628	-	803,557	-
Deposits and remittances	1,217,326,432	81	1,132,561,859	79
Bank debenture payable	60,670,000	4	50,670,000	4
Other liabilities	12,774,876	1	12,447,063	1
Total liabilities	1,443,488,471	96	1,365,778,061	96
STOCKHOLDERS' EQUITY				
Capital stock, authorized and issued 3,709,100,000 shares at \$10 par value	37,091,000	2	37,091,000	2
Capital surplus	15,388,081	1	12,618,838	1
Retained earnings				
Legal reserve	2,702,062	-	-	-
Unappropriated earnings	9,962,622	1	9,006,874	1
Cumulative translation adjustments	( 103,474 )	-	( 37,894 )	-
Total stockholders' equity	65,040,291	4	58,678,818	4
COMMITMENTS AND CONTINGENT LIABILITIES				
<b>TOTAL</b>	<b>\$ 1,508,528,762</b>	<b>100</b>	<b>\$ 1,424,456,879</b>	<b>100</b>

The accompanying notes are an integral part of the financial statements



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**HUA NAN COMMERCIAL BANK, LTD.**  
**STATEMENTS OF INCOME**  
**YEARS ENDED DECEMBER 31, 2004 AND 2003**

(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

(The Exchange Rates as of December 31, 2004 and 2003 were NT\$31.768 and NT\$33.998 to US\$1)

	2004		2003	
	Amount	%	Amount	%
<b>OPERATING REVENUES</b>				
Interest	\$ 31,870,544	66	\$ 31,956,126	64
Service fees	4,112,953	9	3,396,906	7
Income from securities, net	3,629,092	8	4,497,817	9
Income from long-term equity investments under the equity method, net	105,329	-	45,055	-
Foreign exchange gain, net	676,776	1	677,085	1
Others	7,499,124	16	9,261,148	19
Total operating revenues	<u>47,893,818</u>	<u>100</u>	<u>49,834,137</u>	<u>100</u>
<b>OPERATING EXPENSES</b>				
Interest	15,015,817	31	14,724,917	30
Service charges	793,575	2	595,711	1
Provision for reserves, bad debts and losses from decline in market value of securities purchased and investments	6,327,182	13	10,934,940	22
General and administrative	12,958,665	27	12,075,366	24
Others	225,816	1	219,326	-
Total operating expenses	<u>35,321,055</u>	<u>74</u>	<u>38,550,260</u>	<u>77</u>
<b>OPERATING INCOME</b>	12,572,763	26	11,283,877	23
<b>NONOPERATING INCOME</b>	638,233	1	658,718	1
<b>NONOPERATING EXPENSES</b>	210,518	-	315,868	-
<b>INCOME BEFORE INCOME TAX</b>	13,000,478	27	11,626,727	23
<b>INCOME TAX</b>	3,037,856	6	2,619,853	5
<b>NET INCOME</b>	<u>\$ 9,962,622</u>	<u>21</u>	<u>\$ 9,006,874</u>	<u>18</u>
	<b>Before Income Tax</b>	<b>After Income Tax</b>	<b>Before Income Tax</b>	<b>After Income Tax</b>
<b>BASIC EARNINGS PER SHARE</b>	<u>\$ 3.51</u>	<u>\$ 2.69</u>	<u>\$ 3.13</u>	<u>\$ 2.43</u>

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

**HUA NAN COMMERCIAL BANK, LTD.**  
**STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**  
**YEARS ENDED DECEMBER 31, 2004 AND 2003**

(In Thousands of New Taiwan Dollars)  
(The Exchange Rates as of December 31, 2004 and 2003 were NT\$31.768 and NT\$33.998 to US\$1)

	Capital Stock		Capital Surplus (Notes 2 and 19)		
	Shares	Amount	Additional Paid-in Capital	Gain on Sale of Properties	Revaluation Increments on Properties
BALANCE, JANUARY 1, 2003	3,709,100,000	\$ 37,091,000	\$ 15,606,193	\$ 28,073	\$ 2,769,243
Offset of 2002 deficit	—	—	( 2,989,432 )	( 28,073 )	( 2,769,243 )
Net income in 2003	—	—	—	—	—
Change in cumulative translation adjustments	—	—	—	—	—
BALANCE, DECEMBER 31, 2003	3,709,100,000	37,091,000	12,616,761	—	—
Legal reserve	—	—	—	—	—
Reverse of additional paid-in capital	—	—	—	—	2,769,243
Cash dividends	—	—	—	—	—
Bonuses to employees - cash	—	—	—	—	—
Net income in 2004	—	—	—	—	—
Change in cumulative translation adjustments	—	—	—	—	—
BALANCE, DECEMBER 31, 2004	<u>3,709,100,000</u>	<u>\$ 37,091,000</u>	<u>\$ 12,616,761</u>	<u>\$ —</u>	<u>\$ 2,769,243</u>

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





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Others	Total	Retained Earnings (Accumulated Deficits) (Note 19)				Cumulative Translation Adjustments (Note 2)	Total Stockholders' Equity
		Legal Reserve	Special Reserve	Unappropriated Earnings (Deficit)	Total		
\$ 2,077	\$ 18,405,586	\$ 17,986,244	\$ 3,410,019	(\$ 27,183,011)	(\$ 5,786,748)	(\$ 14,475)	\$ 49,695,363
—	( 5,786,748 )	( 17,986,244 )	( 3,410,019 )	27,183,011	5,786,748	—	—
—	—	—	—	9,006,874	9,006,874	—	9,006,874
—	—	—	—	—	—	( 23,419 )	( 23,419 )
2,077	12,618,838	—	—	9,006,874	9,006,874	( 37,894 )	58,678,818
—	—	2,702,062	—	( 2,702,062 )	—	—	—
—	2,769,243	—	—	( 2,769,243 )	( 2,769,243 )	—	—
—	—	—	—	( 3,031,184 )	( 3,031,184 )	—	( 3,031,184 )
—	—	—	—	( 504,385 )	( 504,385 )	—	( 504,385 )
—	—	—	—	9,962,622	9,962,622	—	9,962,622
—	—	—	—	—	—	( 65,580 )	( 65,580 )
<u>\$ 2,077</u>	<u>\$ 15,388,081</u>	<u>\$ 2,702,062</u>	<u>\$ —</u>	<u>\$ 9,962,622</u>	<u>\$ 12,664,684</u>	<u>(\$ 103,474)</u>	<u>\$ 65,040,291</u>

**HUA NAN COMMERCIAL BANK, LTD.**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED DECEMBER 31, 2004 AND 2003**

(In Thousands of New Taiwan Dollars)

(The Exchange Rates as of December 31, 2004 and 2003 were NT\$31.768 and NT\$33.998 to US\$1)

	2004	2003
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income (loss)	\$ 9,962,622	\$ 9,006,874
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	877,665	1,073,768
Amortization of premium on long-term bond investments	334,313	26,798
(Gain) loss on disposal of properties, net	( 326,978 )	260
Loss (gain) from disposal of long-term investments	69,477	( 34,521 )
Cash dividends from equity investees	81,930	—
Gain from long-term equity investments under the equity method	( 105,329 )	( 45,055 )
Provision for reserves, bad debts and losses from decline in market value of securities purchased and investments	7,223,383	11,292,940
Deferred income tax	3,071,439	2,509,770
Net changes in operating assets and liabilities		
Accrued pension cost	165,254	( 75,746 )
Receivables and prepayments	( 6,173,695 )	( 2,858,568 )
Payables and advance collections	6,144,325	( 1,809,041 )
Others	( 382,125 )	( 133,408 )
Net cash provided by operating activities	<u>20,942,281</u>	<u>18,954,071</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Decrease (increase) in due from the Central Bank and other banks	15,185,111	( 15,895,063 )
Decrease in investment in bonds under resale agreement	230,000	—
Increase in bills purchased, discounts and loans	( 34,084,988 )	( 61,992,779 )
Increase in securities purchase	( 26,072,749 )	( 38,923,657 )
Proceeds from sale of long-term investments	10,160	358,058
Increase in long-term investments	( 40,815,314 )	( 2,000,000 )
Acquisition of properties	( 1,339,979 )	( 968,891 )
Proceeds from sale of properties	459,338	—
Increase in other assets	( 810,612 )	( 74,805 )
Net cash used in investing activities	<u>( 87,239,033 )</u>	<u>( 119,497,137 )</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
(Decrease) increase in due to the Central Bank and other banks	( 23,378,655 )	27,455,464
Decrease in bonds sold under agreements to repurchase	( 147,646 )	( 5,985,742 )
Increase in deposits and remittances	84,764,573	57,219,675
Increase in bank debenture payable	10,000,000	25,670,000
Decrease in funds borrowed from the Central Bank and other banks	—	( 2,819,962 )
Increase in other liabilities	410,509	335,410
Cash dividends paid	( 3,031,184 )	—
Bonuses paid to employees	( 504,385 )	—
Net cash provided by financing activities	<u>68,113,212</u>	<u>101,874,845</u>
<b>INCREASE IN CASH</b>	<u>1,816,460</u>	<u>1,331,779</u>
<b>CASH, BEGINNING OF YEAR</b>	<u>26,082,520</u>	<u>24,750,741</u>
<b>CASH, END OF YEAR</b>	<u>\$ 27,898,980</u>	<u>\$ 26,082,520</u>
<b>SUPPLEMENTAL CASH FLOWS INFORMATION</b>		
Interest paid	<u>\$ 14,681,072</u>	<u>\$ 15,713,862</u>
Income tax paid	<u>\$ 741,292</u>	<u>\$ 836,949</u>
<b>NONCASH INVESTING ACTIVITIES</b>		
Purchase of notes and securities reclassified as long-term investments	<u>\$ —</u>	<u>\$ 2,000,000</u>

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



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## **HUA NAN COMMERCIAL BANK, LTD. NOTES TO FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2004 AND 2003**

(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)  
(The Exchange Rates as of December 31, 2004 and 2003 were NT\$31.768 and NT\$33.998 to US\$1)

### **ORGANIZATION AND OPERATIONS**

Hua Nan Commercial Bank, Ltd. (the “Bank”) was established on March 1, 1947 through the restructuring of the China and Southern Bank, which was founded in 1919. It engages in (a) all commercial banking operations allowed by the Banking Law; (b) international banking operations; (c) overseas branch operations authorized by the respective foreign governments; and (d) other operations as authorized by the central authorities.

The Bank maintains its Head Office in Taipei. As of December 31, 2004, the Bank had Banking, Financing, International Banking and Trust Departments as well as 196 domestic branches and representative offices, an offshore banking unit (OBU), 5 overseas branches, and 2 overseas representative office.

The operations of the Bank’s Trust Department consist of (1) trust business planning, managing and operating and (2) custody of nondiscretionary trust fund in domestic and overseas securities and mutual funds. These operations are regulated under the Banking Law and the Trust Law.

Under the Financial Holding Company Law, the Bank and EnTrust Securities Co., Ltd. (“EnTrust”) established Hua Nan Financial Holdings Co., Ltd. (the “HNFH”), a financial holding company, through stock conversion on December 19, 2001. The parties established the holding company to maximize the benefit of their combined capital, pool their business channels, and fully harness the synergy of the diversified business operations. The Bank and EnTrust exchanged issued shares with HNFH at ratios of 1:1 and 1.2821:1 (“1” refers to HNFH), respectively, and the stockholders approved this share swap on November 14, 2001. The board of directors (the “BOD”) resolved the effective date of stock conversion as December 19, 2001. Thus, on December 19, 2001, the Bank, HNFH’s wholly owned subsidiary with no quoted market price, and HNFH’s shares became listed on the Taiwan Stock Exchange (TSE). EnTrust was renamed as Hua Nan Securities Co., Ltd. (HNSC) in June 2003.

As of December 31, 2004 and 2003, the Bank had 7,322 and 6,598 employees, respectively.

### **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Bank’s financial statements were prepared in conformity with Guidelines Governing the Preparation of Financial Reports by Public Banks (amended on January 1, 2004), Guidelines Governing the Preparation of Financial Reports by Securities Issuers (amended on 2003) and accounting principles generally accepted in the Republic of China (ROC).

Since the length of the operating cycle in the banking industry could not be reasonably identified, accounts included in the Bank's financial statements were not classified as current or noncurrent. Nevertheless, accounts were properly categorized according to the nature of each account and sequenced by their liquidity. The maturity analysis of the Bank's assets and liabilities is shown in Note 26.

For the convenience of readers, the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language financial statements shall prevail. However, the accompanying financial statements do not include English translation of the additional footnote disclosures that are not required under generally accepted accounting principles but are required by the Securities and Futures Bureau (SFB, formerly the "Securities and Futures Commission" before July 1, 2004) for their oversight purposes.

The Bank's significant accounting policies are summarized below:

### **Basis of Financial Statement Preparation**

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

### **Securities Purchased**

Securities purchased, which consist of government bonds, corporate bonds, financial bonds, short-term negotiable instruments, foreign securities, listed and over-the-counter stocks and beneficiary certificates of mutual funds, are stated at the lower of aggregate cost or market on the balance sheet dates, taking into account country risk on foreign securities, except preferred stocks, which are stated at cost. When the market value of securities purchased declines carrying value, an allowance is provided. If the market value recovers, the allowance will be reversed up to the amount of the recovery.

Cost of securities sold is determined on the basis of the specific identification method, but the moving-average method is used for stocks and beneficiary certificates.

Bond transactions under resale or repurchase agreements are recorded as financing transactions. Short-term negotiable instruments under resale or repurchase agreements are treated as outright purchases and sales. But under the "Guidelines Governing the Preparation of Financial Reports by Public Banks," amended on January 1, 2004, the repurchase/resale transactions will be treated as financing.



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## Nonperforming Loans

The balance of overdue loans and other credits extended by the Bank and the related accrued interest are classified as nonperforming loans pursuant to the relevant regulations.

## Allowance for Credit Losses and Provision for Losses on Guarantees

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

Under the “Regulations of the Procedures for Banking Institutions to Evaluate Assets and Deal with Post-Due Non-Performing Loans Bad Debts” (amended on February 11, 2003), promulgated by the Ministry of Finance (MOF), the Bank evaluates credit losses on the basis of its borrowers'/clients' financial position, the Bank's prior experiences, repayments for principal and interest by borrowers'/clients, collaterals provided, and estimated collectibility of the loans. Those loans are classified as 4-class.

