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# HUA NAN FINANCIAL HOLDINGS CO., LTD.(HNFHC)



## Financial Highlights

As of December 31, 2008 and 2007

	2008	2007
<b>Income Statements (in NT \$thousands)</b>		
Net interest income	26,288,048	26,179,637
Net income excluding interest income	8,456,176	15,833,211
Net revenues	34,744,224	42,012,848
Provisions for credit losses	( 5,097,863)	( 9,253,827)
Provisions for insurance reserves	( 204,792)	( 553,496)
Operating expenses	( 18,119,633)	( 18,965,563)
Consolidated income before income tax from continuing operations	11,321,936	13,239,962
Income Tax Expense	( 2,182,259)	( 4,041,119)
Consolidated net income	9,139,677	9,198,843
<b>Balances Sheets (in NT \$thousands)</b>		
Total assets	1,710,153,171	1,670,246,329
Total liabilities	1,620,405,156	1,578,266,234
Total shareholders' equity	89,748,015	91,980,095
<b>Ratio- Consolidated basis (%)</b>		
ROE(after tax)	10.06%	10.07%
ROA(after tax)	0.54%	0.55%
Double Leverage Ratio	103.59%	105.26%
Capital adequacy ratio	119.85%	108.14%
<b>Credit Ratings (long/short/outlook)</b>		
Taiwan Ratings	twA+/twA-1/Stable (2009/06)	

# . Letter to the Shareholders



## 1. The Group's 2008 Operational Results

The global economy in 2008 was characterized by unprecedented turbulence. Despite the US sub-prime mortgage crisis and skyrocketing international oil and raw materials prices in the first half of the year, demand in Europe, the US and emerging markets remained buoyant, and the global economy was able to maintain modest growth. This, however, was not to last long. In the third quarter, the bankruptcy of Lehman Brothers in the US set off a crisis among major US and European financial institutions as to their operational viability given their overly aggressive holdings of packaged derivative products. This caused a high degree of instability in the international financial environment and led to a swift global economic downturn. The depth and breadth of the economic plunge was the greatest since the Great Depression.

Taiwan was unable to escape the global economic upheaval. The financial crisis in the US and Europe impacted consumer spending, and this situation quickly spread to emerging markets. As an export-oriented economy, Taiwan's exports, industrial output and export orders plunged as global demand and trade contracted. Foreign trade, which is the foundation of Taiwan's economic development, weakened at a rapid pace, dampening the willingness of consumers to spend and invest. As a result, Taiwan's economic growth in 2008 was far from ideal.

Glancing back at the banking environment here in 2008, many local banks posted a high level of impairment on financial products they held that had been issued by foreign financial institutions. In addition, the level of non-performing loans also rose steadily. Taiwan's Central Bank of China cut interest rates repeatedly in an attempt to spark the local economy. As a result the deposit/lending interest rate spread dropped sharply among banks. Meanwhile, the local stock market, also feeling the effects of the international climate, fared poorly. Put together, this was an extremely challenging year for the financial industry to operate.

In light of the challenging economic environment and heated competition within the banking sector, financial institutions as a whole in 2007 exhibited weak profits. Hua Nan Financial Holdings, however, bucked that trend thanks to having aggressively integrated its operations, staff, information and marketing networks. During the year, Hua Nan Bills Finance was merged into Hua Nan Commercial Bank, enhancing the ability to manage performance and utilize capital more efficiently. Risk management ability was strengthened and cross-sale efforts among Group subsidiaries generated synergy. Thanks to the efforts of shareholders, directors, and supervisors, as well as the contributions of all employees, Hua Nan Financial Holdings was able to achieve the second largest amount of profits among all its industry counterparts. This was despite the NT\$1.933 billion of financial asset impairment booked by Hua Nan Commercial Bank in light of the financial crisis. Most importantly the Bank was the most profitable among its local counterparts for the year.

For the year, Hua Nan Financial Holdings posted consolidated net profit of NT\$9.140 billion, equivalent to net earnings per share of NT\$1.5. Consolidated return on assets was 0.54% and consolidated return on equity was 10.06%. On a standalone basis, the Company posted a return on assets of 9.39% and return on equity of 10.06%.

The following is the profitability breakdown of each subsidiary in 2008:

# . Letter to the Shareholders



## (1) Hua Nan Commercial Bank

Net profit in 2008 stood at NT\$9.984 billion, translating to net earnings per share of NT\$2.64. Return on assets was 0.6% and return on equity was 12.8%.

## (2) Hua Nan Securities

Net losses in 2008 were NT\$219 million, equivalent to a net loss per share of NT\$0.27. Return on assets stood at -1.09% and return on equity was -2.0%.

## (3) South China Insurance

Net losses in 2008 were NT\$203 million, equivalent to a net loss per share of NT\$1.01. Return on assets was -1.95%, while return on equity was -9.54%.

## (4) Hua Nan Investment Trust

Net profit in 2008 was NT\$133 million, equivalent to net earnings per share of NT\$3.31. Return on assets was 19.75%, while return on equity was 21.57%.

## (5) Hua Nan Venture Capital

Net profit in 2008 was NT\$28 million, equal to net earnings per share of NT\$0.28. Return on assets was 2.55%, while return on equity was 2.55%.

## (6) Hua Nan Management & Consulting

Net profit in 2008 was NT\$4 million, which was equivalent to net earnings per share of NT\$3.8. Return on assets was 19.32%, while return on equity was 27.11%.

## (7) Hua Nan Asset Management

Net profit for 2008 stood at NT\$48 million, which translated to net earnings per share of NT\$0.48. Return on assets was 1.3%, while return on equity was 4.6%.

Credit Ratings for Hua Nan Financial Holdings and Subsidiaries in 2008

Company	Credit Ratings Organization	Long-term	Short-term	Outlook
HNHFC	Taiwan Ratings (2008/05)	twA+	twA-1	Stable
HNCB	Taiwan Ratings (2008/05)	twAA-	twA-1+	Stable
	Moody's (2008/01)	A3	P1	Stable
HNSC	Taiwan Ratings (2008/05)	twA+	twA-1	Stable
SCIC	Taiwan Ratings (2008/11)	twAA-	-	Stable
	A.M. Best (2009/02)	A-	-	Stable

## 2. Performance of Subsidiaries in 2008 and Results of Business Strategies

### (1) Hua Nan Commercial Bank

HNCB's average total deposits (not including interbank deposits) in 2008 stood at NT\$1.3085 trillion, which was 99.05% of the Bank's budgeted target of NT\$1.3210 trillion, and was an increase of 1.63%, or NT\$21.0 billion, from the previous year. The average amount of outstanding loans was NT\$1.0547 trillion, which was 101.42% of the Bank's budgeted target of NT\$1.0399 trillion, and was a rise of 4.11%, or NT\$41.6 billion, from the year earlier. Foreign exchange business in 2008 amounted to US\$253.3 billion, which was 109.00% of HNCB's target of US\$232.4 billion, and which constituted a growth of 6.59%, or US\$15.7 billion, from 2007.

### (2) Hua Nan Securities Co., Ltd.

**Brokerage:** HNSC had 58 branches (including 14

mini-branches) as of the end of 2008. Daily stock market turnover in 2008 averaged NT\$119.858 billion, which was a decline of 29.32% from 2007's NT\$169.567 billion. HNSC's average market share in 2008 was 2.318%. Its brokerage fee income fell 33.10% in 2008 to NT\$2.282 billion, compared with 2007's NT\$3.411 billion. Meanwhile, brokerage fee income comprised 84.47% of total revenues in 2008, compared with 84.94% in 2007.

**Underwriting:** In 2008, HNSC was involved in 25 underwriting contracts either as lead or co-lead, 15 underwriting projects (including financial advisory projects), and served as custodian for 89 companies. Underwriting income for the year stood at NT\$73 million, down 1% from 2007's NT\$74 million, and accounted for 2.88% of all revenues for the year, compared with 1.86% in 2007.

**Dealing:** Global stock markets tumbled in 2008 due to the effects of the US sub-prime mortgage crisis, and Taiwan's stock market was no exception. The index fell to as low as 3,955 points and ended the year down 46%. Profit contributed to HNSC by the dealing operation fell to NT\$195 million in 2008 from NT\$530 million in 2007, equivalent to a drop of 36.79%. The division's revenues accounted for 7.65% of HNSC's revenues for the year, compared with 13.2% in the previous year.

### (3) South China Insurance Co., Ltd.

A.Total written premium income in 2008 stood at NT\$5.218 billion, a decline of 2.67% from the previous year. Fire insurance premiums were NT\$1.135 billion, a rise of 3.1%, motor insurance premiums were NT\$2.859 billion, a drop of 6.04%, marine insurance premiums were NT\$445.17 million, a rise of 0.13%, casualty & engineering insurance premiums were NT\$528.59 million, a decline of 0.45%, and accident & health insurance premiums were NT\$250.48 million, an increase of 3.38% from 2007.

B.Re insurance income in 2008 stood at NT\$372.37 million, an increase of 6.23% from 2007.

### (4) Hua Nan Investment Trust Corp.

**Equity Funds:** The size of equity funds at the end of 2008 was NT\$6.150 billion, a drop of 60.57% from 2007.

**Fixed Income Funds:** The size of fixed income funds at the end of 2008 was NT\$54.184 billion, an increase of 135.71% from the end of the previous year.

**Private Equity Funds:** The scale of private equity funds at the end of 2008 was NT\$1.702 billion, an increase of 128.27% from 2007.

**Discretionary Investment:** Funds entrusted for discretionary investment at the end of 2008 stood at NT\$1.654 billion, a decrease of 22.60% from the previous year.