The Bank assesses losses on particular loans in accordance with the above MOF rules. The regulation provided that the minimum provision for credit losses should not be less than the aggregate of 50% of the class three credits and 100% of the class four credits.

The Bank's policy of provision for loans and non-performing loans is described as follows:

- (a) Class one (normal status credits): 0.04%
- (b) Class two (likely to be paid in full): 1%
- (c) Class three (Difficult to receive full repayment): 50%
- (d) Class four (no hope of repayment): 100%

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

## Long-Term Investments

Long-term equity investments are accounted for by the equity method or the cost method depending on the Bank's influence on the investee companies.

Investments accounted for by the equity method are stated at cost plus (or minus) a proportionate share in the investees' net earnings (losses) or changes in net worth. Shares in net earnings (net losses) are recognized as investment income (loss), and cash dividends received are accounted for as a reduction of the carrying value of

the investments. Stock dividends received result only in increase in number of shares and are not recognized as investment income.

Investments accounted for by the cost method are carried at cost. Cash dividends received a year or more after the acquisition date are recognized as investment income. Stock dividends result only in an increase in the number of shares and are not recognized as investment income. On the balance sheet dates, if the aggregate market value of listed stocks or over-the-counter stocks falls below cost, this unrealized decline in market value is debited to stockholders' equity. If a decline in the value of unlisted stocks is considered irrecoverable, the carrying value of this investment is adjusted, and the realized loss is charged to current income.

Cost of long-term equity investments sold is determined by the weighted-average method.

Long-term bond investments are stated at cost. The premium or discount on acquisition is amortized using the straight-line method over the residual period of the bond, which is stated as an adjustment to interest revenue. Cost of bond investments matured or sold is determined by the specific identification method.

For the securities purchased reclassified as the long-term investments or long-term investments reclassified as securities purchased, when the market value is lower than the carrying amount, a realized loss for market value decline is recognized, and the reduced market value becomes the new carrying value.

Other long-term investments are cumulative, nonparticipating and convertible preferred stocks.

## Properties

Properties are stated at cost, or cost plus revaluation increments, less accumulated depreciation. Major renewals, additions and improvements are capitalized, while repairs and maintenance are expensed as incurred.

Depreciation of properties is using the straight-line method over estimated useful lives of the respective assets. Leasehold improvements are depreciated over the lease periods or five years, whichever is shorter. Revaluation increments are depreciated over the remaining useful lives on the revaluation dates. For assets that have reached their full residual values but remain in use, further depreciation is calculated over the reestimated useful lives.

Upon disposal or other sale of properties, their cost and related accumulated depreciation are removed from the respective accounts. Any resulting gain (loss) is credited (charged) to current income. Up to December 31, 2000, gain on disposal of properties was recorded as nonoperating income and then transferred to capital surplus after deducting applicable income tax.



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## Collaterals Assumed

Collaterals assumed are recorded at cost (included in other assets) and revalued at the lower of cost or net realizable value on the balance sheet dates.

## Pension Costs

Since its privatization on January 22, 1998, employee retirement benefits have been based on the Labor Standards Law, with the year of service restarted from January 22, 1998. According to the Statement of Financial Accounting Standards ("SFAS") No.18, "Accounting for Pensions", pension costs related to the defined benefit pension plan are recognized on the basis of actuarial calculations.

## Recognition of Revenue

Interest revenue on loans is recorded on the basis of 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/credits is recognized upon collection. Under Ministry of Finance regulations, the interest revenue on credits for which agreements have been reached to extend their maturities is recognized upon collection.

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

Preferred dividend is accrued according to issuance terms.

## Income Taxes

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

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

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

Income tax (10%) on unappropriated earnings after July 1, 1998 is recorded as income tax in the year when the stockholders resolve the appropriation of the earnings.

The Bank chose to adopt the linked-tax system together with its parent company, HNFH, and all subsidiaries of HNFH. Under a directive issued by the Accounting Research and Development Foundation of R.O.C., the related accounting policy on the linked-tax system requires a reasonable and systematic method for tax allocation. Such tax allocation is recorded as receivables or payables.

## 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. If loss is possible but the amount of the loss cannot be reasonably estimated, the information on the circumstances that might give rise to the loss should be disclosed in the notes to the financial statements.

## Foreign-Currency Transactions

The Bank records foreign-currency transactions in the respective currencies in which these are denominated at rates when the transactions occur. Foreign-currency denominated income and expenses are translated into New Taiwan dollars at the exchange rates announced by the Central Bank of China (CBC) at each month end. Foreign-currency assets and liabilities, except those resulting from forward contracts, are translated into New Taiwan dollars on the balance sheet dates at closing rates published by the CBC. Realized and unrealized foreign exchange gains or losses resulting from these translations are credited or charged to current income. Retained earnings or accumulated deficits of overseas branches are translated into New Taiwan dollars at historical rates, and the resulting unrealized gains or losses are recorded as “cumulative translation adjustments” under stockholders’ equity.

## Derivative Financial Instruments

### a. Forward exchange contracts

Foreign-currency assets and liabilities on forward exchange contracts, which are mainly for accommodating customers’ needs or managing the Bank’s currency positions, are recorded at the contracted forward rates. Gains or losses arising from the differences between the contracted forward rates and spot rates at settlement are credited or charged to current income. For contracts open as of the balance sheet dates, the gains or losses arising from the differences between the contracted forward rates and the forward rates available for the remaining maturities of the contracts are credited or charged to current income. Receivables and payables on the forward contracts are netted out on the balance sheet dates.

Nondeliverable forward contracts do not involve exchanges of principals upon settlement. The gains or losses on





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the differences between the contracted forward rate and the spot rate at on settlement are recognized as foreign exchange gain or loss.

### **b. Interest rate swap**

Interest rate swaps, which are used for nontrading purposes, do not involve exchanges of the contractual (notional) principals, which are recorded on the contract dates using memorandum entries. The net interest upon each settlement is recorded as an adjustment to interest revenue or expense associated with the items being hedged.

### **c. Cross-currency swap**

Cross-currency swap contracts, which are for hedging purposes, are recorded at rates prevailing on the contract dates. The net interest upon each settlement is recorded as an adjustment to interest revenue or expense associated with the item being hedged.

Cross-currency swap contracts, which are for the purposes of accommodating customers' needs or managing the Bank's exposures, are marked to market as of the balance sheet dates.

The interest received or paid on the settlement date or balance sheet date are recognized as interest income or expense, which are credited or charged to current income.

### **d. Currency swap contracts**

Foreign-currency spot-position assets or liabilities on currency swap contracts 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 spot rate on the contract date and contracted forward rate is amortized by the straight-line method over the term of the contract and recorded as interest income or expense. On the balance sheet date, the receivables and payables contracts are netted out.

### **e. Options**

Premiums paid or received for options are recorded as assets or liabilities, respectively, and are recognized as revenue or expense upon each settlement. Gains or losses on the exercise of these options are credited or charged to current income. Options outstanding on the balance sheet dates are marked to market, and the resulting gains or losses are recognized currently.

## **Reclassifications**

Certain 2003 accounts have been reclassified to conform to the 2004 financial statement presentation.

## REASONS OF AND EFFECTS ON CHANGES IN ACCOUNTING PRINCIPLES

Stating from January 1, 2004, according to Guidelines Governing the Preparation of Financial Reports by Public Banks, transactions of bonds and other short-term securities under agreements to repurchase or resale are changed from method of outright sales or purchase to method of financing. For the year ended December 31, 2004, the change in accounting principles was resulted in the decrease of net income by \$145,609 thousand. According to the letter promulgated by the Securities and Futures Committee (renamed as the "Securities and Futures Bureau") on November 26, 2003, cumulative effect of such changes in accounting principles was not disclosed, because which cannot be determined due to such transactions of bonds and other short-term securities under agreements to repurchase or resale were numerous and had been a long time.

## CASH AND CASH EQUIVALENTS

	2004	2003
Notes and checks for clearing	\$ 12,324,635	\$ 9,329,677
Cash	7,990,477	7,339,238
Foreign currencies	609,170	653,740
Due from other banks	6,974,698	8,759,865
	<u>\$ 27,898,980</u>	<u>\$ 26,082,520</u>

## DUE FROM THE CENTRAL BANK

	2004	2003
Call loans to other banks	\$ 73,021,657	\$ 86,983,095
Reserve - checking account	23,054,986	16,862,290
Reserve - demand account	31,016,123	28,118,335
Reserve - foreign deposit	3,177	71,396
Deposit in the Central Bank	-	10,154,000
Others	108,421	200,358
	<u>\$ 127,204,364</u>	<u>\$ 142,389,474</u>

Under relevant regulations, the Bank maintains a certain amount of deposit, at a prescribed rate based on daily average of clients' deposits, in reserve-demand account. The amount of reserve is subject to withdrawal restrictions and adjusted monthly. Reserve-demand account is beared with interest at interest rate announced by the Central Bank.

Reserve - checking account and reserve - foreign deposit are beared with no interest, and are allowed to be withdrawn anytime.



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## SECURITIES PURCHASED

	2004	2003
Certificate of deposit purchased	\$ 260,140,703	\$ 223,640,230
Foreign securities	43,165,564	46,598,360
Securities - dealing	19,368,734	32,884,568
Listed and over-the-counter stocks and beneficiary certificates	6,935,622	6,580,637
Treasury bills	990,302	—
Bonds	14,881,656	9,783,811
Securities purchased under resale agreements	720,000	950,000
Bank acceptances	3,693	26,307
Commercial paper	2,108,028	2,100,500
Securities - underwriting	644,308	551,448
	348,958,610	323,115,861
Less : allowance for decline in market value	1,756,462	1,131,739
	<u>\$ 347,202,148</u>	<u>\$ 321,984,122</u>

As of December 31, 2004 and 2003, securities purchased pledged as guarantee deposits or reserves are described in Note 13.

## RECEIVABLES

	2004	2003
Acceptances receivable	\$ 8,826,798	\$ 8,882,580
Interest receivable	5,006,808	4,048,577
Accrued revenue	1,450,368	1,366,876
Receivables from lending to employees	208,617	204,826
Accounts receivable	5,539,639	2,718,330
Receivables from related party for allocation under the linked-tax system	374,655	526,380
Receivable for advances on letters of credit	445,213	391,217
Receivable from clearing	163,291	226,511
Refundable tax	851,694	211,951
Others	3,892,025	2,548,669
	26,759,108	21,125,917
Less : allowance for bad debts	917,358	736,429
	<u>\$ 25,841,750</u>	<u>\$ 20,389,488</u>

**BILLS PURCHASED, DISCOUNTS AND LOANS**

	2004	2003
Short-term loans		
Unsecured	\$ 239,706,406	\$ 249,135,640
Secured	111,633,843	107,317,853
Medium-term loans		
Unsecured	156,158,332	140,472,609
Secured	77,441,951	68,837,032
Long-term loans		
Unsecured	29,946,782	31,343,478
Secured	242,161,699	223,481,676
Bills discounted	20,617	8,924
Overdraft		
Unsecured	1,560,723	3,897,584
Secured	1,849,230	734,520
Bills purchased and import and outward bills	13,702,647	12,079,380
Nonperforming loans	20,141,930	30,873,706
	894,324,160	868,182,402
Less : allowance for bad debts	8,594,310	10,315,407
	<u>\$ 885,729,850</u>	<u>\$ 857,866,995</u>

The unrecognized interest revenue on nonperforming loans amounted to \$1,232,151 thousand and \$2,148,070 thousand for the years ended December 31, 2004 and 2003, respectively.

For the years ended December 31, 2004 and 2003, the Bank wrote off credits only after completing the required legal procedures.

The changes in the allowance for bad debts on loans, discounts and bills purchased for the years ended December 31, 2004 and 2003 are summarized below:

	For the Year Ended December 31, 2004			For the Year Ended December 31, 2003		
	Specific Risk	General Risk	Total	Specific Risk	General Risk	Total
Balance, January 1	\$ 7,216,495	\$ 3,098,912	\$10,315,407	\$ 6,437,580	\$ 2,758,824	\$ 9,196,404
Provision (reverse)	7,102,249	( 898,961)	6,203,288	10,137,872	327,936	10,465,808
Write-off	( 7,855,354)	( 21,214)	( 7,876,568)	( 9,358,957)	—	( 9,358,957)
Effects of exchange rate changes	( 12,746)	( 35,071)	( 47,817)	—	12,152	12,152
Balance, December 31	<u>\$ 6,450,644</u>	<u>\$ 2,143,666</u>	<u>\$ 8,594,310</u>	<u>\$ 7,216,495</u>	<u>\$ 3,098,912</u>	<u>\$ 10,315,407</u>



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## LONG-TERM STOCK INVESTMENTS

	2004		2003	
	Amount	%	Amount	%
Equity method				
Stocks with no quoted market prices				
Hua Nan Bills Finance Co.	\$ 1,701,792	42.41	\$ 1,698,386	42.41
HNCB Insurance Agency Co., Ltd.	150,803	100.00	141,280	99.88
Chung-Hua Real Estate Management Co.	80,796	30.00	70,326	30.00
Total long-term equity investments under equity method	1,933,391		1,909,992	
Cost method				
Listed and over-the-counter stocks				
First Financial Holdings	1,216,750	2.97	1,216,750	2.97
Taiwan Business Bank	1,117,942	4.26	1,117,942	5.01
Taiwan Development & Trust Co.	114,060	5.70	171,090	5.70
Chang Hwa Commercial Bank	143,395	0.38	143,395	0.38
Taiwan Navigation Co., Ltd.	42,979	1.88	42,979	1.88
Bank of Overseas Chinese	17,021	0.28	28,369	0.28
Total	2,652,147		2,720,525	
Stocks with no quoted market prices				
Taiwan Asset Management Corporation	2,000,000	11.35	2,000,000	11.35
Taiwan Power Co., Ltd.	1,184,504	0.45	1,184,504	0.45
Tang Eng Iron Works Co., Ltd.	621,490	8.88	621,490	8.88
CDIB & Partners Investment Holding Corp.	500,000	4.95	500,000	4.95
Taiwan Television Enterprise	81,570	7.25	81,570	7.25
Taiwan Stock Exchange Co.	72,000	3.00	72,000	3.00
Fuyu Venture Capital Investment Co.	60,000	4.44	60,000	4.44
Taiwan Financial Asset Service Corporation	50,000	2.94	50,000	2.94
Financial Information Service Co., Ltd.	46,358	1.15	45,500	1.14
Capital Venture Management Co.	30,000	5.00	30,000	5.00
Taiwan Sugar Corp.	28,029	0.14	28,029	0.14
Others	54,278	—	65,538	—
Total	4,728,229		4,738,631	
Total long-term stock investments	\$ 9,313,767		\$ 9,369,148	

The aggregate market values of listed and over-the-counter stocks, based on the average closing prices in December of 2004 and 2003, were \$6,927,171 thousand and \$5,607,395 thousand, respectively.