### (5) Hua Nan Management & Consulting Co., Ltd.

HNMC in 2008 evaluated 79 investment projects, and forwarded 11 of these projects to Hua Nan Venture Capital's board of directors for consideration. Out of the 11 projects forwarded, four new investment projects were approved, while approval was granted in six instances to increase investment in existing investments or purchase stakes in listed companies. Total investment in 2008 stood at NT\$111 million, which was 45% of Hua Nan Venture Capital's budgeted amount for the year.

### (6) Hua Nan Venture Capital Co., Ltd.

HNVC invested in six projects in 2008 with a total investment of NT\$111 million. Investments were primarily in semiconductors, IC design, information, opto-electronics, and biotechnology. Investment during the year was 45% of the budgeted amount.

### (7) Hua Nan Asset Management Co.

HNAMC in 2008 continued with its business plan of acquiring and managing secured distressed debt, as well as expanding its direct investment into court-auctioned real estate, and strengthening property management in order to enhance the value of real estate assets purchased and increase its income. HNAMC's business performance in 2008 is described below:



# . Letter to the Shareholders

## A.NPL Acquisition and Disposal:

The amount of distressed debt sold in Taiwan shrank in 2008, with financial institutions selling just NT\$60.653 billion of such, a decline of 74.38% from the previous year's NT\$236.786 billion. HNAMEC opted not to bid in any NPL sales during the year due to various considerations, such as the type of assets being sold, the size of them, as well as pricing issues and changes in the market. The decision was also based on the Group's policies with regards to the best use of assets. At the end of 2008, HNAMEC's portfolio of NPLs purchased stood at NT\$13.6 billion. In 2008, income from disposals of related assets stood at NT\$137.542 million, a rise of 42% from the previous year.

## B.Service Fee Income from Managing NPLs:

### (a) Income from Services Managing Hua Nan Commercial Bank NPLs:

In 2008, HNAMEC service fee income associated with collections of Hua Nan Commercial Bank NPLs stood at NT\$21.942 million, a rise of 9% from 2007.

### (b) Income from Services Managing Deutsche Bank and MaxWealth Assets Management NPLs:

In 2008, HNAMEC service fee income associated with managing NPLs of Deutsche Bank and Lend Lease Assets Management stood at NT\$10.661 million, down 25% from the previous year. The main reason for this is that all of the assets entrusted to HNAMEC by Lend Lease Assets Management had been disposed of in December 2007. In addition, the disposal of NPLs entrusted to HNAMEC by Deutsche Bank is nearing an end after two years.

## C.Direct Investment in Real Estate and Property Management:

### (a) Income from Disposal of Direct Investment in Real Estate

HNAMEC began direct investment in court-auctioned real estate in the fourth quarter of 2006. As of the end of 2008, it had directly

invested in 43 units. In 2008, income from disposal totaled NT\$19.397 million, a decrease of 7% from 2007. The main reason for the drop was the downturn in the market after the second quarter of 2008.

### (b) Rental Income

Rental income in 2008 stood at NT\$20.736 million, an increase of 216% from the previous year.

## 3. Group Budget Execution, Income, Expenditures, and Profitability

Hua Nan Financial Holdings in 2008 posted consolidated net income of NT\$34.744 billion, consolidated bad debts and other provisioning of NT\$5.303 billion, consolidated operating expenses of NT\$18.119 billion, and consolidated pre-tax profit of NT\$11.322 billion. Deducting NT\$2.182 billion in taxes, consolidated net profit for the year stood at NT\$9.140 billion, equivalent to net earnings per share of NT\$1.50. Consolidated return on assets was 0.54% and consolidated return on equity was 10.06%.

On a standalone basis, income was NT\$9.343 billion, expenses and losses were NT\$423 million, and pre-tax profit was NT\$8.920 billion. Adding a tax gain of NT\$2.20, the Company posted a net profit of NT\$9.140 billion, equivalent to net earnings per share of NT\$1.50. On an unconsolidated basis, the Company posted a return on assets of 9.39% and return on equity of 10.06%. Its budget achieving rate was 78%.

The following is a description of the state of budget execution, income, expenditures and profitability of each subsidiary:

### A.Hua Nan Commercial Bank

Net income in 2008 was NT\$31.813 billion, while net profit stood at NT\$9.984 billion, an increase of 15.24%, or NT\$1.320 billion, from the year earlier. Net earnings per share was NT\$2.64, return on assets was 0.60% and return on equity was 12.8%. The Bank's budget achieving rate was 92%.

**B. Hua Nan Securities**

Operating revenue in 2008 was NT\$2.683 billion and the net loss for the year was NT\$219 million. This was a drop of NT\$1.439 billion, or 117.94%, from the previous year, and translated to a loss per share of NT\$0.27. Return on assets stood at -1.09% and return on equity was -2.00%. Its budget achieving rate was -15%.

**C. South China Insurance**

Operating revenue in 2008 was NT\$9.633 billion and the net loss for the year was NT\$203 million. This was a decline of NT\$419 million, or 193.75%, from the previous year, and was equivalent to a loss per share of NT\$1.01. Return on assets was -1.95%, return on equity was -9.54%, and the budget achieving rate was -56%.

**D. Hua Nan Investment Trust**

Operating revenue in 2008 was NT\$311 million, and net profit for the year was NT\$133 million, an increase of NT\$40 million, or 42.55%, from the previous year. Net earnings per share was NT\$3.31. Return on assets was 19.75%, while return on equity was 21.57%. The budget achieving rate was 126%.

**E. Hua Nan Venture Capital**

Operating revenue for 2008 was NT\$73 million, and net profit was NT\$28 million, a decline of NT\$26 million, or 48.55%, from 2007. Earnings per share was NT\$0.28. Return on assets was 2.55%, while return on equity was 2.55%. The budget achieving rate was 60%.

**F. Hua Nan Management & Consulting**

Operating revenue for 2008 was NT\$24 million, and net profit was NT\$4 million. This was an increase of NT\$1.619 million, or 74.13%, from the previous year. Earnings per share was NT\$3.8. Return on assets was 19.32%, while return on equity was 27.11%, and the budget achieving rate was 44%.

**G. Hua Nan Asset Management**

Operating revenue in 2008 was NT\$211 million, with net profit being NT\$48 million. This was an increase of NT\$28 million, or 140.84%, from the

year earlier. Earnings per share was NT\$0.48. Return on assets was 1.30% and return on equity was 4.60%. The budget achieving rate was 116%.

## 4. Research and Development Initiatives in 2008

### (1) Hua Nan Financial Holdings

Hua Nan Financial Holdings has promoted across-the-board customer management amid the completion of its analytical customer relationship management system. Each subsidiary utilizes the system and the marketing automation function to promote marketing activities and products meeting the needs of specific customer groups, thereby raising customer value and boosting the Group's income. In addition, Hua Nan Financial Holdings in the second half of 2008 began providing even better services to its high value clients. Each of these customers receives service from a designated employee, enabling Hua Nan to maintain a deep understanding of the needs of these customers and provide them with the appropriate tailored or packaged products.

### (2) Hua Nan Commercial Bank

Hua Nan Commercial Bank continued to encourage its employees to involve themselves in R&D activities. In 2008, employees provided 1,114 suggestions, of which 304 were adopted by the Bank. A total of NT\$276,400 in award compensation was provided to the employees.

### (3) Hua Nan Securities

A. In line with policies and the regulatory environment, Hua Nan Securities has engaged in R&D with regards to the trading of emerging stocks, the trading of convertible bond asset swaps, the trading of interest rate swaps, overseas sub-broker services, the issuance of domestic call and put warrants, index and individual stock options and futures, interest rate futures, gold futures, asset securitization, and other new areas of operation or structured derivative products. HNSC is also strengthening the train-



## . Letter to the Shareholders

ing and recruitment of talent in the areas of investment banking, financial engineering, and risk management.

### B.Planning of Related Information Systems:

- (a) Overseas sub-broker e-trading platform: This includes the planning of a system in which trades can be carried out in many markets as well as an accounts system, an overseas bond sub-broker system, and the planning of a fund transaction system.
- (b) Expansion of business management system: This includes the planning of customer relationship management, regional supervision, managerial, and decision-making support systems.
- (c) HNSC is also putting in place a system for institutions to place futures orders, a system in which brokers can key in orders, and an electronic billing system.

### C.HNSC is strengthening its operations risk management culture and is engaging in the following initiatives to promote risk management:

- (a) Project to enable risk self assessment for operations risk
- (b) Operations risk appraisal procedures for new areas of business
- (c) Establishment of an operations risk loss database
- (d) Setting key risk indicators for operations risk
- (e) Continued development and improvement of a mechanism to monitor mid-session performance of products traded by the dealing division
- (f) Draft and enactment of risk management control regulations for new areas of business
- (g) Review and amendment of the risk management framework and regulations for HNSC on a company-wide basis and for each department

### (h) Maintaining risk management systems (FIRMS)

D.HNSC integrates the specialized knowledge from its Overseas Products Department, International Affairs Department, Financial Products Department, and Futures Dealing Department in carrying out research and trading with regards to arbitrage. The Information Department has developed software that focuses on program trading, hedging and arbitrage for all types of new financial derivatives. Coupled with technical analysis via charting, HNSC's traders are able to accurately follow the direction of markets and select the best trading points, thereby maximizing profits.

E.HNSC's Underwriting Department and Bond Department will aggressively enter into strategic alliances with law firms and accounting agencies, and work to train and recruit related talent. The departments will also engage in cooperation with the venture capital, management & consulting, and banking subsidiaries, seeking to expand its pool of customers and expand its services.