The Bank recognized \$105,329 thousand and \$45,055 thousand income from long-term equity investments under the equity method in 2004 and 2003, respectively. The calculation of the carrying amounts of the investments accounted for by the equity method as of December 31, 2004 and 2003 and the related investment income for the years then ended was based on the investees' audited financial statements.

The total assets and total operating revenues of the HNCB Insurance Agency Co., Ltd. were each less than 10% of those of the Bank; thus, no consolidated financial statements is required.

## OTHER LONG-TERM INVESTMENTS

	2004	2003
Preferred stock		
Taiwan High Speed Rail Corporation	\$ 2,000,000	\$ 2,000,000
Government Bonds		
Government Bond 89-14	1,409,078	—
Government Bond 89-5	3,700,862	—
Government Bond 89-10	404,051	—
Government Bond 89-2	1,218,149	—
Transportation Construction B85-1	63,145	—
Transportation Construction B85-2	219,253	—
Transportation Construction A85-6	67,461	—
Government Construction A89-6	1,396,208	—
Government Construction 89-8	3,922,050	—
Government Construction 86-10	224,161	—
Government Construction A88-1	1,070,862	—
Government Construction 86-1	1,096,679	—
Government Construction 86-2	2,191,221	—
Government Construction 87-1	2,415,712	—
Government Construction A90-1	4,586,440	—
Government Construction A92-8	546,861	—
Government Construction A92-7	5,678,563	—
	<u>30,210,756</u>	<u>—</u>
Corporate Bonds		
91 Yuan Ding 1B01	516,293	—
91 Union Textile 0418	507,701	—
Test Rite 881A	460,426	—
90 Taiwan Power 1A02 (N)	413,650	—
Far Eastern Textile 67A	404,625	—
91 Taiwan Power 3C04	356,451	—
90 Evergreen 0831	327,249	—
91 Taiwan Power 2D09 (N)	310,594	—
91 Taiwan Power 2D07 (N)	310,541	—
90 Yuen Fong 1B01	309,707	—
90 Asia Cement 1C	307,873	—
91 Taiwan Power 3C06 (N)	305,542	—
91 Taiwan Power 3C11 (N)	305,177	—
90 Taiwan Power 3A15	304,838	—
91 New Hundred 1A	304,609	—
91 Taiwan Power 4B07	303,496	—
90 Evergreen 1B01	303,385	—
91 Taiwan Power 4C02 (N)	303,331	—
Others	2,703,690	—
	<u>9,059,178</u>	<u>—</u>
Financial Bonds		
91 Taipei Bank	498,944	—
91 Chiao Tung Bank	712,123	—
	<u>1,211,067</u>	<u>—</u>
Total other long-term investments	\$ <u>42,481,001</u>	\$ <u>2,000,000</u>



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## PROPERTIES

	2004	2003
Land		
Cost	\$ 2,832,320	\$ 2,849,560
Revaluation increments	8,979,836	9,034,497
	<u>\$ 11,812,156</u>	<u>\$ 11,884,057</u>
Buildings		
Cost	\$ 11,049,040	\$ 10,882,861
Revaluation increments	42,101	41,468
	<u>\$ 11,091,141</u>	<u>\$ 10,924,329</u>
Accumulated depreciation		
Buildings		
Cost	\$ 3,000,797	\$ 2,737,940
Revaluation increments	11,434	10,433
	<u>3,012,231</u>	<u>2,748,373</u>
Office equipment	3,379,221	3,267,426
Transportation equipment	695,779	640,110
Other equipment	1,174,996	1,059,647
Lease improvements	270,394	224,429
	<u>\$ 8,532,621</u>	<u>\$ 7,939,985</u>

The Bank revalued its land and buildings several times in prior years. As of December 31, 2004, land and building revaluation increments (including both operating and nonoperating assets) amounted to \$14,898,558 thousand; reserve for land value increment tax (included in long-term liabilities) amounted to \$8,372,351 thousand. The net of the related reserve is included in capital surplus.

No properties had been pledged as collateral as of December 31, 2004

## OTHER ASSETS

	2004	2003
Deferred income tax assets, net	\$ 6,085,115	\$ 9,156,554
Nonoperating assets, net	8,416,430	8,471,825
Refundable deposits	1,510,995	1,160,716
Collaterals assumed, net	1,189,663	685,196
Other assets to be settled	91,241	92,099
Other	21,968	65,244
	<u>\$ 17,315,412</u>	<u>\$ 19,631,634</u>

**Nonoperating assets consisted of:**

	2004	2003
Land		
Cost	\$ 1,849,596	\$ 1,860,854
Revaluation increments	5,864,121	5,899,816
	<u>7,713,717</u>	<u>7,760,670</u>
Buildings		
Cost	952,220	937,899
Revaluation increments	12,500	12,312
	<u>964,720</u>	<u>950,211</u>
Total cost and revaluation increments	8,678,437	8,710,881
Less : accumulated depreciations	262,007	239,056
	<u>\$ 8,416,430</u>	<u>\$ 8,471,825</u>

Buildings and part of the land included in nonoperating assets had been leased to other entities.

**PLEGGED ASSETS**

	2004	2003
Certificates of deposit purchased	\$ 9,000,000	\$ 15,000,000
Bonds - per value	977,400	1,185,700
	<u>\$ 9,977,400</u>	<u>\$ 16,185,700</u>

**Information on pledged bonds is as follows:**

	2004	2003
Guarantee deposit for provisional seizure of collaterals for due to loan defaults and others	\$ 733,700	\$ 748,200
Guarantee deposit for tax appeals	—	181,500
Guarantee deposit for futures clearing reserve	90,000	90,000
Guarantee deposit for securities trading operations	50,000	50,000
Guarantee deposit for trust business compensation reserve	50,000	50,000
Guarantee deposits for bills trading operations	50,000	50,000
Others	3,700	16,000
	<u>\$ 977,400</u>	<u>\$ 1,185,700</u>

**DUE TO OTHER BANKS**

	2004	2003
Deposits from the Central Bank	\$ 273,938	\$ 190,752
Call loans from other banks	85,232,762	107,983,031
Overdraft	4,975,851	5,353,475
Deposits from other banks	484,798	818,746
	<u>\$ 90,967,349</u>	<u>\$ 114,346,004</u>

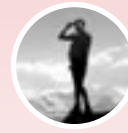




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## PAYABLES

	2004	2003
Notes and checks in clearing	\$ 12,324,635	\$ 9,329,677
Bank acceptances payable	9,345,976	9,341,618
Interest payable	3,997,446	3,681,360
Accrued expenses	1,950,349	1,814,332
Collections for others	1,815,179	1,249,830
Tax payable	417,221	512,981
Dividend payable	300,977	302,340
Others	11,931,939	9,519,330
	<u>\$ 42,083,722</u>	<u>\$ 35,751,468</u>

## DEPOSITS AND REMITTANCES

	2004	2003
Savings deposits	\$ 640,279,536	\$ 613,276,026
Time deposits	260,301,819	242,967,264
Demand deposits	257,876,073	216,285,034
Checking account deposits	50,155,020	50,222,017
Negotiable certificates of deposits	7,884,300	9,029,500
Remittances	829,684	782,018
	<u>\$ 1,217,326,432</u>	<u>\$ 1,132,561,859</u>

## BANK DEBENTURES PAYABLE

	2004	2003
90-1 term 10-year subordinated debentures; 4.20% fixed rate; maturity on August 30, 2011; the rate will become floating if the Bank cannot redeem the debenture by August 30, 2006	\$ 6,200,000	\$ 6,200,000
90-2 term seven-year subordinated debenture; 3.80% fixed rate; maturity on October 22, 2008	3,800,000	3,800,000
91-1 term five-year subordinated debenture; 4.10% fixed rate; maturity on April 29, 2007	4,250,000	4,250,000
91-2 term five-year subordinated debenture; 4.10% fixed rate; maturity on April 29, 2007	700,000	700,000
91-3 term five-year subordinated debenture; 4.10% fixed rate; maturity on May 20, 2007	880,000	880,000
91-4 term five-year subordinated debenture; 4.10% fixed rate; maturity on May 20, 2007	1,070,000	1,070,000
91-5 term five-year subordinated debenture; 3.75% simple interest rate in first three years, and floating rate in last two years; maturity on May 20, 2007	300,000	300,000
91-6 term five-year subordinated debenture; floating rate; maturity on May 20, 2007	300,000	300,000
91—7次順位七年期，機動利率，到期日：98.5.20	5,000,000	5,000,000

	2004	2003
91-8 term seven-year subordinated debenture; floating rate; maturity on June 18, 2009	2,500,000	2,500,000
92-1 term eight-year debenture; floating interest rate in the first five years, 1.5% in the sixth year and 0.5% in the seventh and eighth years; maturity on February 24, 2011	2,480,000	2,480,000
92-2 term seven-year debenture; floating interest rate; maturity on February 27, 2010	1,500,000	1,500,000
92-3 term eight year debenture; floating interest rate; maturity on February 27, 2011	500,000	500,000
92-4 term eight-year debenture; floating interest rate; maturity on February 27, 2011	490,000	490,000
92-5 term five-year debenture; floating interest rate; maturity on September 10, 2008	1,200,000	1,200,000
92-6 term five-year debenture; floating interest rate; maturity on October 7, 2008	1,000,000	1,000,000
92-7 term five-year debenture; floating interest rate; maturity on October 7, 2008	300,000	300,000
92-8-1 term two-year subordinated debenture; fixed interest rate; maturity on October 16, 2005	2,937,000	2,937,000
92-8-2 term three-year subordinated debenture; fixed interest rate; maturity on October 16, 2006	1,563,000	1,563,000
92-9 term five-year debenture; floating interest rate; maturity on November 7, 2008	2,100,000	2,100,000
92-10 term five-year subordinated debenture; fixed rate; maturity on May 7, 2009	3,000,000	3,000,000
92-11 term seven-year subordinated debenture; floating interest rate; maturity on November 27, 2010	2,600,000	2,600,000
92-12 term seven-year debenture; floating interest rate; maturity on November 27, 2010	1,000,000	1,000,000
92-13 term seven-year debenture; floating interest rate; maturity on November 27, 2010	1,000,000	1,000,000
92-14 term five-year debenture; floating interest rate; maturity on December 16, 2008	4,000,000	4,000,000
93-1 term seven-year debenture; floating interest rate; maturity on March 15, 2011	3,000,000	—
93-2 term five-year and six-month subordinated debentures; floating interest rate; maturity on September 25, 2010	2,000,000	—
93-2 term five-year and six-month subordinated debentures; fixed rate; maturity on September 25, 2010	2,000,000	—
93-3 term seven-year debentures; floating interest rate; maturity on May 14, 2011	1,000,000	—
93-3 term five-year and six-month debenture; floating interest rate; maturity on November 14, 2009	1,000,000	—
93-3 term five-year and six-month debentures; floating interest rate; maturity on November 14, 2009	1,000,000	—
	<u>\$ 60,670,000</u>	<u>\$ 50,670,000</u>



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## OTHER LIABILITIES

	2004	2003
Reserve for land value increment tax (Note 11)	\$ 8,372,351	\$ 8,620,301
Funds received for subloans	791,490	873,780
Accrued pension costs (Note 23)	319,829	154,575
Guarantee deposits received	2,353,122	1,676,530
Reserve for losses on guarantees	504,305	623,365
Deferred revenue	220,485	275,284
Reserve for securities trading losses	200,000	200,000
Others	13,294	23,228
	<u>\$ 12,774,876</u>	<u>\$ 12,447,063</u>

## STOCKHOLDERS' EQUITY

### Capital Surplus

Under the Company Law, capital surplus from the issuance of shares in excess of par value and donation may be appropriated to common stock with the approval of stockholders.

Under the regulations issued by the Securities and Futures Commission, capital surplus from the issuance of shares in excess of par value may, except in the year it arises, be distributed as stock dividends. This distribution may be made only once a year and within other specified limits.

Capital surplus from equity-method long-term equity investments may not be distributed for any purpose.

### Dividend Policy and Appropriation of Retained Earnings

The Bank's Articles of Incorporation approved by the board meeting on May 19, 2003 are summarized as follows:

The Articles of Incorporation stipulates that from annual net income net of any accumulated deficit, 30% should be appropriated as legal reserve until the reserve equals the Bank's paid-in capital. A special reserve based on business needs may then be appropriated. Any remainder should be appropriated as follows:

- a. 1% to 8% as bonuses to employees. The BOD is authorized to resolve the bonus percentage.
- b. Dividends. The BOD is authorized to appropriate dividends according to the economic environment and the Bank's development needs. The cash dividend should be at least one third of total dividends and approved by the stockholders' annual meeting.

In contract to the Company Law, the Financial Holding Company Law provides that the board of directors are authorized to execute the rights and functions of stockholders' meeting.

Under the Company Law, legal reserve should only be used to offset deficit. When the reserve reaches 50% of paid-in capital, up to 50% thereof may be capitalized. In addition, the Banking Law provides that, when the legal reserve reaches the amount of paid-in capital, annual cash dividends should not exceed 15% of capital.