F.Under the framework of Hua Nan Financial Holdings, HNSC will look for potential opportunities for mergers with other brokerages, helping to expand the scale of HNSC's operations and ensure sustainable business growth.

G.Hua Nan is looking at the possibility of merging the research units from its banking, securities and investment trust units into a Group-wide research center at Hua Nan Securities Management. It would hire leading economists to provide in-depth research on the global banking environment, the state of the local and foreign economies, and the state of various industries and companies on both a fundamental and technical basis. This would help Hua Nan to remain abreast of the latest investment trends and avoid risky industries. In addition to publishing investment-related publications and holding investment forums periodically, the in-

formation produced would provide valuable reference in helping the Group's units in engaging in investments and loans.

#### **(4) South China Insurance**

South China Insurance in 2008 developed or made amendments to 116 products to further round out its product line, including 3 approval products 48 referral products and 65 products in revision.

#### **(5) Hua Nan Investment Trust**

The financial tumult in 2008 made it increasingly difficult to raise funds in the mutual fund market. In light of expectations that the stock market would continue to face downward pressure, HNITC in 2008 sought to raise funds for only one mutual fund, and that early in the year. It switched the focus of its operations to strengthening customer service and promoting fixed-income products. In 2008, funds under management grew 56.36% due to an increase in quasi money market funds. Amid the financial crisis and weak market sentiment, HNITC will continue to strengthen its ability in managing mutual funds, providing customer service and engaging in risk management, enabling it to emerge in a strong position upon the end of the crisis.

#### **(6) Hua Nan Management & Consulting**

HNMC has been sending managers to related seminars and courses for training both in Taiwan and overseas to strengthen their management expertise in appraising investment projects and engaging in post-investment management. The Company is also providing operational assistance and financial planning to its invested companies, and is establishing strategic alliances and partnerships. Shareholders of the venture capital company will benefit once these firms are listed.

#### **(7) Hua Nan Venture Capital**

The research required by HNVC in its operations is delegated to Hua Nan Management & Consulting.

#### **(8) Hua Nan Asset Management**

In addition to evaluating and participating in the bidding for NPLs, HNAMC continues to expand its management services of NPLs for other firms. It is also developing direct investment operations and creating a real estate management mechanism. In 2008, HNAMC created a unit responsible for ensuring that Group assets are used in the smartest means possible. HNAMC is looking to diversify its operations and boost its competitiveness both among domestic and foreign counterparts in the increasingly heated asset management company industry.

### **5. Development Strategies and Business Plans for 2009**

In 2009, Hua Nan Financial Holdings will seek to continue to enhance the internal structure of the Group, strengthen the risk management framework, establish a comprehensive business platform in Greater China (Taiwan, China, Hong Kong and Macau), and provide customers with a full range of desired products. The focus of the Group's strategic development in 2009 is below:

#### **(1) Strengthening internal organizational structure**

Given the uncertainties in the economic outlook for 2009, which will present difficulties in expanding operations, Hua Nan will focus on enhancing its internal organic structure. Objectives include:

- A. To boost the operational efficiency of all Group branches and optimize the location of branches and the staffing of these offices, thereby increasing performance and efficiency, while reducing costs.
- B. To strengthen the cross-sale network of the Group in order to effectively boost Group operations.

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## **(2) Implementing a Group-wide risk management framework**

Hua Nan intends to strengthen risk management data analysis and applications, and will continue to implement risk management mechanisms for each category of risk. It will develop an integrated mechanism to manage various categories of risk. These efforts will pave the way for an appropriate allocation of the Group's risk-based assets and prove valuable in actively reviewing asset portfolios.

## **(3) Developing operations throughout Greater China**

Hua Nan will assist all of its subsidiaries to take advantage of the relaxation of cross-strait financial restrictions and develop business in mainland China. It will select personnel and provide training to employees to engage in the following areas:

- A.Preparing to upgrade the Shenzhen representative office into a branch
- B.Strengthening the Group's macro-economic research ability
- C.Pursuing large-sized Chinese financial institutions to serve as strategic partners
- D.Considering equity investment in small- and medium-sized Chinese financial institutions

## **(4) Developing tailored products**

In light of the economic setting, as well as changes in the regulatory and tax regime, Hua Nan will assist its subsidiaries in developing and introducing financial products for consumers as quickly as possible in order to expand the scale of its business.

Each Hua Nan Financial Holdings subsidiary in 2009 will aim to maintain its fiscal health and asset quality, and look to solidify their respective foundations to promote business development. The specific directions set forth by each subsidiary are as follows:

### **(1) Hua Nan Commercial Bank:**

- A.Complying with risk controls and regulations
- B.Implementing risk pricing strategies

- C.Expanding its low funding cost niche and aggressively developing sources of risk-free handling fee income

- D.Cutting costs

### **(2) Hua Nan Securities:**

- A.Boosting broking performance through the use of its broker customer management system, recruitment of top-notch brokers and providing training for existing brokers
- B.Continuing to maintain growth in underwriting and custodian operations
- C.Strengthening the trading abilities of brokers to boost profits

### **(3) South China Insurance:**

- A.Solidifying its existing operations and developing new products to expand market share
- B.Strengthening risk management mechanisms, increasing net retention ratio, and enhancing underwriting control, thereby boosting profitability
- C.Enhancing information systems to raise overall operational efficiency
- D.Continuing to establish offices overseas

### **(4) Hua Nan Investment Trust:**

- A.Developing and promoting its brand name
- B.Focusing on long-term management of funds and reducing the frequency of issuing new funds; Emphasizing fixed-income funds in response to the financial environment
- C.Using e-commerce to strengthen customer service
- D.Strengthening risk management

### **(5) Hua Nan Venture Capital:**

- A.Considering taking profits at appropriate times in non-listed companies given the uncertainties associated with the progress of the IPO process
- B.Monitoring the status of investments that are performing poorly and providing assistance

when needed or booking impairments to reasonably reflect the value of the specific investment

C.Continuing to purchase investment targets with long-term development and profit potential

**(6) Hua Nan Management & Consulting:**

A.Grasping market trends to help boost profit for the venture capital subsidiary

B.Continuing to seek sources of outstanding customers via its relationship with other Group subsidiaries.

C.Pursuing strategic partnerships to bolster its ability in managing funds and investment management

D.Expanding the scale of funds as appropriate and planning new start-ups to boost profitability

**(7) Hua Nan Asset Management:**

A.Continuing to develop management services

B.Aggressively working to dispose of existing assets to quickly recover capital

C.Establishing a unit responsible for developing the smartest use of the Group's assets

Looking at 2009 and the economic challenges facing Taiwan and the world, Hua Nan Financial Holdings will continue to embrace its corporate culture that stresses stable operations. It will continue to serve the local financial market, while expanding its operations with an eye towards serving the Greater China market. Hua Nan is confident that these efforts will enable it to become one of Taiwan's leading financial holding companies, thereby fulfilling our responsibility to shareholders.

Chairman **MING-CHENG LIN**



President **JENG-YIH LEE**





## . Company Profile

### Company Profile

Hua Nan Financial Holdings Co., Ltd. (HNFHC) was established by Hua Nan Commercial Bank Ltd. (HNCB) and EnTrust Securities Co., Ltd. ("EnTrust") through a share swap on December 19, 2001. HNCB and EnTrust exchanged stocks with HNFHC at ratios of 1:1 and 1.2821:1, respectively, with "1" representing HNFHC's share. Thus, HNCB and EnTrust became HNFHC's wholly owned subsidiaries. The shares of HNCB and EnTrust then ceased to be traded on the Taiwan Stock Exchange (TSE) and the over-the-counter exchange (OTC exchange), respectively, and HNFHC became listed on the TSE. EnTrust was renamed Hua Nan Securities Co., Ltd. (HNSCC) in June 2003.

On December 26, 2002, HNFHC acquired 57.49% equity interest (230,000,000 shares) in Central Bills Finance Corporation (CBF) for \$2,300,000 thousand, which was approved by the Ministry of Finance (MOF) and related authorities. Since HNCB, a wholly owned subsidiary of HNFHC, also holds 42.41% shares of CBF, HNFHC and HNCB therefore holds a total of 99.90% of CBF's shares. CBF was renamed Hua Nan Bills Finance Corporation (HNBFC) in July 2003.

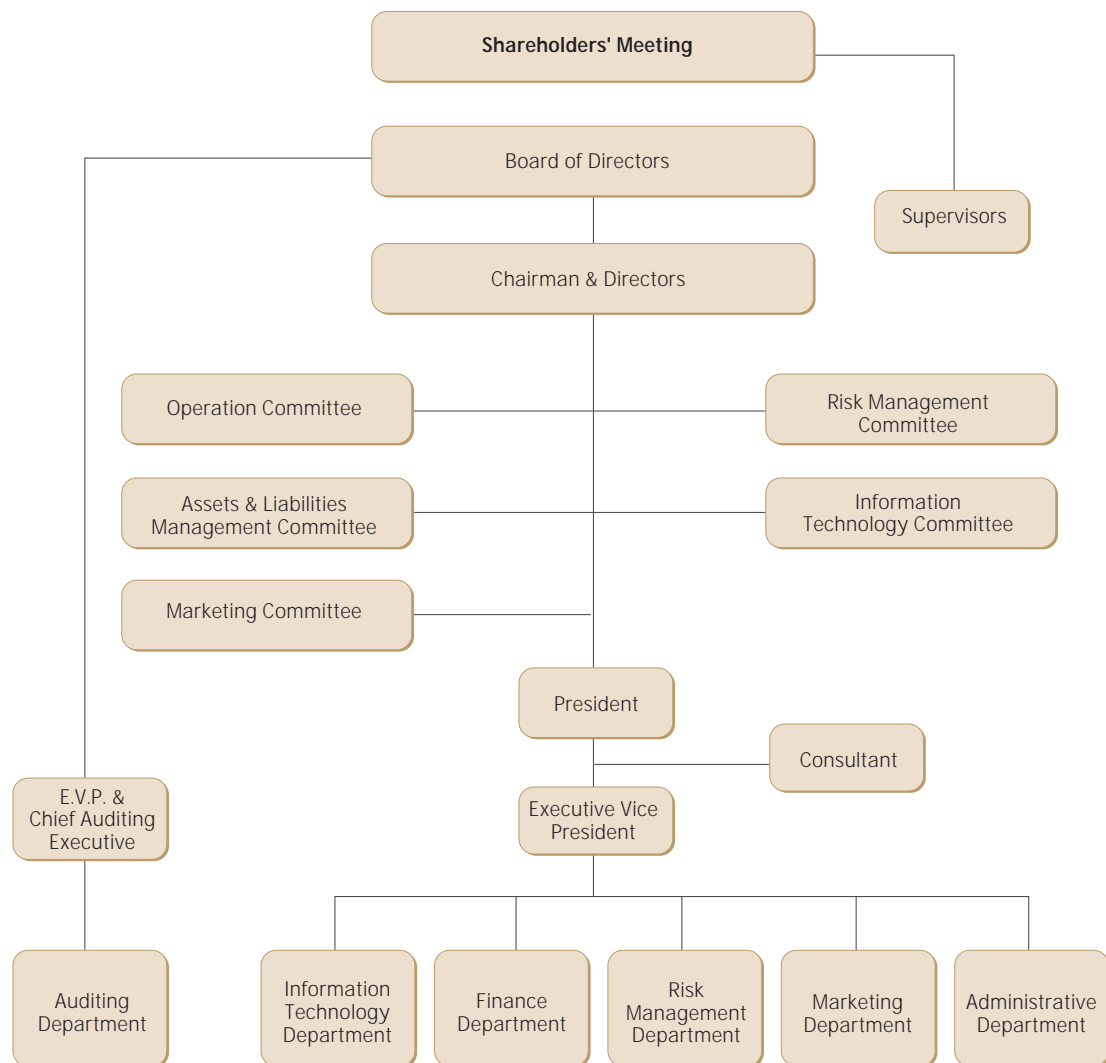
On August 15, 2003, South China Insurance Co., Ltd. (SCIC) and Hua Nan Investment Trust Corporation (HNITC) became wholly owned subsidiaries of HNFHC through a share swap at ratio of 1.1794:1 and 0.37376:1 (with "1" representing HNFHC's share), respectively. HNITC was formerly the EnTrust Investment Trust Corporation before July 2003.

To better integrate the group's resources, HNBFC was merged with HNCB on 23rd of May, 2008. In addition, Hua Nan Managed Futures ceased operation at the end of March, 2008.

As of end of 2008, HNFHC has 7 subsidiaries, including HNCB, Hua Nan Securities, South China Insurance, Hua Nan Investment Trust, Hua Nan Venture Capital, Hua Nan Management Consulting Company and Hua Nan Asset Management Company. As of the end of 2008, HNFHC boasts an asset of NT\$1,710 billion, common stock of NT\$60.9 billion, 9,539 employees, and 283 domestic and 10 overseas branches and offices. By developing banking, insurance, securities and asset management businesses, HNFHC would be able to provide comprehensive and first-class financial services while maximizing shareholders value. Having a diversified growth engines and synergies achieved within the group, HNFHC will be on track to become a leading financial holding company in Taiwan.

# . Corporate Governance

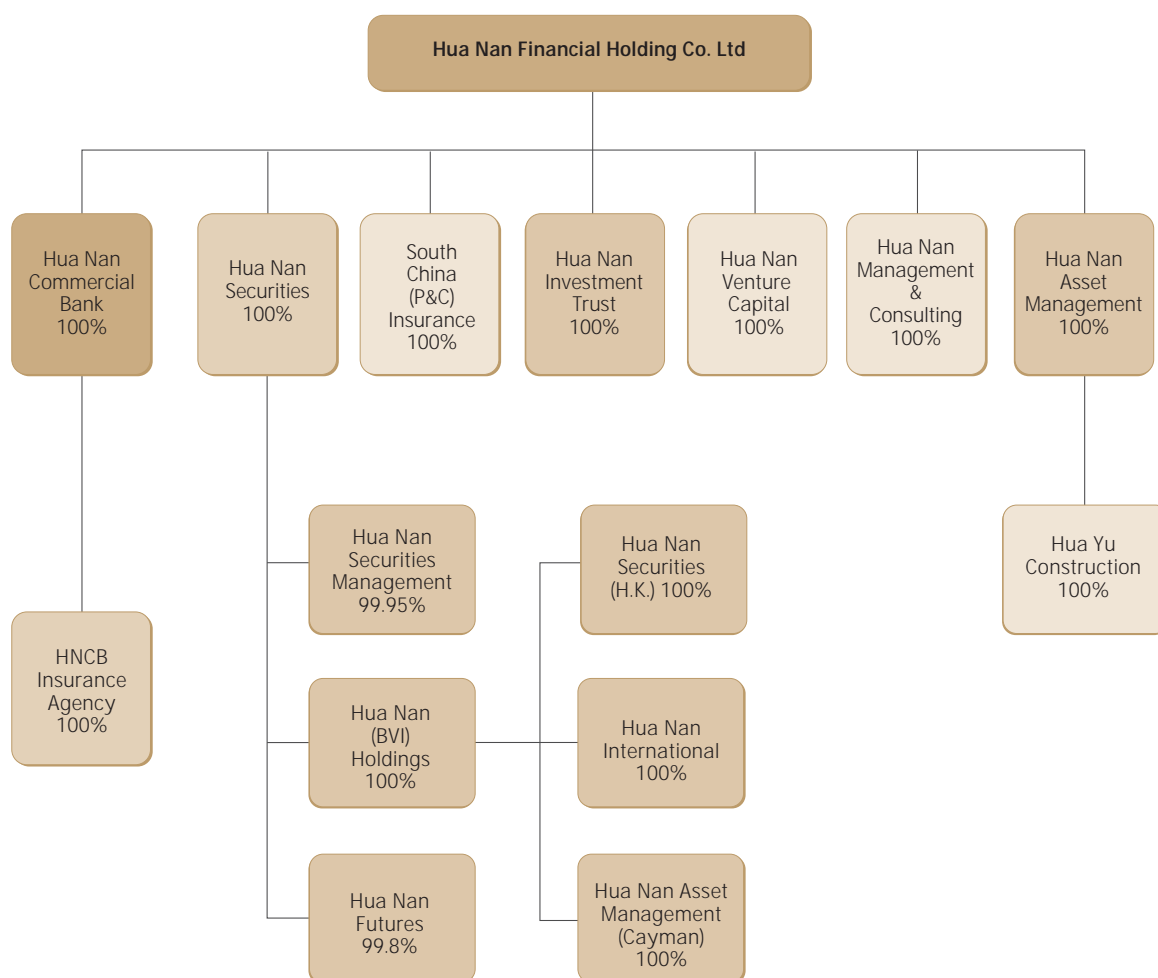
## The Organization Chart





# . Corporate Governance

## Group Organization



Categorize by Lines of Business:

- Commercial banking
- Securities/Investment banking
- Insurance
- Asset Management

## BOARD OF DIRECTORS

### Ming-Cheng Lin

Delegate of Memorial Scholarship Foundation to Mr. Lin Hsiung-Chen  
Chairman, Hua Nan Financial Holdings Co., Ltd

### Jeng-Yih Lee

Delegate of Ministry of Finance  
Managing Director & President, Hua Nan Financial Holdings Co., Ltd.

### Rong-Chu Liu

Delegate of Ministry of Finance  
Counselor, Ministry of Finance

### Tieh-Hai Lin

Delegate of Bank of Taiwan  
S.V.P & General Manager, Credit Review & Management Dept., Bank of Taiwan.

### Chuan-Chuan Hsieh

Delegate of Bank of Taiwan  
S.V.P & General Manager, Corporate Finance Dept., Bank of Taiwan

### Fang-Mien Lee

Delegate of Bank of Taiwan  
Deputy Director, General Dept. of Accounting, The Central Bank of China, Taiwan

### Shiang-Jeh Chen

Delegate of Bank of Taiwan  
Vice President,  
MassMutual Mercuries Life Insurance Co., Ltd.

### Chih-Yang Lin

Delegate of Yung-Da Real Estate & Construction Co., Ltd.  
General Manager, Ta-Yung Hsing Yeh Co., Ltd.  
Yung-Da Real Estate & construction Co., Ltd.

### Rung-Fu Hsieh

President, The Great Taipei Gas Corp.  
Managing Director, Hua Nan Commercial Bank, Ltd.

### Hsu-Hsueh Chang

Delegate of Fu Chuan Enterprises Co., Ltd.  
Supervisor, Fu Chuan Enterprises Co. Ltd.

### Tommy Lin

Special Assistant to the Chairman, Yong Da Construction Co., Ltd.

### An-Lan Chen Hsu

Delegate of Han Ting Enterprise Co., Ltd.  
Chairman, Hua Nan Securities Co., Ltd.