The appropriation of the 2003 earnings approved by BOD on April 20, 2004 is as follow:

Appropriation of legal reserve	\$	2,702,062
Reserve of additional paid-in capital		2,769,243
Bonuses to employees		504,385
Cash dividends (NT\$0.8172 per share)		3,031,184
	\$	<u>9,006,874</u>

As of January 26, 2004, the date of the accompanying auditors' report, the appropriation of the 2003 earnings had not been resolved by the BOD. The related information on the proposed and resolved earnings appropriation can be accessed through the Market Observation Post System (M.O.P.S.) on the Web site of the Taiwan Stock Exchange.

In addition, had the bonuses to employees in the appropriation of 2003 earnings been recognized as expenses, the basic EPS after tax for 2001 would have decreased from NT\$2.43 to NT\$2.29.

Under the Integrated Income Tax System, noncorporate and ROC-resident stockholders are allowed a tax credit for the income tax paid by the Bank on earnings generated starting July 1, 1998.

## OPERATING AND ADMINISTRATIVE EXPENSES

	2004			2003		
	Operating Expenses	Administrative Expenses	Total	Operating Expenses	Administrative Expenses	Total
Personnel expenses						
Salaries and wages	\$ 4,641,991	\$ 677,920	\$ 5,319,911	\$ 4,357,171	\$ 650,401	\$ 5,007,572
Labor insurance and national health expenses	268,025	33,765	301,790	263,252	13,805	277,057
Pension	600,017	81,750	681,767	533,683	72,689	606,372
Others	1,697,836	235,405	1,933,241	1,564,387	220,767	1,785,154
Depreciation	713,672	32,404	746,076	950,799	30,465	981,264
Amortization	63,851	-	63,851	47,381	4	47,385
Tax other than income tax	1,014,631	3,017	1,017,648	1,048,024	3,576	1,051,600
Rental	950,768	3,097	953,865	879,355	3,434	882,789
Other	1,895,279	45,237	1,940,516	1,390,306	45,867	1,436,173
	<u>\$ 11,846,070</u>	<u>\$ 1,112,595</u>	<u>\$12,958,665</u>	<u>\$ 11,034,358</u>	<u>\$ 1,041,008</u>	<u>\$ 12,075,366</u>



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## INCOME TAX

Under a Ministry of Finance directive, a financial holding company and its domestic subsidiaries that hold over 90% of issued shares of the financial holding company for 12 months within the same taxation year, may adopt the linked-tax system for income tax filing. In 2002, Hua Nan Financial Holdings Co., Ltd. (HNFH) and its qualified subsidiaries, including the Bank and Hua Nan Securities Co., Ltd. (HNSC), adopted the linked tax system for income tax filings.

The principle adopted by the Bank, HNFH and HNSC (collectively, the “Group”) under the linked-tax system is to reduce the income tax liabilities of the Group and to consider the fairness of the tax borne by all the three companies in order to maximize the synergy of the Group.

Tax on pretax income (loss) at statutory rate and current income tax expense are reconciled as follows:

For the Years Ended December 31		
	2004	2003
Tax on pretax income (loss) at statutory rate (25%)	\$ 3,250,109	\$ 2,906,672
Permanent differences	( 314,852 )	( 935,623 )
Temporary differences	( 225,679 )	162,638
Income tax payable, current	2,709,578	2,133,687
Tax on unappropriated earnings (10%)	201,507	—
Deferred income tax	126,771	486,166
Income tax expense (benefit)	<u>\$ 3,037,856</u>	<u>\$ 2,619,853</u>

Deferred income tax assets (included in other assets) as of December 31, 2004 and 2003 are summarized as follows:

	2004	2003
Deferred income tax assets		
Loss carryforwards	\$ 6,358,208	\$ 8,804,291
Tax credits	46,722	277,681
Provision for bad debts and losses on guarantees	2,367	219,352
Interest revenue	7,565	7,715
Other	44,907	( 3,855 )
	<u>6,459,769</u>	<u>9,305,184</u>
Less allowance for valuation of deferred income tax assets	—	—
	<u>6,459,769</u>	<u>9,305,184</u>
Effect on adoption of the linked tax system	( 374,654 )	( 148,630 )
	<u>\$ 6,085,115</u>	<u>\$ 9,156,554</u>

The loss carryforwards and tax credits as of December 31, 2004 can be used to reduce the Bank’s taxable income up to 2008.

The receivable on the adoption of the linked tax system was as follows:

	December 31, 2004
Refundable tax receivable from the parent company	\$ 374,655
Tax payable to the parent company	( 100,754 )
	<u>\$ 273,901</u>

The balances of imputation credit account as of December 31, 2004 and 2003 were \$139,796 and \$562,175 respectively.

The actual creditable tax ratio for the 2003 earnings was 9.06%. Since no 2002 earnings were available for appropriation, there was no creditable tax ratio for the 2002 earnings.

The Bank's income tax returns through 2000 had been examined by the tax authorities. The tax authorities disallowed the deduction of the 10% income tax withheld from interest income on bonds pertaining to the period when these bonds were not yet held by the Bank from the current income tax payable for 1997 to 2000. The Bank has appealed the decision of the tax authorities. Nevertheless, the Bank accrued liabilities of \$509,028 thousand for the examined and unexamined returns and wrote off any assets recognized related to the foregoing withholding taxes and included this accrual and write-off in the income tax expense in 2001.

The Bank and the tax authorities settled the Bank's appeal out of court and agreed to refund 65% of the foregoing withholding taxes. In 2003, the Bank recognized 35% of the foregoing withholding taxes for 2003 and 2002 as income tax expenses. In 2003, the Bank reversed a total of \$224,331 thousand recognized as income tax expenses for the foregoing withholding taxes.

Further, the tax authorities also disallowed the reversal of losses on the decline in market value of overseas securities and investments and losses from overseas branches as deductions for income tax purposes for 1997 and 1998. The Bank contested the tax authorities' decision since management believed that points raised by the authorities were without merit. Notwithstanding its legal position on the assessments, the Bank recognized possible losses as part of income tax expenses for the foregoing tax assessments.

## EARNINGS (LOSS) PER SHARE

The numerator and denominator used in computing earnings (loss) per share are summarized as follows:

	Net Income		Denominator (Shares in Thousands)	Earnings Per Share (Dollars)	
	Pretax	After Tax		Pretax	After Tax
For the Year Ended December 31, 2004					
Basic gain per share					
Net gains belongs to stockholders of common stock	<u>\$ 13,000,478</u>	<u>\$ 9,962,622</u>	<u>3,709,100</u>	<u>\$ 3.51</u>	<u>\$ 2.69</u>
For the Year Ended December 31, 2003					
Basic gain per share					
Net gains belongs to stockholders of common stock	<u>\$ 11,626,727</u>	<u>\$ 9,006,874</u>	<u>3,709,100</u>	<u>\$ 3.13</u>	<u>\$ 2.43</u>



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## PENSION

For employees who have received the above payments, service years restarted on January 22, 1998, and calculation of pension benefits will be based on the Labor Standards Law. The Bank's current contributions of amounts equal to 12% of salaries and wages to a pension fund, which had been approved by the government, are deposited in the Central Trust of China.

a. Net pension cost for the years ended December 31, 2004 and 2003 are summarized below:

	2004	2003
Service cost	\$ 636,072	\$ 590,872
Interest cost	102,704	89,321
Actual return on plan assets	( 33,754 )	( 33,890 )
Loss on plan assets	( 53,341 )	( 50,851 )
Amortization	14,428	—
Net pension cost	<u>\$ 666,109</u>	<u>\$ 595,452</u>

b. The reconciliations of the fund status of the plan and accrued pension cost as of December 31, 2004 and 2003 are as follows:

	2004	2003
Benefit obligation		
Vested benefit obligation	\$ 1,824,744	\$ 1,440,422
Non-vested benefit obligation	<u>1,307,819</u>	<u>1,145,747</u>
Accumulated benefit obligation	3,132,563	2,586,169
Additional benefits based on future salaries	<u>1,158,278</u>	<u>874,789</u>
Projected benefit obligation	4,290,841	3,460,958
Fair value of plan assets	( <u>3,165,853</u> )	( <u>2,688,183</u> )
Fund status	1,124,988	772,775
Unrecognized pension loss	( <u>805,159</u> )	( <u>618,200</u> )
Accrued pension cost	<u>\$ 319,829</u>	<u>\$ 154,575</u>
c. Vested benefits - undiscounted	<u>\$ 2,257,831</u>	<u>\$ 1,788,815</u>
d. Actuarial assumptions		
Discount rate used in determining present values	3.00%	3.00%
Future salary increase rate	2.75%	2.5%
Expected rate of return on plan assets	3.00%	3.00%

The changes in the pension fund are summarized below:

	2004	2003
Balance, January 1	\$ 2,688,182	\$ 2,238,672
Contributions	484,298	454,654
Interest income	33,754	33,889
Benefits paid	( 40,381 )	( 39,033 )
Balance, December 31	<u>\$ 3,165,853</u>	<u>\$ 2,688,182</u>

## RELATED-PARTY TRANSACTIONS

Significant transactions with related parties are as follows:

Name	Relationship
Hua Nan Financial Holdings Co., Ltd. (HNFH)	Parent company
Bank of Taiwan Co., Ltd.(BOT)	Majority stockholder of parent company
Hua Nan Bills Finance Corporation (HNBF)	Parent company's subsidiary
HNCB Insurance Agency Co., Ltd. (HNCB Insurance Agency)	Bank subsidiary
Hua Nan Securities Corp. (HNSC)	Subsidiary of HNFH
Hua Nan investment Trust Corporation (HNIT)	Subsidiary of HNFH
South China Insurance Co., Ltd. (SCIC)	Subsidiary of HNFH
Hua Nan Futures Co., Ltd. (HNFC)	Subsidiary of HNSC
Hua Nan Investment Service Corp. (HNISC)	Subsidiary of HNSC
Hua Nan Holdings Corp.[formerly EnTrust (BVI) Holdings Corp.]	Subsidiary of HNSC
Hua Nan International Limited [formerly EnTrust Securities International (Cayman) Limited]	Subsidiary of HNSC
Hua Nan Asset Management Corp. [formerly EnTrust Global Management (Caymean) Limited]	Subsidiary of HNSC
Hua Nan Securities (HK) Limited [formerly EnTrust Securities (HK) Limited][ "Hua Nan Securities (HK)" ]	Subsidiary of HNSC
Hua Nan Investment Management Co., Ltd ( "Hua Nan Investment Management" )	Subsidiary of HNSC
Hua Nan Venture Capital Co., Ltd. (HNVC)	Subsidiary of HNFH
Hua Nan Management & Consulting Co., Ltd. (HNMC)	Subsidiary of HNFH
Yung-Da Real Estate & Construction Co., Ltd. ( "Yung-Da Real Estate & Construction" )	Its chairperson is the wife of HNCB's chairman
Others	Directors, supervisors, managers, their relatives, companies under their controls, and other related parties in substance-please see Table 4 (attached)

## Significant transactions with related parties are as follows:

### Due from Other Banks

	2004		2003	
	Amount	%	Amount	%
BOT	\$ 331,246	1.19	\$ 198,946	0.76

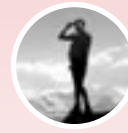




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## Due to Other Banks

	2004		2003	
	Amount	%	Amount	%
BOT	\$ 6,250	—	\$ 3,856	—

## Call Loans to Other Banks

	For the Year Ended December 31, 2004				For the Year Ended December 31, 2003			
	Highest Balance	Ending Balance	Interest Income	Interest Rate (%)	Highest Balance	Ending Balance	Interest Income	Interest Rate (%)
BOT	\$ 15,649,730	\$ 2,367,820	\$ 38,258	0~2.44	\$ 13,819,009	\$ 1,176,331	\$ 46,906	0~1.45
HNBF	3,780,000	—	5,795	0.935~1.185	3,150,000	1,100,000	8,426	0.7~1.58
	\$ 19,429,730	\$ 2,367,820	\$ 44,053		\$ 16,969,009	\$ 2,276,331	\$ 55,332	

## Call Loans from Other Banks

	For the Year Ended December 31, 2004				For the Year Ended December 31, 2003			
	Highest Balance	Ending Balance	Interest Income	Interest Rate (%)	Highest Balance	Ending Balance	Interest Income	Interest Rate (%)
BOT	\$ 12,488,960	\$ 1,906,080	\$ 42,528	0.94~2.55	\$ 14,495,342	\$ 4,453,738	\$ 36,865	0.045~2.8
HNBF					100,000	—	3	1.025
					\$ 14,595,342	\$ 4,453,738	\$ 36,868	

## Loans and Advances

	For the Year Ended December 31, 2004				For the Year Ended December 31, 2003			
	Highest Balance	Ending Balance	Interest Income	Interest Rate (%)	Highest Balance	Ending Balance	Interest Income	Interest Rate (%)
Others	\$ 1,891,891	\$ 1,649,071	\$ 29,461	1.55~6.749	\$ 1,062,945	\$ 916,280	\$ 18,275	1.55~7.835

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

## Deposits

For the Years Ended December 31

	2004		2003	
	Amount	Interest Rate (%)	Amount	Interest Rate (%)
HNFB	\$ 4,601,436	0~0.7	\$ 4,285,249	0~1.65
HNFC	1,101,578	0~1.425	1,269,495	0~0.25
Hua Nan Securities (HK)	598,473	0~1.425	377,966	0~2.35
HNCB Insurance Agency	489,475	0.01	412,724	0.01~0.25
HNSC	296,613	0~1.425	269,088	0~1.45
HNIC	96,043	0~0.25	38,817	0~0.25
SCIC	48,695	0~1.425	23,064	—
HNBF	228,032	0~1.425	158,010	0.1~2.45
Others	7,288,854	0~13	6,112,396	0~13
	<u>\$ 14,749,199</u>		<u>\$ 12,946,809</u>	

## Securities (Accumulated Face Amounts)

For the Years Ended December 31

		2004	2003
HNBF	Outright purchase	\$ 1,958,000	\$ 19,981,500
	Outright sale	3,900,000	550,000
	Short-term bills and bonds purchased under resell agreements	1,176,743	13,429,000
HNSC	Outright purchase	800,500	1,850,000
	Outright sale	6,120,000	1,850,000
	Short-term bills and bonds purchased under resell agreements	468,000	—

## Interest Expense

	2004		2003	
	Amount	%	Amount	%
HNFB	<u>\$ 19,256</u>	<u>0.13</u>	<u>\$ 44,721</u>	<u>0.14</u>

## Service Charges

	2004		2003	
	Amount	%	Amount	%
HNSC	\$ 7,696	0.19	\$ 9,461	—
SCIC	17,093	0.42	4,694	—
SCIC	6,792	0.18	1,849	—
	<u>\$ 31,581</u>		<u>\$ 16,004</u>	



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## Lease

The Bank rents out office to HNCB Insurance Agency, with rentals payable monthly under an operating lease agreement expiring in February 2006. Rentals received in 2004 and 2003 amounted to \$2,498 thousand each.

The Bank rents out office space to HNSC, with rentals payable monthly under an operating lease agreement expiring in November 2007. Guarantee deposits received amounted to \$1,169 thousand, and rentals received amounted to \$14,714 thousand and \$13,730 in 2004 and 2003, respectively.

The Bank rents office space from Yung-Da Real Estate & Construction, with refundable deposits of \$158,400 thousand replacing rentals, under an operating lease agreement ending in November 2006. The rentals amounted to \$2,257 thousand and \$2,218 thousand in 2004 and 2003, respectively.

The Bank rents out office space to HNFH, with rentals payable monthly under an operating lease agreement expiring in September 2005. Rentals received in 2004 and 2003 amounted to \$2,888 thousand each.

The Bank rents out office space to HNBF, with rentals payable monthly under an operating lease agreement expiring in February 2006. Guarantee deposits received amounted to \$176 thousand, and rentals received in 2004 and 2003 amounted to \$704 thousand each.

The Bank rents out office space to HNIM, with rentals payable monthly under an operating lease agreement expiring in June 2006. Rentals received amounted to \$256 thousand and \$235 thousand in 2004 and 2003, respectively.

The Bank rents out office space to SCIC, with rentals payable monthly under an operating lease agreement expiring in February 2007. Rentals received amounted to \$2,728 thousand and \$119 thousand in 2004 and 2003, respectively.

The Bank rents out office space to HNFC, with rentals payable monthly under an operating lease agreement expiring in May 2006. Rentals received amounted to \$324 thousand and \$189 thousand in 2004 and 2003, respectively.

## Service Fee

For the Years Ended December 31

	2004		2003	
	Amount	%	Amount	%
HNSC	\$ 3,776	0.48	\$ 4,697	1.00

## Operational Expense - Apportionment of Other Expense

For the Years Ended December 31

	2004		2003	
	Amount	%	Amount	%
HNSC	\$ 46,645	0.39	\$ 30,881	—
HNF	9,353	0.08	5,441	—
	\$ 55,998		\$ 36,322	

For integrated marketing purpose, the Bank shared operating space and facilities with HNFC and HNF. The related expense is stated as operational expense - apportionment of other expense.

### Operational Expense - Insurance Expense

	2004		2003	
	Amount	%	Amount	%
SCIC	\$ 46,809	0.40	\$ 11,804	—

### Nonoperating Income - Consulting Fee

	2004		2003	
	Amount	%	Amount	%
HNCB Insurance Agency	\$ 174,562	2.74	\$ 114,747	1.74

### Derivative Financial Instrument

	2004		2003	
	Amount	Interest	Amount	Interest
HNSC - Interest rate swap	\$ 196,100	\$ 4,523	\$ 222,000	\$ 2,157

### Receivable from Related Party for Allocation under the Linked-Tax System

	2004		2003	
	Amount	%	Amount	%
HNFH	\$ 374,655	1.44	\$ 526,380	3.00

### Payable to Related Party for Allocation under the Linked-Tax System

	2004		2003	
	Amount	%	Amount	%
HNFH	\$ 100,754	—	\$ 13,437	—

### Research and Development Expense

	2004		2003	
	Amount	%	Amount	%
HNFH	\$ 4,890	—	\$ —	—

The terms of transactions with related parties were similar to those for third parties.



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## Others

The Bank transferred its securities brokerage business to HNSC on July 19, 2002. The transfer prices for assets/liabilities resulting from securities financing and fixed assets were \$429,284 and \$14,188, respectively, which were based on the carrying value of those assets/liabilities on July 19, 2002. The Bank received the proceeds of this transfer by December 31, 2002 and did not recognize any income or loss from this transaction.

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

## AVERAGE AMOUNT AND AVERAGE INTEREST RATE OF INTEREST-EARNING ASSETS AND INTEREST-BEARING LIABILITIES

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

For the Years Ended December 31

	2004		2003	
	Average Balance	Interest Rate (%)	Average Balance	Interest Rate (%)
<b>Interest-earning assets</b>				
Certificates of deposit purchased	\$ 258,265,635	1.22	\$ 185,852,155	1.51
Due from other banks	6,836,906	0.54	5,923,697	0.73
Call loans to other banks	95,004,099	1.58	114,117,441	1.25
Due from the Central Bank	46,163,308	1.01	40,542,435	1.22
Redeposits in the Central Bank	7,879,060	1.23	10,154,000	1.44
Securities purchased	92,037,359	3.39	86,374,473	6.23
Bonds and securities purchased under agreements to resale	914,333	1.20	—	—
Bills purchased, discounts and loans	842,290,804	2.94	765,173,380	3.53
Long-term investments - bonds	12,561,415	1.81	2,472,254	3.59
<b>Interest bearing liabilities</b>				
Due to the Central Bank	\$ 369,393	—	300,734	0.01
Due to other banks	176,731,274	1.49	180,319,185	1.38
Bonds and securities sold under agreements to repurchase	20,293,902	0.77	—	—
Demand deposits	262,557,363	0.14	211,304,680	0.16
Savings deposits	293,598,412	0.52	243,224,185	0.62
Time deposits	202,906,858	1.10	193,844,583	1.24
Savings-time deposits	332,679,103	1.61	357,705,492	1.96
Negotiable certificates of deposit	8,746,213	0.96	9,301,789	1.34
Funds borrowed from the Central Bank and other banks	15,452,317	1.42	12,501,568	1.00
Bank debentures payable	58,047,049	3.15	32,168,066	3.30

## MATURITY ANALYSIS OF ASSETS AND LIABILITIES

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

	December 31, 2004			December 31, 2003		
	Due in One Year	Due after One Year	Total	Due in One Year	Due after One Year	Total
<b>Assets</b>						
Cash and cash equivalents	\$ 27,898,980	\$ —	\$ 27,898,980	\$ 26,082,520	\$ —	\$ 26,082,520
Due from the Central Bank and other banks	127,204,364	—	127,204,364	142,389,474	—	142,389,474
Securities purchased	302,986,382	44,215,766	347,202,148	315,549,142	6,434,980	321,984,122
Receivables	25,841,750	—	25,841,750	20,114,204	275,284	20,389,488
Bills purchased, discounts and loans	379,167,700	506,562,150	885,729,850	343,213,216	514,653,779	857,866,995
	<u>\$ 863,099,176</u>	<u>\$ 550,777,916</u>	<u>\$ 1,413,877,092</u>	<u>\$ 847,348,556</u>	<u>\$ 521,364,043</u>	<u>\$ 1,368,712,599</u>
<b>Liabilities</b>						
Cash and cash equivalents	\$ 90,967,349	\$ —	\$ 90,967,349	\$ 114,346,004	\$ —	\$ 114,346,004
Due from the Central Bank and other banks	19,050,464	—	19,050,464	19,198,110	—	19,198,110
Securities purchased	42,083,722	—	42,083,722	35,751,468	—	35,751,468
Receivables	1,114,528,100	102,798,332	1,217,326,432	771,470,859	361,091,000	1,132,561,859
Bank debentures payable	2,937,000	57,733,000	60,670,000	—	50,670,000	50,670,000
	<u>\$ 1,269,566,635</u>	<u>\$ 160,531,332</u>	<u>\$ 1,430,097,967</u>	<u>\$ 940,766,441</u>	<u>\$ 411,761,000</u>	<u>\$ 1,352,527,441</u>

## COMMITMENTS AND CONTINGENT LIABILITIES

In addition to those disclosed in Note 28, financial instruments, contingencies and commitments of the Bank are summarized as follows:

The Bank's use of certain office spaces is covered by operating lease agreements. As of December 31, 2004, total rental deposits amounted to \$601,367 thousand, including \$580,100 thousand refundable deposits in lieu of rentals. Minimum rentals payable in the next five years are as follows:

Year	Amount
2005	\$ 437,895
2006	365,982
2007	294,705
2008	213,511
2009	130,098



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Rentals for the years beyond 2010 amount to \$201,476 thousand, the present value of which is about \$194,837 thousand as discounted at 1.55%, the Bank's one-year time deposit interest rate as of December 1, 2004.

A depositor sued the Bank to recover his \$222,267 deposit, which was allegedly embezzled by the depositor's employee. Believing the depositor's claim is without merit, the Bank retained an attorney in August 1996 to handle the case. As of December 31, 2004, the case was being reviewed by the Supreme Court, and the final outcome of this case was uncertain.

The balance sheet and trust property of trust accounts were as follows:

### Balance Sheet of Trust Accounts (In Thousands of New Taiwan Dollars)

December 31, 2004		December 31, 2003	
Trust Assets	Amount	Trust Assets	Amount
Bank deposits	\$ 1,044,451	Bank deposits	\$ 477,242
Investments		Investments	
Bonds	8,742,867	Bonds	5,142,957
Common stocks	25,284,452	Common stocks	2,506,152
Mutual funds	58,759,309	Mutual funds	60,016,388
Real estate	1,305,280	Real estate	718,403
	<u>\$ 95,136,359</u>		<u>\$ 68,861,142</u>
Trust liabilities and Equities	Amount	Trust liabilities and Equities	Amount
Trust liabilities	\$ 186	Trust liabilities	\$ -
Trust capital		Trust capital	
Monetary trust	69,180,635	Monetary trust	65,480,831
Securities trust	24,196,640	Securities trust	2,470,540
Real estate trust	1,601,570	Real estate trust	844,737
Retained earnings	157,328	Retain earnings	65,034
	<u>\$ 95,136,359</u>		<u>\$ 68,861,142</u>

### Trust Property of Trust Accounts (In Thousands of New Taiwan Dollars)

December 31, 2004		December 31, 2003	
Investment Portfolio	Amount	Investment Portfolio	Amount
Demand deposits	\$ 404,073	Demand deposits	\$ 90,959
Time deposits	640,378	Time deposits	386,283
Bond investments	8,742,867	Bond investments	5,142,957
Common stock investments	25,284,452	Common stock investments	2,506,152
Domestic mutual funds	33,187,639	Domestic mutual funds	28,675,824
Overseas mutual funds	25,571,670	Overseas mutual funds	31,340,564
Land	1,159,769	Land	704,306
Buildings	5,126	Buildings	2,305
Construction in progress	140,385	Construction in progress	11,792
	<u>\$ 95,136,359</u>		<u>\$ 68,861,142</u>

## DISCLOSURE OF FINANCIAL INSTRUMENTS

### Derivative Financial Instruments

The Bank entered into derivative transactions mainly to accommodate customers' needs and to manage its exposures. The interest rate swap (IRS) and cross-currency swap (CCS) contracts, which are entered into for nontrading purposes, are used to hedge the effects of foreign exchange or interest rate fluctuations on foreign-currency assets or liabilities. The Bank's strategy is to hedge the market risk by matching the exposure between floating-rate U.S. dollar borrowings and (a) fixed-rate U.S. dollar lendings; or (b) fixed-income securities denominated in foreign currencies. These IRS and CCS agreements serve to hedge the Bank's interest rates and foreign currency exposures to stabilize (or "lock in") the yields on the loans or investments.

As of December 31, 2004 and 2003, the contract (notional) amounts, credit risk and market values of outstanding contracts were as follows:

	December 31, 2004		
	Contract (Notional) Amount	Credit Risk	Fair Value
For accommodating customers' needs and managing the Bank's exposures			
Forward contracts	\$ 40,922,422	\$ 658,740	\$ 137,914
Currency swap contracts	7,168,746	113,089	( 167,305 )
Cross-currency swap	1,826,850	—	123,981
For nontrading purposes			
Interest rate swap contracts	66,002,224	533,029	( 531,705 )
Cross-currency swap contracts	12,897,808	213	—
For accommodating customers' needs and managing the Bank's exposures			
Options			
Buy	\$ 22,599,648	\$ 320,393	\$ 777,434
Sell	22,599,648	—	777,434
For accommodating customers' needs and managing the Bank's exposures			
Forward contracts	\$ 18,080,160	\$ 98,607	\$ 4,629
Currency swap contracts	12,325,514	53,838	9,813
Cross-currency swap	2,000,000	—	( 68,065 )
For nontrading purposes			
Interest rate swap contracts	44,369,832	537,141	( 391,693 )
Cross-currency swap contracts	146,191	—	( 76,541 )
For accommodating customers' needs and managing the Bank's exposures			
Options			
Buy	\$ 6,883,184	\$ 58,913	\$ 332,000
Sell	6,883,184	—	332,000

The Bank is exposed to credit risk from counter-parties' default on contracts. To manage this risk, the Bank enters into forward contracts with customers that have satisfied its credit approval process and have provided the necessary collaterals. Transactions are made within each customer's credit lines. All forward contracts the Bank





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entered into as of December 31, 2004 were with customers engaging in import and export activities. Guarantees deposit may be required depending on the customers' credit standing. Transactions with other banks are made within the trading limit prescribed for each bank based on the Bank's credit rating and its worldwide ranking. Thus, no significant losses on counter-parties' defaults are anticipated. The forward positions have been offset by the opposite spot or forward positions, so no significant gains or losses would result from fluctuations in interest rates and foreign exchange rates, and there is no significant demand for cash.

All counter-parties to the IRS or CCS agreements are banks with long-term credit rating of at least "liniest" by a credit rating organization which is approved by the authority in-charge. Thus, the related credit risk is deemed very limited. Because the Bank enters into IRS and CCS agreements for hedging purposes, no significant gains or losses would result from fluctuations in interest rates and foreign exchange rates, and there is no significant demand for cash. These IRS and CCS are settled at the interest differentials between specified financial indices.