### Michael Yuan Jen Hsu

Avp of Chairman's Office Hua Nan Securities Co., Ltd.  
VP of Financial Derivatives Dept. & Brokerage Management Dept., Hua Nan Securities Co., Ltd.

### Jia-Dong Shea

Minister of Finance, Vice president of the Central Bank, Professor of economics at National Taiwan University.  
Director of the Academia Sinica Institute .  
Chairman of the Central Trust of China

### An-Chyr Chen

Chairman, Joint Credit Information Center  
Master of Agricultural Economics, National Taiwan University

### Chung-Yuan Hsu

Independent Director  
Professor of Accounting,  
National Cheng Chi University.

### Chin-Pin Chen

Independent Director  
Attorney of Law of Lexpert Law Firm.

## SUPERVISORS

### Sou-Shan Wu

Delegate of Ministry of Finance  
Dean & Professor, College of Management, Chang Gung University

# . Corporate Governance

**Li-Yen Yang**

Delegate of Ministry of Finance  
S.V.P & General Manager, International Banking  
Dept., Bank of Taiwan

**James Hui-Jan Yen**

Delegate of Yong Ding Construction Co., Ltd.  
Chairman, Asia Jewelry Co., Ltd.

**Chia-Ying Shen**

Delegate of China Man-made Fiber Corp.  
Supervisor, Hua Nan Financial Holdings Co., Ltd.

Note: above information are effective at May 27,  
2009.

## MANAGEMENT TEAM

**Jeng-Yih Lee**

President  
Significant Experience: E.V.P., Hua Nan Commercial  
Bank  
Education: Economics Dept., National Taiwan  
University

**Ed M.S. Liu**

Executive Vice President & G.M. of Administrative  
Department  
Significant Experience: Senior V.P. and G.M.,  
Banking Dept./Treasury Dept., Hua Nan  
Commercial Bank  
Education: Economic Dept., Chinese Culture  
University

**James H. J. Liu**

Executive Vice President & G.M. of Risk  
Management Department  
Significant Experience: V.P., Global Market Group,  
Union Bank of California  
Education: Economics & Finance, UCLA

**Jeffrey C. F. Lee**

E.V.P. & Chief Auditing Executive  
Significant Experience: G.M., New York  
Branch/Offshore Banking Branch/Treasury Dept.,  
Hua Nan Commercial Bank  
Education: Economics Dept., National Taiwan  
University

**Ching-Yuh Wu**

G.M. of Finance Department  
Significant Experience: Senior V.P. & G.M.,  
Accounting Dept., Hua Nan Commercial Bank  
Education: Business Department, National Open  
University

**Tony Jang**

G.M. of Marketing Department  
Significant Experience: Senior V.P./Chief Secretary  
of Hua Nan Commercial Bank  
Education: International Commerce Dept.,  
Tamkang University

**Michael Duh**

G.M. of Information Technology  
Significant Experience: Senior V.P. & G.M of IT of  
Hua Nan Commercial Bank  
Education: Electrical Engineering Dept., National  
Taiwan University

## Share & Dividend

unit: \$NT dollar

		2008	2007
Market Price per Share	Highest	32.35	25.50
	Lowest	13.60	19.75
	Adverage	23.61	23.05
Cash Dividend (per share)		0.70	1.00
Stock Dividend (per share)		0.30	0.20
EPS		1.50	1.54

Hua Nan Financial Holdings has adopted a residual dividend policy. This is aimed at continuing to expand the scale of Hua Nan Financial Holdings and increasing profitability, as well as abiding by related regulations. If the Company has posted a profit in a fiscal year, it must first pay tax and cover any losses from previous years. It then sets aside a legal reserve or a special reserve for operational needs. The remainder is distributed based on a resolution that is passed at the shareholders' meeting and in accordance with the following provisions:

- (1) No more than 1% can be used for remuneration of board directors and supervisors.
- (2) The sum of employee bonuses can amount to between 0.02% and 0.16%, with the exact amount to be determined by shareholders, who will decide whether to allocate the maximum amount or a portion thereof, to be carried out through the issuance of new shares. Persons eligible for bonuses in the form of shares must be employees affiliated with the Company. Any changes to these regulations must be approved by the Board of Directors.

(3) Shareholder dividends are determined based on the undistributed profit from the previous fiscal year, and a decision in this regard must be passed at the shareholders' meeting. Shareholder dividends are decided based on the Company's operational plans, and dividends may be paid in cash and/or stock. Cash dividends must comprise no less than 10% of the total dividend to be issued. When the cash dividend is less than NT\$0.1 based on this formula, the dividend will not be paid unless resolved otherwise at a shareholders' meeting.

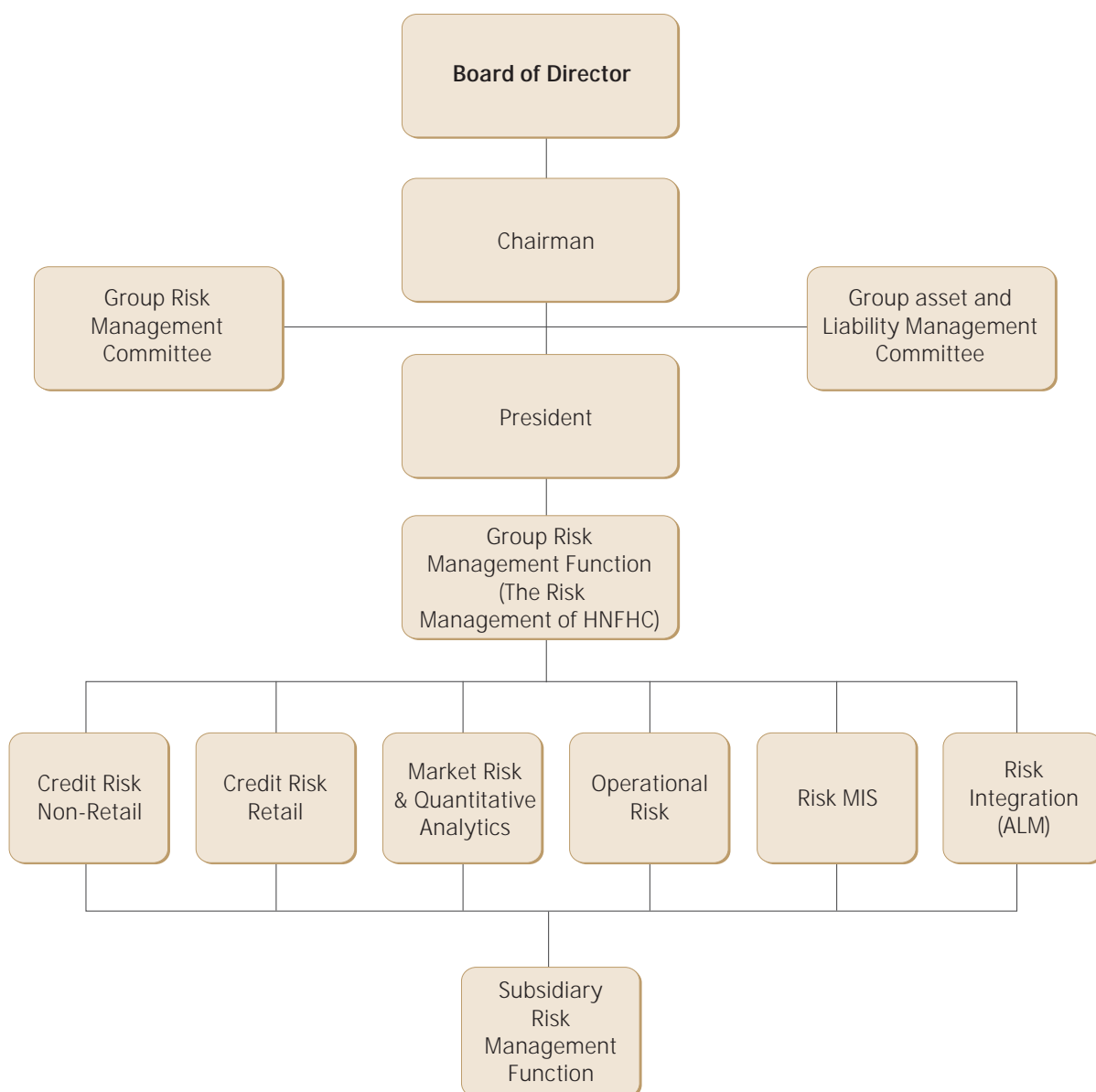
### Major Shareholder

Name of Major Shareholders	% of shares
Bank of Taiwan	24.86%
Shin Kong Life Insurance Co., Ltd	7.58%
Bank Taiwan Life Insurance Co.,Ltd	4.50%
Ta-Yung Hsing Yeh Co., Ltd	3.90%
First Commercial Bank	2.53%
Yuan Ding Investment Co., Ltd.	2.26%
Memorial Scholarship Foundation to Mr. Lin Hsiung Chen	2.00%
Ministry of Finance	1.99%
Chung Hwa Post Co. Ltd.	1.41%
Yoong Cai Investment Corporation	1.27%
Yunzai Investment Corporation	1.17%

## 1. Introduction

The objective of Risk Management in Hua Nan Financial Holdings (HNFHC) is to reach the balance between return and risk, maintain a high-quality risk profile, and obtain the target credit rating set by the board while maximizing shareholders' value.

## 2. Group Risk Management Organizational Structure



The risk management venues in HNFHC include the board, Group Asset and Liability Management Committee (GALCO) and Group Risk Management Committee (GRC). The board is responsible for approving Group Risk Charter, group risk policies and group risk tolerance. GALCO is in charge of the various issues arising from group banking (non-trading) book, including fund transfer pricing, risk capital management and investment portfolio management. GRC deals with issues regarding market risk, credit risk and operational risk.