The fair value of each forward exchange contract is determined at the forward rate for the remaining contract term quoted by the Reuters or Telerate Information System. The Bank estimates the fair value of individual IRS or CCS contract using the quotations from the Bloomberg Information System.

The gains or losses on derivative financial instruments for the years ended December 31, 2004 and 2003 were as follows:

	2004	2003
For accommodating customers' needs and managing the Bank's exposures		
Forward contracts and currency swap contracts		
Foreign-exchange gain and interest revenue	( \$ 313,579 )	( \$ 1,027,659 )
Cross-currency swap contracts		
Interest revenue	18,345	12,985
Option	—	25,063
For nontrading purposes		
Interest rate swap contracts		
Interest revenue and gain on sale of securities	90,872	34,806
Cross-currency swap contracts		
Interest revenue and gain on sale of securities	( 5,583 )	( 1,019 )
	( \$ 209,945 )	( \$ 955,824 )

### Fair Values of Nonderivative Financial Instruments

	2004		2003	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets				
Financial assets - fair values approximate carrying values	\$ 1,415,388,086	\$ 1,415,388,086	\$ 1,369,873,315	\$ 1,369,873,315
Long-term equity investments	51,794,768	58,751,409	11,369,148	16,302,681
Liabilities				
Financial liabilities - fair values approximate carrying values	1,433,463,064	1,433,463,064	1,355,353,035	1,355,353,035

**The Bank adopts the following methods and assumptions in estimating fair values of its financial instruments:**

- (a) Fair values of short-term financial instruments, except securities purchased, are based on carrying values because these instruments have relatively short maturities. These instruments include cash and cash equivalents, due to/from the Central Bank and other banks, receivables, bonds sold under agreements to repurchase, payables, deferred revenue and remittances.
- (b) Bills purchased, discounts and loans are financial assets that carry floating interest rates. The carrying values of these assets approximate their fair values because the carrying value of nonperforming loans, which is net of allowance for bad debts, represents the estimated collectible amount.
- (c) Deposits, funds borrowed from the Central Bank and other banks, bank debentures payable and funds received for sub-loans are interest-bearing financial liabilities. Thus, the carrying values approximate their fair values.
- (d) Fair values of refundable deposits in the form of certificate of deposits and fair values of guarantee deposits received are estimated at their carrying values because they do not have maturity dates.
- (e) Fair values for securities purchased and long-term investments are estimated at the available market prices. If market price is not available, securities purchased and long-term bond investments are valued at carrying value.

**Off-Balance-Sheet Credit Risks**

The Bank has commitments to extend loans and issue credit cards. The interest rates for the loans ranged from 1.83% to 8.94% in 2004 and from 1.82% to 6.44% in 2003. The highest interest rate for credit cards in 2004 and 2003 are 18% and 16.425%, respectively. Starting from February 2004, the Bank issued cash card with interest rate can be as high as 18.25%. The Bank also provided guarantees and letters of credit to help ensure customers' contract implementation. The terms of these guarantees and letters of credit are usually one year, and their maturity dates are not concentrated in one period.

The amounts of financial contracts with off-balance-sheet credit risks as of December 31, 2004 and 2003 are as follows:

	2004	2003
Guarantees and issuance of letters of credit	\$ 116,342,944	\$ 114,947,956
Credit commitments for credit cards	87,991,638	39,365,303
Irrevocable loan commitments	25,479,400	26,540,385

Since most of the commitments are expected to expire without being fully used, the total commitment amounts do not necessarily represent future cash requirements. The total potential loss counterparties' default is equal to the above contractual amounts, if fully used, without considering the value of any collateral.



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The Bank evaluates the creditworthiness of each credit application case by case, taking into account the credit history, credit rating and financial condition of the applicant. Collaterals, mostly in the form of real estate, cash, inventories, securities and other assets, may be required depending on the result of the above evaluation. About 50% and 48% of the total loans were secured by collaterals as of December 31, 2004 and 2003, respectively. For credit card facilities, no collateral is required but the credit status of each credit cardholder is closely monitored. Appropriate measures are adopted depending on the results of the credit status monitoring, which include amending the credit limit and, if necessary, canceling the facility.

## CONCENTRATION OF CREDIT RISK

The Bank does not have concentrations of credit risk on an individual counter-party, region or industry (no particular industry accounts for at least 10% of the outstanding loans). However, the parties accounting for at least 10% of the outstanding loans are summarized as follows:

	2004		2003	
	Amount	%	Amount	%
Domestic				
Private enterprises	\$ 444,360,449	51	\$ 431,284,505	51
Natural persons	273,518,861	31	237,638,629	28
Government	107,142,762	12	100,011,751	12

As of December 31, 2004 and 2003, no significant net positions on foreign currency transactions should be disclosed.

## LOAN ASSET QUALITY

	2004	2003
Reported past-due loans (including reported non-performing loans) (Note a)	\$ 20,342,991	\$ 28,955,248
Non-performing loans	20,141,930	30,873,706
Past-due loans ratio (Notes b and e)	2.27	3.33
Surveillance loans (Note c)	2,819,912	4,839,845
Surveillance loan ratio (Note e)	0.32	0.56
Allowance for loans and non-performing loans (Note e)	8,594,310	10,315,407
Bad debt written off (Note d)	7,876,568	9,358,957

Note a: Reported past-due loans does not include past-due loans allowed to be exempted, which were stipulated by BOMA.

Note b: Past-due loans ratio = Reported past-due loans (including reported non-performing loans) ÷ (Loans + non-performing loans)

Note c: Surveillance loans include (i) the long-term installment loans, overdue more than three months but less than six months, (ii) the principal of other loans overdue less than six months, (iii) past-due loans allowed to be exempted from reported, which were stipulated by BOMA.

Note d: The amounts of bad debts written off were cumulative from January 1 to December 31 of 2004 and 2003, respectively.

Note e: The balance as of December 31, 2003 included the amount of "Accounts receivable — revolving credit"

## PROMINENT AGGREGATION OF CREDIT RISK

The Bank's contract amounts with prominent aggregate attributes of credit risk as of December 31 2004 and 2003 are as follows:

	2004		2003	
Loans to parties with common interests (Note a)	31,170,474		21,357,884	
Ratio to total loans (Note b)	3.27		2.33	
Stock pledged ratio (Note c)	1.80		1.61	
Credit concentration (Top 3)	Industry	%	Industry	%
	Private parties	28.70	Private parties	25.91
	Manufacturing	24.62	Manufacturing	24.40
	Wholesale, retailing and restaurant	9.94	Wholesale, retailing and restaurant	10.15

## MARKET RISK SENSITIVITY

Market risk sensitivity as of December 31, 2004 and 2003 were as follows:

	2004	2003
Ratio of interest sensitive assets to liabilities	100.28%	99.79%
Ratio of interest sensitive gap to net assets	5.32%	( 3.53% )

Note a: Ratio of interest sensitive assets to interest sensitive liabilities =  $\frac{\text{Interest sensitive Assets}}{\text{Interest sensitive liabilities}}$   
(Assets and liabilities will be due within one year)

Note b: Interest sensitive gap = Interest sensitive assets — Interest sensitive liabilities

## MAJOR NET POSITIONS ON FOREIGN CURRENCY TRANSACTIONS

The Bank's major net positions on foreign-currency transactions as of December 31, 2004 and 2003 were as follow:

2004			2003		
Currency	Amount in NTD		Currency	Amount in NTD	
USD	23,002	\$ 730,737	USD	30,515	\$ 1,037,456
JPY	964,042	297,985	EUR	1,701	72,696
EUR	1,562	67,491	JPY	153,607	48,816
HKD	7,226	29,517	CAD	258	6,776
AUD	1,506	26,151	AUD	148	3,774



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## PROFITABILITY

	2004	2003
Return on Assets (Note a)	0.89	0.85
Return on Equity (Note b)	21.02	21.46
Profit margin (Note c)	20.80	18.07

$$\text{Note a: Return on Assets} = \frac{\text{Income before income tax}}{\text{Average assets}}$$

$$\text{Note b: Return on Assets} = \frac{\text{Income before income tax}}{\text{Average equities}}$$

$$\text{Note c: Profit Margin} = \frac{\text{Net income}}{\text{Operating revenues}}$$

## ANALYSIS OF DUE DATES OF ASSETS AND LIABILITIES

Amounts of due dates of assets and liabilities for NT dollars transactions arising from the Bank's Head Office and domestic branches (excluding foreign currency transactions) as of December 31, 2004 are as follows:

	Total	Periods Due				
		0~30 Days	31~90 Days	91~180 Days	181 Days~1 Year	More than 1 Year
Assets	\$ 1,257,669,000	\$ 345,866,000	\$ 118,680,000	\$ 154,457,000	\$ 105,756,000	\$ 532,910,000
Liabilities	1,195,200,000	125,460,000	120,259,000	622,843,000	202,332,000	124,306,000
Gap	62,469,000	220,406,000	( 1,579,000 )	( 468,386,000 )	( 96,576,000 )	408,604,000
Accumulated gap	62,469,000	220,406,000	218,827,000	( 249,559,000 )	( 346,135,000 )	62,469,000

## SPECIAL RECORDED ITEMS

Amounts of due dates of assets and liabilities for NT dollars transactions arising from the Bank's Head Office and domestic branches (excluding foreign currency transactions) as of December 31, 2004 are as follows:

Description	Reason and Amount
The director or any employee sued by court prosecutor for dealing with his/her job illegally in the recent year.	None
Any fine arising from violating the laws or regulations promulgated by the Ministry of Finance ( "MOF" ), in the recent year.	None
Any deficiency that was rectified by the MOF in the recent year.	None
Any loss exceed \$50,000 thousands in the recent year as a result of employee fraud or workplace accidents.	None
Others	None

## CAPITAL ADEQUACY RATIO

The Banking Act and related regulations require that the Bank maintain a capital adequacy ratio (CAR) of at least 8%. Thus, if the Bank's CAR falls below 8%, the MOF may prohibit the Bank from paying dividends and/or take other necessary actions. As of December 31, 2004 and 2003, the Bank's stand-alone CARs were 11.91% and 11.22%, respectively, and the consolidated CAR's were 12.08% and 11.56%, respectively.

The Bank's capital adequacy as of December 31, 2004 and 2003 are broken down as follows:

	2004	2003
a. Tier I Capital	\$ 62,271,048	\$ 58,678,818
b. Tier II Capital	37,705,991	34,931,880
c. Tier III Capital	2,452,025	3,544,850
d. Deduction items	10,590,899	11,280,537
Equity Capital, net (a+b+c-d)	91,838,165	85,875,011
Risk assets	770,924,724	765,666,655
Capital adequacy ratio	11.91%	11.22%
Liability to equity ratio	2,219.38%	2,327.55%

## KEY RATIOS OF DEPOSITS TO TOTAL DEPOSITS

	2004	2003
Demand deposits	\$ 630,854,003	\$ 544,787,620
Demand deposits ratio	53.94%	50.45%
Time deposits	\$ 538,613,558	\$ 535,060,102
Time deposits ratio	46.06%	49.55%
Foreign exchange accounts	\$ 135,264,755	\$ 117,987,181
Foreign exchange accounts ratio	11.57%	10.93%

## AMOUNTS OF SMALL ENTERPRISE LOANS AND CONSUMER LOANS, AND RATIOS OF WHICH TO TOTAL LOANS

	2004	2003
Small enterprise loans	\$ 197,611,491	\$ 176,760,258
Small enterprise loans ratio	22.10%	20.33%
Consumer loans	225,396,452	194,680,121
Consumer loans ratio	25.20%	22.39%



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## INTERESTED PARTY TRANSACTIONS

Interested party transactions as of December 31, 2004 are summarized as follows:

Description	No. of Customers	Ending Balance	Estimated Loss
Consumer loans	2,282	\$ 1,033,857	112
Employees' mortgage loans	1,951	5,932,678	1,079
Loans to other interested parties	948	24,240,368	—
Loans with interested parties being guarantors	2,555	7,906,202	864
Loans with interested parties being collateral providers	1,970	7,529,602	—

## SYNERGY AGREEMENTS WITH OTHER SUBSIDIARIES OF NAFH

After the foundation of the Hua Nan Financial Holdings Co., Ltd, the Bank, HNSC, SCIC, HNBF, and EITC had become subsidiaries of HNFH. Those subsidiaries entered into an synergy agreement to share there workplaces, manpower, and business information. The period of the agreement was from November 19, 2003 to November 18, 2004. The agreement was automatically extended one year from November 19, 2004.

The Bank also entered into a commission agreement with HNCB Insurance Agency.

## ADDITIONAL DISCLOSURES

The additional disclosures required by the Securities and Futures Bureau are presented in Tables 1 to 4. Disclosures on derivative transactions in Note 28 to the financial statements. The Bank has no investment in Mainland China.

## SEGMENT INFORMATION

The Bank engages only in banking activities as prescribed by the Banking Act. No single customer or overseas units account for more than 10% of the Bank's operating revenue or total assets. Thus, no customer and geographical information is required to be disclosed.

**Table 1 Disposal of fixed assets exceed NT\$300 million or 10% of capital issued for the year ended December 31, 2004**

(In Thousands, Except for Percentage and Shares)

Seller	Property Name	Transaction Date	Acquisition Date	Carrying Value	Transaction Amount	Payment	Disposal Gain (Loss)	Transaction Party	Relationship To the Transaction Party	Disposal Purchase	Pricing Reference	Other Agreements
Hua Nan Commercial Bank, Ltd.	Land located in Hwai-Sheng Section, Da-an District, Taipei	92.12.19	48.06.20	\$ 151,371	\$ 336,000	Lump-sum settled	\$ 227,591	Huei Zhung Construction Co., Ltd.	None	Disposal of idle assets	Appraised reports by two different appraisal companies \$ 271,282 285,560	None

**TABLE 2 Receivables from related parties exceed NT\$300,000 thousands or 10% of the Bank's capital**

(In Thousands of New Taiwan Dollars)

Company Name	Related Party	Relationship	Ending Balance	Turnover Rate	Overdue		Amounts Received in Subsequent Period	Allowance for Bad Debts
					Amount	Action Taken		
Hua Nan Commercial Bank, Ltd.	Hua Nan Financial Holdings Co., Ltd.	Parent company	\$ 374,655	—	\$ —	—	\$ —	\$ —

Note: The receivable resulted from the adoption of the linked-tax system for the 2004 tax filing.