The main functions of the Group's risk management are as follows:

- (1) Integrating Group risks.
- (2) Developing, approving and implementing risk management policies for the Group.
- (3) Setting, approving and monitoring risk limits for the Group.
- (4) Coordinating and managing risk issues across subsidiaries.
- (5) Approving product programs.

All subsidiaries should set up independent risk management functions or departments according to their business characteristics, size and complexity.

### 3. Risk Management Policies

HNFHC's risk management policies aim to establish a set of standards that are applicable to all members within the Group to identify, measure, control, monitor and manage risks. This ensures that all risks are controlled at an acceptable level, while reflecting the Group's business targets and corporate value.

The risk management framework is based on the guidance set up by Group Risk Charter, supplemented with the subsequently enacted policies that cover Non-Retail Credit Risk, Retail Credit Risk, Market Risk, Operational Risk, Asset/Liability Management and related guidelines. In order to foster a risk culture and risk awareness in the group, HNFHC will strive to strengthen the risk management mecha-

nism, and provide its risk staff with risk management training opportunities.

### 4. HNFHC's risk taxonomy

The methodologies used to measure and control all types of risks facing HNFHC will be discussed as follows:

#### (1) Non-Retail Credit Risk

All subsidiaries engaging in corporate lending should set up their own non-retail policies and guidelines according to the guidance of the Group Risk Charters, Group Non-Retail Credit Risk Policy and related guidelines. Limits and appropriate authorization for non-retail credit exposures should be established after taking into account relevant risk factors. The non-retail credit policies and related guidelines also serve to guide the risk functions/ departments of all subsidiaries or business units to regularly monitor credit rating distribution and concentration exposures of non-retail credit portfolios. Several risk indicators, early warning mechanism and Management Action Trigger (MAT) are put in place as well to inform the senior management if a preset percentage of limits were reached. The remedial actions will be subsequently initiated if necessary.

HNFHC has assisted its subsidiary Hua Nan Commercial Bank to develop its internal rating model and loss database to manage non-retail credit risk. Future credit risk exposure indicators will be calibrated based on parameters such as probability of default (PD), loss given default (LGD) and exposure at default (EAD) to help the calculation of regulatory capital charges, loan pricing setting and credit portfolio management.

#### (2) Retail Credit Risk

All subsidiaries engaging in retail lending activities should set up their own retail credit policies and guidelines according to the guidance of the Group Risk Charter, Group Retail Credit Risk Policy and related guidelines. Retail Credit Risk



# . Risk Management Summary

cies will establish a retail credit risk management framework to ensure "Credit Cycle", including Product Planning, Credit Acquisition, Account Maintenance, Collections, Write-offs, and Management Information System (MIS reports) is applied when conducting retail lending.

Considering the importance of MIS reports in monitoring and evaluating the retail exposures at the various stages of credit cycle, all subsidiaries should produce their MIS reports. HNFHC is also improving the Group MIS reports to enable better retail credit portfolio management and thorough presentation of their risk profiles.

HNFHC is assisting its subsidiary Hua Nan Commercial Bank in implementing the Product Planning, in which the product and target customer characteristics should be thoroughly analyzed, and strategic actions in different stages of the "Credit Cycle" should be planned in advance. A well documented Product Program before product launch will help achieve the balance of risk and return.

In order to comply with Basel II requirement of Internal Ratings-Based (IRB) approach, HNFHC is currently assisting its subsidiary Hua Nan Commercial Bank developing internal retail scorecard models and credit loss database. HNFHC will regularly perform the subsequent validation to ensure the models' effectiveness.

## **(3) Market Risk**

HNFHC's market risk management is to ensure that Group's market risk exposures are within limits. The important control mechanisms include ex-ante management and ex-post risk monitoring.

### **A.Process of Approval of New Products**

All subsidiaries should submit New Product Program Report to Group Risk Management Committee (GRC) for an evaluation of new products risks before trading.

### **B.Limits Monitoring**

All subsidiaries and trading functions have set

up Value at Risk (VaR) and stop-loss limits to control the daily market risk exposures within risk tolerance, and to prevent the unfavorable impact on the group capital.

Market Risk Management reports disclosing risk profiles of trading book positions and limit monitoring are submitted to GRC and the board on a regular basis.

## **(4) Operational Risk**

The objective of operational risk management is to set up a standard group operational risk management framework. Through "Operational Risk Management Cycle" and its corresponding management tools, managers at all levels will be able to monitor operational risk exposure of daily operating activities, and to track the progress of risk management improvements, which will aid to the effective control of group operational risk and maximization of shareholders' value.

### **A.Risk Self-Assessment, RSA**

RSA is a systematic methodology by which each department will be able to identify, evaluate, and measure its operational risks as well as to develop and execute appropriate action plans. Well trained RSA facilitators will assist each department to carry out this initiative.

### **B.Operational Risk Assessment Process, ORAP**

The ORAP is the procedure wherein operational, legal and reputational risks arising from a proposed new initiative or change are identified and assessed in a structured manner, leading to proposals on risk mitigating actions and the acceptance of remaining risks. The stakeholders related to the proposals are responsible for performing the risk assessment in their area of expertise, based on an agreement made with the business owner. The ORAP is designed such that operational, legal and reputational risks are explicitly identified, considered, managed and/or accepted by the business management, thereby creating transparency and accountability.

### **C.Corporate Loss Database, CLD**

This integrated database systematically collects operational risk loss data and offers a wide variety of analyses to managers. This tool paves the road for the future implementation of Advanced Measurement Approach and supports internal economic capital calculation for operational risk. HNFHC Corporate Loss Database has been officially launched in the fourth quarter of 2007 for the group members to submit their operational risk loss data. Starting from the third quarter of 2008, external data are collected for internal management and subsequent simulation analyses.

#### D. Key Operational Risk Control, KORC

This tool provides a comprehensive overview of the operational risks and related controls in key operational processes within the Group. KORC also serves as a minimum requirement for internal controls and reference for other operational risk management tools.

#### E. Key Risk Indicator, KRI

The KRIs provide management with an overview of Group operational risk profile changes and flag warning signals. KRIs allow for trend analysis over time and serve as triggers to related action plans for mitigating operational risks.

An operational risk evaluation for the Group Trading Business, including the front desk, middle and back offices, is accomplished in the first quarter of 2009. From a procedural perspective, the risks identified from the involving parties' historical experiences, outcomes of the operational risk management tools, and external loss data are inspected and assessed. All subsidiaries are encouraged to develop action plans to mitigate the identified risks.

### (5) Insurance Risk Management

HNFHC has assisted its subsidiary, South China P&C Insurance completing its Insurance Risk Management Policy to establish a framework for insurance risk management. This framework establishes a complete managerial procedure and an early warning mechanism for South China

P&C Insurance to identify, monitor and manage the underwriting, reserve and reinsurance risks arising from its insurance underwriting operations.

To quantitatively measure insurance risks, HNFHC is helping South China P&C Insurance build insurance risk models, which utilize Dynamic Financial Analysis (DFA) framework to simulate changes in surplus, net earnings and cash flows under different assumptions. Future policy premium setting and performance evaluation will base on the results from the models to ensure South China P&C Insurance's underwriting exposures are kept within acceptable levels, and its predefined solvency status is well maintained.

## 5. Risk Integration

HNFHC is working to integrate the various types of risks of its subsidiaries. HNFHC is planning to integrate risk-based capital charges associated with credit risk, market risk, and operational risk by using economic capital. With the implementation of economic capital and Hua Nan Commercial Bank's Fund Transfer Pricing (FTP) system, HNFHC can accurately measure the risk-adjusted return on capital and economic profits for each profit center. HNFHC can then optimize its capital allocation, and ultimately maximize the shareholders' value.

HNFHC and its subsidiary Hua Nan Commercial Bank have purchased Fund Transfer Pricing / Performance Analyzer / Risk Manager system from an outside vendor. With the implementation of the Bank's FTP system, HNFHC will be able to calculate funding costs of each business. An external consultant is providing assistance in introducing economic capital, risk-adjusted return on capital and economic profit concepts and methodology. Upon the completion of the internal rating models, VaR system, loss database and data collecting, HNFHC can start calculating the economic capital it needs, which will enable HNFHC to balance the risk and return, and implement a robust risk management mechanism.

# . Risk Management Summary

Due to the recent US subprime crisis episode triggering global financial tsunami, HNFHC is endeavoring to stress test the group's credit and trading portfolios under various extreme but plausible scenarios. The focus is to evaluate the group's capacity to endure heavy loss from the unfavorable impacts of several important macroeconomic variables, such as negative GDP growth rate, high level of unemployment rate, etc. HNFHC will take necessary measures to mitigate risks and preserve its capital if the stress testing results reveal remedial actions are warranted.

## 6. Asset and Liability Management, ALM

ALM is the ongoing process of formulating, implementing, monitoring and revising strategies related to non-trading assets and liabilities, to achieve HNFHC's financial objectives and control of the on and off-balance sheet non-trading interest rate risk, liquidity risk and currency risk, given its risk tolerances and other constraints.

The Asset and Liabilities Management related risk measurement tools including (but not limited to) the followings:

### (1) Interest Rate Risk measurement tools:

The important tools include net-interest-income sensitivity and economic-value-of-equity sensitivity (to interest rate).

### (2) Liquidity Risk Measurement tools:

The tools used to measure liquidity risk are balance sheet liquidity ratios and cash flow gap analysis, etc.