**TABLE 3 Information of investees**

(In Thousands of New Taiwan Dollars)

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		Balance as of December 31, 2004			Net Income (Loss) of the Investee	Investment Gain (Loss)	Note
				Dec. 31, 2004	Dec. 31, 2003	Shares	Percentage of Ownership	Carrying Value			
Hua Nan Commercial Bank, Ltd.	Central Bills Finance Corporation	10F, No.188, Nanjing E. Rd. Sec.5, Taipei, Taiwan, R.O.C.	Operating of the bills and bonds business	\$1,696,843	\$1,696,843	169,684,282	42.41	\$1,701,792	\$6,195	\$3,406	Note 1
	Chung-Hua Real Estate Management Co.	12F, No.396, Jilung Rd., Sec.1, Taipei, Taiwan, R.O.C.	Review of and consulting on construction plan, evaluating real estate, construction management	19,264	19,264	7,670,160	30.00	80,796	34,481	10,470	Note 1
	HNCB Insurance Agency Co., Ltd.	2F, No. 96, Yanping N. Rd., Sec. 2, Taipei, Taiwan, R.O.C.	Insurance agency	49,940	49,940	4,994,000	100.00	150,803	91,872	91,453	Note 1
Chung-Hua Real Estate Management Co.	Feng Hua Development Corp.	12F., No. 396, Jilung Rd., Sec. 1, Taipei, Taiwan, R.O.C.	Real estate construction	93,735	93,735	8,910,000	45.00	137,506	115,128	51,808	Note 1

Note 1: The investment gains (losses) recognized by the Bank for the year ended December 31, 2004 were based on audited financial statements as of and for the year ended December 31, 2004.

Note 2: The investment gains (losses) recognized by the Bank for the year ended December 31, 2004 were based on unaudited financial statements as of and for the year ended December 31, 2004.

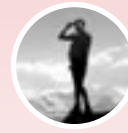




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**TABLE 4 Investment by the Bank's investees**

(In Thousands of New Taiwan Dollars)

Held Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	December 31, 2004				Note
				Shares	Carrying Value	Percentage of Ownership	Market Value or Net Equity (Note 1)	
Chung-Hua Real Estate Management Co.	Stock							
	Feng Hua Development Corp.	Equity-method investee	Long-term equity investments	8,910,000	\$137,506	45.00	\$137,506	Note 2
	Everterminal Co., Ltd.	—	Long-term equity investments	1,030,336	10,000	0.84	10,000	Note 2
	Twinhead International Corp.	Same president	Short-term investments	1,217,542	41,755	—	8,888	Note 1
	Pan-International Industrial Corp.	—	Short-term investments	70,875	5,788	—	1,709	Note 1
	Fubon Financial Holding Co., Ltd.	—	Short-term investments	61,681	2,632	—	2,000	Note 1
	Chung Hsin Electric & Machinery Mfg. Corp. Ltd.	—	Short-term investments	55,649	1,306	—	779	Note 1
	Yulon Motor Co., Ltd.	—	Short-term investments	47,836	1,917	—	1,723	Note 1
	Yuanta Core Pacific Securities Co., Ltd.	—	Short-term investments	44,791	1,713	—	1,072	Note 1
	Taiwan Rubber Co., Ltd.	—	Short-term investments	48,903	1,367	—	653	Note 1
	Cathay Financial Holdings Co., Ltd.	—	Short-term investments	25,879	1,490	—	1,630	Note 1
	BES Engineering Corp.	—	Short-term investments	35,468	551	—	216	Note 1
	China Development Financial Holding Corporation	—	Short-term investments	14,279	280	—	217	Note 1
	E.Sun Financial Holdings Co., Ltd.	—	Short-term investments	1,486	25	—	37	Note 1
HNCB Insurance Agency Co., Ltd.	Government Construction Bond 89-7	—	Guarantee deposits	7,500	\$8,604	—	\$10,616	Note 1

Note 1: The market value of the beneficiary certificates is determined at the net asset value as of December 31, 2004. The market value of bonds are based on the reference prices of the over-the-counter securities exchange as of December 31, 2004. The market values of the listed and over-the-counter stocks of cost-method investees are based on the average closing price in the last month of the accounting period.

Note 2: The net asset value is based on the investee's unaudited financial statements.

## HUA NAN FINANCIAL HOLDINGS CO., LTD. AND SUBSIDIARIES CONSOLIDATED BALANCE SHEETS

**DECEMBER 31, 2004 AND 2003**

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

ASSETS	2004		2003	
	Amount	%	Amount	%
CASH AND CASH EQUIVALENTS	\$ 270,486,716	17	\$ 234,828,177	16
DUE FROM THE CENTRAL BANK AND OTHER BANKS	127,364,364	8	141,409,474	10
SECURITIES PURCHASED, NET	156,288,808	10	128,905,155	9
RECEIVABLES, NET	27,589,433	2	21,881,551	1
CUSTOMERS' MARGIN DEROSITS	1,936,879	—	2,013,790	—
PREPAYMENTS	3,093,922	—	2,556,696	—
BILLS PURCHASED, DISCOUNTS AND LOANS, NET	895,412,978	56	868,191,645	59
LONG-TERM INVESTMENTS				
Stock under the equity method	2,520,279	—	1,214,651	—
Stock under the cost method	8,057,738	—	7,842,383	1
Bonds	41,001,966	3	410,556	—
Real-estate	115,913	—	98,878	—
Others	2,247,085	—	2,276,698	—
Total long-term investments	<u>53,942,981</u>	<u>3</u>	<u>11,843,166</u>	<u>1</u>
PROPERTIES				
Cost				
Land (including revaluation increments)	13,719,624	1	13,804,652	1
Buildings (including revaluation increments)	12,111,167	1	11,949,293	1
Office equipment	5,230,887	—	3,946,459	—
Transportation equipment	960,488	—	964,699	—
Other equipment	2,284,472	—	2,754,911	—
Leasehold improvements	492,286	—	458,231	—
Cost and revaluation increments	34,798,924	2	33,878,245	2
Lessaccumulated depreciation	9,540,030	—	8,843,926	—
	25,258,894	2	25,034,319	2
Prepayments and construction in progress	231,034	—	298,425	—
Net properties	<u>25,489,928</u>	<u>2</u>	<u>25,332,744</u>	<u>2</u>
INTANGIBLE ASSETS	148,030	—	247,100	—
OTHER ASSETS				
Refundable deposits	2,282,894	—	2,065,195	—
Others	20,259,034	1	16,899,780	1
Deferred income tax assets, net	6,364,587	1	9,311,131	1
Total other assets	<u>28,906,515</u>	<u>2</u>	<u>28,276,106</u>	<u>2</u>
<b>TOTAL</b>	<u>\$ 1,590,660,554</u>	<u>100</u>	<u>\$ 1,465,485,604</u>	<u>100</u>



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LIABILITIES AND STOCKHOLDERS' EQUITY	2004		2003	
	Amount	%	Amount	%
<b>LIABILITIES</b>				
Short-term borrowings	\$ 6,909,015	1	\$ 7,934,564	1
Bonds sold under agreements to repurchase	60,475,667	4	22,525,501	2
Stock warrants issued, net	184,149	—	195,693	—
Due to the Central Bank and other banks	98,137,349	6	119,846,004	8
Payables	45,727,075	3	38,416,930	3
Futures traders' equity	1,919,467	—	2,013,790	—
Advance collections	617,860	—	805,284	—
Deposits and remittances	1,211,095,387	76	1,128,033,998	77
Bank debentures payable	60,670,000	4	50,670,000	3
Bonds payable	6,000,000	—	6,000,000	—
Other liabilities	18,310,144	1	18,056,004	1
<b>Total liabilities</b>	<b>1,510,046,113</b>	<b>95</b>	<b>1,394,497,768</b>	<b>95</b>
<b>STOCKHOLDERS' EQUITY</b>				
Capital stock - \$10 par value				
Authorized: 10,000,000,000 shares				
Issued: 5,579,634,240 shares and 4,728,503,594 shares in 2004 and 2003, respectively	55,796,342	3	47,285,036	3
Capital surplus				
Additional paid-in capital	12,352,244	1	13,299,280	1
Reserve for property revaluation increments	4,184	—	4,184	—
Donation	2,936	—	2,936	—
Treasury stock reissuance	52,360	—	51,025	—
Others	2,077	—	2,077	—
Retained earnings				
Legal reserve	1,070,177	—	60,022	—
Special reserve	9,494	—	—	—
Unappropriated earnings	11,435,643	1	10,292,792	1
Cumulative translation adjustments	( 111,016 )	—	( 9,494 )	—
Treasury stock (at cost) - 1,000 shares in 2003	—	—	( 22 )	—
<b>Total stockholders' equity</b>	<b>80,614,441</b>	<b>5</b>	<b>70,987,836</b>	<b>5</b>
<b>COMMITMENTS AND CONTINGENT LIABILITIES</b>				
<b>TOTAL</b>	<b>\$ 1,590,660,554</b>	<b>100</b>	<b>\$ 1,465,485,604</b>	<b>100</b>

## HUA NAN FINANCIAL HOLDINGS CO., LTD. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF INCOME

**YEARS ENDED DECEMBER 31, 2004 AND 2003**

(In Thousands of New Taiwan Dollars, Except Earnings per Share)

	2004		2003	
	Amount	%	Amount	%
<b>OPERATING REVENUES AND GAINS</b>				
Interest	\$ 33,223,841	54	\$ 32,759,233	53
Gross written premium	5,000,057	8	4,540,039	7
Recovered reinsurance claims	1,174,384	2	1,407,170	2
Recovered unearned premium reserve	2,027,380	3	1,947,232	3
Recovered special reserve	104,274	—	131,963	—
Recovered claims reserve	26,750	—	21,576	—
Service fees	6,890,211	11	5,803,874	9
Income from securities, net	4,013,927	7	5,300,557	9
Income from long-term stock investments under the equity method, net	304,824	1	150,498	—
Foreign exchange gain, net	676,776	1	677,085	1
Others	8,271,702	13	9,640,432	16
Total operating revenues and gains	<u>61,714,126</u>	<u>100</u>	<u>62,379,659</u>	<u>100</u>
<b>OPERATING COSTS AND EXPENSES</b>				
Interest	15,501,058	25	14,929,130	24
Reinsurance premium expenses	2,598,544	4	2,279,025	4
Insurance claims paid	2,452,721	4	2,509,525	4
Unearned premium reserve	2,036,909	3	2,027,380	3
Special reserve	329,384	1	220,557	—
Claims reserve	29,447	—	26,750	—
Service charges	1,563,449	3	1,315,478	2
Provision for reserves, bad debts and losses from decline in market value of securities purchased and investments	6,765,106	11	11,320,086	18
Operational, general and administrative expenses	15,887,590	26	15,024,225	24
Others	942,752	1	301,528	1
Total operating cost and expenses	<u>48,106,960</u>	<u>78</u>	<u>49,953,684</u>	<u>80</u>
<b>OPERATING INCOME</b>	<u>13,607,166</u>	<u>22</u>	<u>12,425,975</u>	<u>20</u>
<b>NONOPERATING REVENUES AND INCOMES</b>	734,223	1	769,470	1
<b>NONOPERATING EXPENSES AND LOSSES</b>	<u>322,680</u>	<u>1</u>	<u>428,099</u>	<u>1</u>
<b>INCOME BEFORE INCOME TAX</b>	14,018,709	22	12,767,346	20
<b>INCOME TAX EXPENSE</b>	3,246,784	5	2,665,727	4
<b>MINORITY INTEREST INCOME</b>	<u>34</u>	<u>—</u>	<u>65</u>	<u>—</u>
<b>CONSOLIDATED INCOME</b>	<u>\$ 10,771,891</u>	<u>17</u>	<u>\$ 10,101,554</u>	<u>16</u>
	Pretax	After Tax	Pretax	After Tax
<b>BASIC EARNINGS PER SHARE</b>	<u>\$ 2.51</u>	<u>\$1.93</u>	<u>\$ 2.29</u>	<u>\$1.81</u>



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**HUA NAN FINANCIAL HOLDINGS CO., LTD. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**  
**YEARS ENDED DECEMBER 31, 2004 AND 2003**  
(In Thousands of New Taiwan Dollars)

	Capital Stock		Capital Surplus	Retained Earnings				Cumulative Translation Adjustments	Treasury Stock	Total Stockholders' Equity
	Shares (Thousands)	Amount		Legal Reserve	Special Reserve	Unappropriated Earnings(Loss)	Total			
BALANCE, JANUARY 1, 2003 (BEFORE RESTATEMENT)	4,478,543	\$ 44,785,433	\$ 40,212,984	\$ 15,325	\$ —	(\$ 26,708,613)	(\$ 26,693,288)	\$ 19,423	(\$ 170,239)	\$ 58,154,313
Retroactive adjustments due to a share swap of two subsidiaries	249,961	2,499,603	( 178,692)	60,022	—	191,238	251,260	—	—	2,572,171
Offset of deficit	—	—	( 26,693,288)	( 15,325)	—	26,708,613	26,693,288	—	—	—
Translation adjustments on long-term equity investments	—	—	—	—	—	—	—	( 28,917)	—	( 28,917)
Treasury stock transaction - subsidiary's sale of Company's stock	—	—	18,498	—	—	—	—	—	170,217	188,715
Net income in 2003	—	—	—	—	—	10,101,554	10,101,554	—	—	10,101,554
BALANCE, DECEMBER 31, 2003	4,728,504	47,285,036	13,359,502	60,022	—	10,292,792	10,352,814	( 9,494)	( 22)	70,987,836
Appropriation of 2003 earnings Legal reserve	—	—	—	1,010,155	—	( 1,010,155)	—	—	—	—
Special reserve	—	—	—	—	9,494	( 9,494)	—	—	—	—
Remuneration to directors and supervisors	—	—	—	—	—	( 90,819)	( 90,819)	—	—	( 90,819)
Employees bouns	—	—	—	—	—	( 7,266)	( 7,266)	—	—	( 7,266)
Cash dividends	—	—	—	—	—	( 945,701)	( 945,701)	—	—	( 945,701)
Stock dividends	756,560	7,565,605	—	—	—	( 7,565,605)	( 7,565,605)	—	—	—
Capital surplus appropriated as stock dividends	94,570	945,701	( 945,701)	—	—	—	—	—	—	—
Translation adjustments on long-term equity investments	—	—	—	—	—	—	—	( 101,522)	—	( 101,522)
Treasury stock transaction - subsidiary's sale of Company's stock	—	—	—	—	—	—	—	—	22	22
Net income in 2004	—	—	—	—	—	10,771,891	10,771,891	—	—	10,771,891
BALANCE, DECEMBER 31, 2004	5,579,634	\$ 55,796,342	\$ 12,413,801	\$ 1,070,177	\$ 9,494	\$ 11,435,643	\$ 12,515,314	(\$ 111,016)	\$ —	\$ 80,614,441

**HUA NAN FINANCIAL HOLDINGS CO., LTD. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH**  
**FLOWS YEARS ENDED DECEMBER 31, 2004 AND 2003**  
(In Thousands of New Taiwan Dollars)

	2004	2003
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Consolidated income	\$ 10,771,891	\$ 10,101,554
Adjustments to reconcile net income to net cash provided by operating activities		
Minority interest income	34	65
Depreciation and amortization	1,161,064	1,387,259
Amortization of premium on long-term bond investments	334,313	26,798
Cash dividends and remuneration to directors and supervisors from long-term stock investments under the equity method	169,253	90,000
Gain from long-term stock investments under the equity method	( 304,824 )	( 150,498 )
Realized gain from sale of long-term investments, net	( 61,347 )	( 81,993 )
(Gain) loss on disposal of properties, net	( 326,493 )	1,432
Provision for reserves, bad debts and losses from decline in market value of securities purchased and investments	7,660,864	11,793,236
Net changes in operating assets and liabilities		
Accrued pension cost	169,782	( 57,652 )
Deferred income tax	2,946,544	2,468,481
Receivables and prepayments	( 6,443,928 )	( 2,272,745 )
Securities purchased	( 28,016,441 )	32,761,222
Payables and advance collections	7,109,357	( 1,908,353 )
Liabilities for stock warrants issued	( 11,544 )	169,944
Bonds sold under agreements to repurchase	37,950,166	( 10,018,440 )
Others	110,648	217,281
Net cash provided by operating activities	<u>33,219,339</u>	<u>44,527,591</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Decrease (increase) in due from the Central Bank and other banks	14,045,111	( 15,215,063 )
Increase in bills purchased, discounts and loans	( 33,443,430 )	( 64,073,495 )
Increase in long-term stock investments	( 43,390,566 )	( 3,032,442 )
Proceeds from sale of long-term equity investments	1,057,663	1,369,737
Acquisition of properties and intangible assets	( 1,411,009 )	( 1,132,209 )
Return of capital on long-term equity investments	8,165	—
Increase in other assets	( 4,057,563 )	( 419,805 )
Proceeds from sale of properties	467,670	11,694
Net cash used in investing activities	<u>( 66,723,959 )</u>	<u>( 82,491,583 )</u>

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	2004	2003
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Decrease in short-term borrowings	( \$ 1,002,773 )	( \$ 46,604 )
(Decrease) increase in due to the Central Bank and other banks	( 21,708,655 )	30,475,464
Increase in deposits and remittances	83,061,389	58,354,244
Increase in bank debentures payable	10,000,000	25,670,000
Decrease in funds borrowed from the Central Bank and other banks	—	( 2,819,962 )
Payment of cash dividends	( 945,700 )	—
Remuneration and bonuses paid to directors, supervisors and employees	( 604,640 )	( 8,836 )
Increase in other liabilities	363,538	265,427
Proceeds from sale of treasury stock	—	188,739
Net cash provided by financing activities	<u>69,163,159</u>	<u>112,078,472</u>
<b>INCREASE IN CASH AND CASH EQUIVALENTS</b>	<u>35,658,539</u>	<u>74,114,480</u>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>234,828,177</u>	<u>160,713,697</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 270,486,716</u>	<u>\$ 234,828,177</u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Interest paid	\$ 15,259,441	\$ 16,032,398
Income tax paid	\$ 1,022,534	\$ 909,079

(Concluded)

## APPOINTED OFFICES AND OFFICERS HANDLING INTERNATIONAL BUSINESS

TELEX 11307, 23216, AND 26266 ARE VALIDATED ALL BRANCHES (EXCEPT\*)  
TELEX ANSWER BACK: HUANANBK

Dec. 31, 2004

### INTERNATIONAL ADMINISTRATION DEPARTMENT

Senior Vice President & General Manager: Carl, S.M. Hung  
Senior Vice President & Deputy General Manager: Tomson, N.T. Lin  
Vice President & Deputy General Manager: Pau-chu Lo  
Addr: 38, Chung-King S. Rd., Sec. 1, Taipei, Taiwan, R.O.C.  
P. O. Box 989 Taipei  
Phone: (02) 23713111  
Cable Address: "HUANANBANK" Taipei  
SWIFT Address: HNBKTWTP  
Telex: 11307, 23216, 26266  
Fax: 886-2-23821060, 886-2-23711972

### INTERNATIONAL BANKING DEPARTMENT

Senior Vice President & General Manager: Shou-Nan Tsai  
Senior Vice President & Deputy General Manager: George, F. K. Lu  
Vice President & Deputy General Manager: Shin-Shung Chow  
Addr: 38, Chung-king S. Rd., Sec. 1, Taipei, Taiwan, R.O.C.  
P. O. Box 989 Taipei  
Phone: (02) 23713111  
Cable Address: "HUANANBANK" Taipei  
SWIFT Address: HNBKTWTP  
Telex: 11307, 23216, 26266  
Fax: 886-2-23315737, 886-2-23881194, 886-2-23881195

### OFFSHORE BANKING BRANCH

Senior Vice President & General Manager: Amy M.C. Chiou  
Addr: 38, Chung-king S. Rd., Sec. 1, Taipei, Taiwan, R.O.C.  
P. O. Box 989 Taipei  
Phone: (02) 23821056  
Cable Address: "HUANANBANK" Taipei  
SWIFT Address: HNBKTWTP 070  
Telex: 20554, 20224 Fax: 886-2-23817491

### CHIENCHEN BRANCH

Vice President & General Manager: Wei-Chih Chen  
Addr: 228, Nanking West Road, Taipei, Taiwan, R.O.C.  
P. O. Box 87 Taipei  
Phone: (02) 25563111  
SWIFT Address: HNBKTWTP 105  
Fax: 886-2-25584245

### CHUNGSHAN BRANCH

Senior Vice President & General Manager: Wen-Ho Yang  
Addr: 18, Sec. 1, Chang An East Road, Taipei, Taiwan, R.O.C.  
P. O. Box 662 Taipei  
Phone: (02) 25611121  
SWIFT Address: HNBKTWTP 106  
Fax: 886-2-25232072

### YUANSHAN BRANCH

Senior Vice President & General Manager: Sheng-Lung Chen  
Addr: 112, Chungshan North Road, Sec. 2, Taipei, Taiwan,  
R.O.C. P. O. Box 1465 Taipei  
Phone: (02) 25619588  
SWIFT Address: HNBKTWTP 107  
Fax: 886-2-25418154

### CHENG TUNG BRANCH

Senior Vice President & General Manager: Show-Hsiung Hsu  
Addr: 146, Sung Chiang Road, Taipei, Taiwan, R.O.C.  
P. O. Box 1334 Taipei  
Phone: (02) 25512111  
SWIFT Address: HNBKTWTP 108  
Fax: 886-2-25362764

### NAN SUNG SHAN BRANCH

Vice President & General Manager: Jung-Chih Chien  
Addr: 293, Sec. 5, Chung-hsiao East Road, Taipei, Taiwan,  
R.O.C.  
Phone: (02) 27695957  
SWIFT Address: HNBKTWTP 110  
Fax: 886-2-27688428

### JEN AI ROAD BRANCH

Senior Vice President & General Manager: Betty Y.F. Hsu  
Addr: 25, Jen Ai Road, Sec. 4, Taipei, Taiwan, R.O.C.  
P. O. Box 26-370 Taipei  
Phone: (02) 27722090  
SWIFT Address: HNBKTWTP 111  
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### NANKING EAST ROAD BRANCH

Senior Vice President & General Manager: James C.S. Huang  
Addr: 217, Nanking East Road, Sec. 3, Taipei, Taiwan, R.O.C.  
P. O. Box 46-291 Taipei  
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### HSINSHENG BRANCH

Senior Vice President & General Manager: Kemp, K.P. Chen  
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ROC P. O. Box 1660 Taipei  
Phone: (02) 23934211  
SWIFT Address: HNBKTWTP 113  
Fax: 886-2-23211338

### TATUNG BRANCH

Vice President & General Manager: Hwa-Der Chu  
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Phone: (02) 25917767  
SWIFT Address: HNBKTWTP 114  
Fax: 886-2-25912924

### SUNGSHAN BRANCH

Vice President & General Manager: Sheila Tsai  
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### CHUNG LUN BRANCH

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### NANMEN BRABCH

Vice President & General Manager: Shui-Hsiu Tsai  
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### CHUNGSHIAO EAST ROAD BRANCH

Senior Vice President & General Manager: Chin-Nan Ku  
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Fax: 886-2-27410336

### HO PING BRANCH

Vice President & General Manager: Kuo-An Lee  
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### SHIHLIN BRANCH

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### TUNG-TAIPEI BRANCH

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### DA AN BRANCH

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Fax: 886-2-27088441

### MING SHEN BRANCH

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Fax: 886-2-27121484

**FUSHING BRANCH**

Vice President & General Manager: Wei-Chih Wang  
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**TUNHUA BRANCH**

Vice President & General Manager: Jin-Cheng Wu  
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**CHUNGHSING BRANCH**

Vice President & General Manager: I-Lang Chen  
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**PEINANKANG BRANCH**

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**PU CHIEN BRANCH**

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**NAN KANG BRANCH**

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**PEI SAN CHUNG BRANCH**

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**HSIN CHUANG BRANCH**

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**YUNG HO BRANCH**

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**CHUNGHO BRANCH**

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### HSIN TIEN BRANCH

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### ERH CHUNG BRANCH

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### WU KU BRANCH

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### HSI HU BRANCH

Vice President & General Manager: Jhy-Her Shih  
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### CHI SUI BRANCH

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### PEI HSIN BRANCH

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Fax: 886-2-22187458

### SHULIN BRANCH

Vice President & General Manager: Chieh-Chou Chung  
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### CHANG SHU WAN BRANCH

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### TAOYUAN BRANCH

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### HSINCHU BRANCH

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### CHU KO BRANCH

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**FENG YUAN BRANCH**

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Vice President & General Manager: Ming-Jaw Lin  
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 Fax: 886-49-2231593

**CHANGHUA BRANCH**

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 Fax: 886-4-7223146

**YUANLIN BRANCH**

Vice President & General Manager: Chih-Pao Chang  
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 Fax: 886-4-8331545

**CHIAYI BRANCH**

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 Fax: 886-5-2248860

**\*TAINAN BRANCH**

Vice President & General Manager: Chiou-Shyong Lee  
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 SWIFT Address: HNBKTWTP 640  
 Telex: 71345 Fax: 886-6-2252134

**HSIN SHIH BRANCH**

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**\*KAOHSIUNG BRANCH**

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 Phone: (07) 5611241  
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 Telex: 81995, 72478 Fax: 886-7-5517832

**TUNG KAOHSIUNG BRANCH**

Vice President & General Manager: Buh-Chwang Hu  
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## DISTRIBUTION OF CORRESPONDENT BANKS AND OVERSEAS OFFICES



### OVERSEAS OFFICES AND OFFICERS :

#### LOS ANGELES BRANCH

General manager : Yung-chun Cheng  
Address : 707 Wilshire Blvd., Suite 3100 Los Angeles, CA 90017, U.S.A.  
Tel : 1-213-3626666 Fax : 1-213-3626617, 1-213-6229034

#### NEW YORK AGENCY

General manager : Jeff, J.F. Geeng  
Address : 330, Madison Ave., 38th Fl., New York, NY 10017, U.S.A.  
Tel : 1-212-2861999 Fax : 1-212-2861212

#### HONG KONG BRANCH

General manager : James, T.L. Liu  
Address : Suite 5601-03, 56th Fl., Central Plaza 18, Harbour Road, Hong Kong  
Tel : 852-28240288, 852-28242515, 852-28243672  
Fax : 852-28242573, 852-28243684

#### SINGAPORE BRANCH

General manager : Oliver, C.H. Hsu  
Address : 80 Robinson Road, #14-03, Singapore 068898  
Tel : 65-63242566 Fax : 65-63242155, 65-63242878

#### LONDON BRANCH

General manager : Daniel, C.M. Huang  
Address : 5th Fl., 32, Lombard Street, London EC3V 9BQ, U.K.  
Tel : 44-207-2207979 Fax : 44-207-6261515

#### SHENZHEN REPRESENTATIVE OFFICE

Chief Representative : Ching-ruey Yeh  
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Tel : 86-755-2583-2208 Fax : 86-755-2583-2398

#### HO CHI MINH CITY REPRESENTATIVE OFFICE

Chief Representative : Tsung-hua Chen  
Address : Room H, Fl. 10, No.8, Nguyen Hue Street, Dist. 1, Ho Chi Ming City, Vietnam  
Tel : 84-8-8238814, 84-8-8238815 Fax : 84-8-8238796

Note : ▲ Head Office ■ Overseas Branches ● Overseas Representative Office



LONDON BRANCH



NEW YORK AGENCY



SINGAPORE BRANCH



LOS ANGELES BRANCH



HONG KONG BRANCH





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