All subsidiaries can utilize applicable ALM risk measurement tools and set up related limits according to their business characteristics, size and complexity.

## 7. Management Information Systems and technology infrastructures

In order to comply with the Basel II framework and the global best practice, HNFHC has dedicated a lot of resources to establishing technology infrastruc-

tures and management information systems for risk management. The followings are the projects completed or still in progress:

### (1) Group VaR System

HNFHC Group VaR System has been launched in the fourth quarter of 2008. The purposes are to apply a consistent standard for market risk measurement in the trading positions across all subsidiaries, and to produce risk analysis reports for group daily market risk limits monitoring.

### (2) Group Corporate Loss Database, CLD

The purposes of CLD are to gather internal and external operational loss data for reviewing the controls in place, and help calculate operational risk regulatory capital charge under the Advanced Measurement Approach. Group CLD has been launched in the fourth quarter of 2007 for all subsidiaries to submit their operational loss data.

### (3) Risk Datamart

With the growing complexity of business environment and product portfolios, HNFHC integrates the data needed for compliances and internal uses, and store them on the Risk Datamart in the Enterprise Data Warehouse to meet requirements from the ever demanding risk control methods. Risk Datamart is scheduled to launch in the second quarter of 2009. The subsequent tasks will be planning and integrating the internal and external management information reports needed to calculate regulatory and economic capital at group and subsidiary levels.

### (4) Affiliates/Related Parties system in web platform

The existing terminal interface of the Affiliates/Related Parties system will be upgraded by the web platform version in the second quarter of 2009. The web version facilitates the maintenance, inquiry of the affiliates/related parties information defined by the Financial Holding Company Act.

### (5) Credit Risk Early Warning System

HNFHC has built a credit risk early warning sys-

tem using internal and external credit ratings, stock & bond prices, CDS Spread and credit models that are sensitive to the capital market changes, combined with historical observations and current market situation, to capture a variety of early warning signals. HNFHC will be able to form specific action plans of quality controls using these warning signals. The system will be deployed in several stages in the second half of 2009.

### 8.Crises Management Mechanism

To promptly respond to crises that threaten the survival of the Group or the subsidiaries, HNFHC put in place a Crises Management policy to cope with rising emergencies. HNFHC and its subsidiaries will activate the crises management mechanism when facing crises.

In addition, HNFHC has established a Group Significant Events Reporting Mechanism for all subsidiaries to report financial losses caused by events of malfeasance, theft, fire, natural catastrophe, violence, etc.

# Hua Nan Commercial Bank(HNCB)



## Financial Highlights

As of December 31, 2008 and 2007

	2008	2007
<b>Income Statements (in NT \$thousands)</b>		
Net interest income	25,549,416	25,380,719
Net income excluding interest income	6,263,284	10,798,451
Gross income	31,812,700	36,179,170
Bad debt expenses (loan)	(5,080,408)	(9,250,921)
Operating expenses	(14,550,760)	(14,820,693)
Income before tax	12,181,532	12,107,556
Cumulative effect of change in accounting principles	-	-
Net income	9,983,766	8,663,282
<b>Balance Sheets (in NT \$thousands)</b>		
Total assets	1,678,043,408	1,629,259,353
Total liabilities	1,600,047,049	1,551,242,425
Total shareholders' equity	77,996,359	78,016,928
<b>Ratio</b>		
ROE	12.80%	11.21%
ROA	0.60%	0.54%
Tier I ratio	18.42%	18.38%
Capital adequacy ratio	10.21%	10.82%
NPL ratio	1.67%	1.52%
Coverage ratio	59.19%	62.67%
<b>Credit Ratings (long/short/outlook)</b>		
Taiwan Ratings	twAA-/twA-1+/Stable (2008/05)	
Moody's Ratings	A3/P1/Stable (2008/01)	
Fitch Ratings	BBB+/F2/Stable (2007/12)	



# . Hua Nan Commercial Bank(HNCB)

## Brief History

Hua Nan Commercial Bank, Ltd. (HNCB) was established on March 1, 1947 through the restructuring of the Hua Nan Bank, which was founded in 1919. The Company engages in (a) all commercial banking operations allowed by the Banking Act; (b) offshore banking business; (c) overseas branch operations authorized by the respective foreign governments; and (d) other operations as authorized by the central competent authorities.

HNCB maintains its head office in Taipei. As of December 31, 2007, HNCB had Banking, Financial Trading, International Banking and Trust Departments as well as 182 domestic branches and representative offices, an offshore banking unit (OBU), 6 overseas branches, and 2 overseas representative offices.

The operations of HNCB's Trust Department are (1) trust business planning, managing and operating and (2) custody of nondiscretionary trust funds in domestic and overseas securities and mutual funds. These operations are regulated under the Banking Act and the Trust Enterprise Act.

## 2008 Business Performance

The Bank's operational results over the past year are described below:

### 1. Deposits

As of December 31, 2008, total deposits stood at NT\$1.4038 trillion, an increase of NT\$83.85 billion, or 6.35%, from the end of 2007.

### 2. Loans

Total loans at the end of 2008 rose 6.52%, or NT\$68.2 billion, compared with the end of 2007.

### 3. Domestic Remittance and Agency Services

Remittance Business: In 2008, Hua Nan processed NT\$9.31 trillion of outward remittances, a rise of 0.88%, or NT\$80.97 billion, from the previous year. Hua Nan collected 9,384,835 checks, which was a decline of 5.75%, or 572,784 checks, from 2007.

### 4. Electronic Banking

The value of the transactions stood at about NT\$2.572 trillion, which was a decline of 5.3%, or NT\$143.9 billion, from 2007.

### 5. Foreign Exchange and International Operations

In 2008, Hua Nan's domestic and overseas offices handled 2.349 million foreign exchange transactions, which was a rise of 7.55% from 2007.

### 6. Personal Banking

The amount of credit extended as of the end of 2008 stood at NT\$348.5 billion, which was an increase of 0.26%, or NT\$900 million, from the NT\$347.6 billion at the end of 2007.

### 7. Trust

(1) Investment in Local and Foreign Securities by Specific Pecuniary Trusts:

A. Foreign Currency Trust Funds: At the end of 2008, the amount of foreign currency trust funds stood at US\$992.04 million, which was a net decrease of US\$287.01 million from the end of 2007.

B. NT Dollar Trust Funds: At the end of 2008, the amount of trust funds under management stood at NT\$134.77 billion, a net decrease of NT\$14.21 billion from the end of 2007.

C. Handling fee income in 2008 amounted to NT\$1.18 billion.

(2) Custodial Services:

A. As of the end of 2008, Hua Nan provided custodial services for 56 mutual funds. Presently 90 customers have contracted Hua Nan for custodial services and the Bank provides securities custodianship for 10 foreign institutional investors. The commissioned custodial amount for 2008 was NT\$143.6 billion.

B. Handling fee income in 2008 was NT\$197.5 million.

(4) Personal Trusts:

A. As of the end of 2008, trust assets (not including collective investment accounts) amounted to NT\$32.289 billion.



# . Hua Nan Commercial Bank(HNCB)

B.As of the end of 2008, the total net asset value of three collective investment accounts operated by Hua Nan was NT\$1.448 billion.

C.Handling fee income (including collective investment accounts) in 2008 stood at NT\$107.77 million.

## (5)Trustee for Issuance of Bonds:

A.In 2008, Hua Nan acted as trustee for the issuance of four corporate bonds, with the amount of bonds issued valued at NT\$10 billion.

B.Income generated in the area of business came to NT\$480,000 in 2008.

## 8. Financial Trading and Marketing

(1) Financial Trading Business: In 2008, net profit was NT\$3.275 billion, with was 207.41% of the Bank's target for the year of NT\$1.579 billion.

(2) Treasury Marketing Business: In 2008, Hua Nan handled derivative financial product trading for its customers of US\$21. 6 billion, which was a rise of NT\$3.6 billion, or 20%, from the previous year.

## 9. Wealth Management

Hua Nan's wealth management operations in 2008 generated handling fee income of NT\$1.970 billion, which was 49% of the Bank's target of NT\$4 billion. In addition, this was a drop of NT\$1.345 billion, or 41%, from the previous year's NT\$3.315 billion.

## 10. Operational Performance

Net profit for 2008 came to NT\$9.98 billion, which was 91.69% of the Bank's internal target. Total net income was NT\$31.813 billion. Of this, net interest income accounted for 80.31% (interest income was NT\$51.47 billion and interest expense was NT\$25.92 billion). Non-interest net income accounted for 19.69% (handling fee net income was NT\$4.33 billion, foreign exchange gains amounted to NT\$1.34 billion, asset impairment was NT\$1.93 billion, recovery of bad debts

and overdue accounts was NT\$1.46 billion, and other non-interest net income was NT\$1.09 billion). Bad debt expense was NT\$5.08 billion and operating expense was NT\$14.55 billion (personnel expense was NT\$8.98 billion, depreciation and amortization was NT\$1.16 billion, and other business and management expense was NT\$4.41 billion). Income tax stood at NT\$2.20 billion, and after-tax earnings per share was NT\$2.64.

## 2008 Major Income

unit in NT\$mn



Corporate Banking	33%
Consumer Banking	23%
Foreign Exchange	21%
Treasury	16%
Wealth Management	3%
Others	4%

unit in NT\$mn	2008		2007		change	
	Amount	%	Amount	%	Amount	%
Corporate Banking	19,724	33%	17,717	28%	2,007	11%
Consumer Banking	13,733	23%	13,247	21%	486	4%
Treasury	9,875	16%	6,446	10%	3,429	53%
Foreign Exchange	12,814	21%	18,180	29%	(5,366)	(30%)
Wealth Management	1,970	3%	3,320	5%	(1,350)	(41%)
Others	2,516	4%	4,022	7%	(1,506)	(37%)
Total	60,632	100%	62,932	100%	(2,300)	(4%)

## Business Plan for 2009

### 1. Development of New Financial Products

(1) Hua Nan is planning a cash management system for use in its corporate Internet bank, which will further round-out the Bank's e-cash services. This is expected to expand clientele,

- increase the amount of demand deposits at the Bank, boost handling fee income, and reduce service costs.
- (2) The Bank will enable customers to use their IC banking card to logon to the Internet bank and transfer funds to personal finance products. This will provide more comprehensive and convenient Internet banking services and meet the competitive threat from industry counterparts. Hua Nan will develop new customers and enhance its relationship with existing Internet bank clients, helping to boost handling fee income.
  - (3) Hua Nan is planning "e-Cash Smart Pay" stored value card services. This will attract new customers, increase the amount of demand deposits at the Bank and boost handling fee income.
  - (4) Hua Nan will introduce "safeguarded financing" products to increase sources of risk-free handling fee income.
  - (5) The Bank is planning to add Easy Card and e-wallet functions to its credit cards, increasing the interest among customers in holding these cards and using them.
  - (6) Hua Nan will introduce "target personal finance accounts." Customers will be able to go to their account on the Internet bank and select the specific type of account that meets their needs, such as retirement, home acquisition, or children's education. Asset pricing and up-to-date information on various products will be provided on the various types of accounts. Charts will plot the value of the specific account. This will help customers to conveniently see how their accounts are performing.
  - (7) Hua Nan will introduce exchange traded funds with baskets of stocks or bonds. These funds will be offered to its pecuniary trust customers interested in overseas securities.
  - (8) Hua Nan will introduce foreign currency commodity option business.
  - (9) The Bank will introduce foreign currency commodity swap business.
  - (10) Hua Nan will begin non-physical gold account transactions, open non-physical gold accounts, and offer foreign currency time deposit- or gold option-linked (one or the other) foreign currency structured investment products.
  - (11) The Bank will introduce NT dollar forward rate agreement operations.
  - (12) Hua Nan will begin NT dollar rate option operations.
  - (13) Hua Nan will boost its revolving capital loans and capital expenditure financing to companies that are operating normally.
  - (14) The Bank will provide strategic loans to companies to assist in the business development of these firms.
  - (15) In order to complement the government's economic revitalization policies, Hua Nan will strengthen its use of the credit guarantee mechanism offered by the Small and Medium Enterprise Credit Guarantee Fund. This will reduce credit risk in extending corporate financing.
  - (16) Hua Nan will work in tandem with the government's projects to expand domestic consumption and strengthen infrastructure investment by providing financing services to companies taking part in related initiatives.
  - (17) Hua Nan will seek to be lead manager of top quality and relatively profitable domestic syndicated loan projects.
  - (18) The Bank plans to engage in import- and export-related forex financing in line with government policy to promote international trade.
  - (19) Hua Nan will develop domestic and international factoring business, strengthening the range of banking services it provides to the corporate sector.

(20) The Bank plans to provide domestic e-financing services, offering companies the financing services they require in the course of production. It will also introduce its supply chain cash mechanism to each industry to foster economies of scale in the business.

(21) Hua Nan intends to enhance its wealth management business in 2009 via strengthening personnel, its relationship with customers, marketing activities, product strategy, education and training, legal compliance, system functionality, and offshore personal finance. These initiatives will expand the scale of wealth finance operations and not only enable Hua Nan to reach its annual business target, but also help it secure a bigger share of the wealth management market. (1) (a) Personnel allocation: Hua Nan has set a handling fee income target in its wealth management operations for 2009 of NT\$2.179 billion. The Bank expects to have 200 people working as personal finance account executives and 100 people as financial product salespeople. (b) Creation of team of 6 to 8 people to provide service to high net worth customers: Members of this team will provide advisory, asset allocation, product recommendation, and overseas tax planning recommendation services, helping to strengthen the relationship between customers and the Bank. (2) Customer relationships: (a) Hua Nan will divide customers into groups to be able to provide better service quality and offer differentiated services and marketing activities. (b) Hua Nan will put emphasis on high value customers in 2009, with a designated account executive providing service to a specific customer, monitoring the customer's assets and any changes in trading behavior, and having close interaction with the customer. These efforts will help to maintain customer assets and assist customers in making the most appropriate asset allocation. (3) Marketing activities: (a) Efforts will be carried out in conjunction with the financial holding company's Customer Relationship Management Division

to hold marketing events directed towards specific customer groups and promote appropriate products to these groups. (b) Special activities will be planned for high value customers, such as theme-based conferences, investment clubs, and high value service teams. These customers will be divided into groups based on their profession, and Hua Nan will enhance efforts to boost its relationship with them. (4) Product strategy: (a) Hua Nan will add a "target personal finance account" platform to its Internet bank and provide a trial calculation function to enable customers to monitor the degree to which their targets are being reached. The system will automatically remind customers about the status of their investments, assist customers in reaching their targets in various stages of life, and aim to expand dollar cost averaging customers. (b) Hua Nan will mainly promote savings-oriented, traditional insurance products with relatively stable returns. Its second priority will be to promote return of premium medical insurance and return of premium accident insurance. (c) The Bank will promote top-notch funds that investment in government bonds and global investment-grade corporate bonds for core investments, which are to be complemented by equities funds. (5) Education & training: Hua Nan will assist personal finance account executives and financial product salespeople to attend training courses that prepare them to take licensing exams required by regulatory authorities. The Bank also encourages employees to participate in courses and certification exams for CFP, personal finance planning and new areas of operations. This raises the expertise of the staff and enhances their ability to help customers in asset planning. (b) Hua Nan assists managers in the area of consumer finance to prepare for and pass certification as required by regulatory agencies. (6) Legal compliance: Hua Nan is strengthening procedural risk controls in its wealth management business and boosting risk awareness among account executives

and salespeople in order to fulfill legal compliance and strengthen internal management. (7) Enhancing system functionality: (a) Hua Nan is establishing a personal finance recording system. This system will be used in the marketing of structured products or other personal finance products. Explanations will be provided to customers concerning the products and various risk, and interaction with customers in this regard will be recorded and stored. (b) In conjunction with the financial holding company's CRM system, functions such as event-based marketing, AO customer relationship, and a long-term high value customer management mechanism will be added to the SFA system. This will increase marketing opportunities at branches, increase the success rate in sales, and effectively monitor the status of assets of high value customers, helping to prevent customer losses. (c) The ability of check the ratio of various investment products in a customer's investment portfolio as a percentage of that customer's assets under management will be added to the VIP system. Reports monitoring the status of accounts will be produced. Hua Nan will also monitor purchases of funds under the E-Tabs fund trading system. (8) Offshore personal finance: Hua Nan will seek to develop offshore personal finance clientele and will assist its Hong Kong branch in developing wealth management operations.

## 2. Measures to Strengthen Competitiveness

- (1) Hua Nan will strengthen management of the quality and quantity of its deposits, looking for ways to reduce capital costs and generate the most efficient use of capital.
- (2) Hua Nan will make adjustments to its branch network, establishing a business network that is most appropriate for its needs.
- (3) Hua Nan will take advantage of its tight-knit operations network throughout Taiwan to provide customers with convenient and comprehensive financial services to effectively boost business performance, enhance its relationship with customers and maximize network synergy.
- (4) Hua Nan is drafting an e-solution to problems that might arise in the documenting of deposits in passbooks. This will avoid any possible errors in manual transcribing or with the loss of passbooks. This initiative will strengthen internal management and raise operational efficiency at branches.
- (5) The transmission of securities-related files will be documented at both ends.
- (6) Hua Nan will introduce centralized operations and a related system for documents for impounding rulings issued by the court.
- (7) Hua Nan will continue to streamline operational procedures.
- (8) The Bank will increase risk-free handling fee income.
- (9) To complement government policy, Hua Nan was entrusted by Bank of Taiwan to carry out cashing of consumption vouchers.
- (10) Hua Nan will strengthen promotion of the forex functions in its Internet bank and provide batch scheduled file outward remittances to assist customers in their cash flow needs and raise the Bank's income from forex operations.
- (11) Hua Nan will enhance the professional expertise of its corporate banking staff involved in forex operations in order to boost its market share.
- (12) Hua Nan will apply to respective regulatory agencies to open branches in Macau and Sydney, Australia to expand its operations in the international market and provide more services to Taiwan businesses operating in those areas. In addition, it will strengthen preparations to upgrade its representative office in Shenzhen, China to a branch and look to establish other offices in mainland China.
- (13) The Bank will provide tailored services for customers and offer comprehensive solutions, helping to raise customer satisfaction.

## . Hua Nan Commercial Bank(HNCB)

- (14) Hua Nan will hold a variety of events to boost foreign exchange business, seeking to promote import- and export-related foreign currency loan operations.
- (15) The Bank will continue to promote electronic banking services, strengthening corporate accounts receivable and accounts payable solutions, as well as planning comprehensive e-cash services. This will boost demand deposits and strengthen competitiveness.
- (16) Hua Nan will expand electronic banking services at its overseas branches to move in the direction of offering electronic services on a global basis and to strengthen the Bank's competitiveness.
- (17) Hua Nan will plan a corporate financial management system to provide integrated financial management to its corporate clients and assist them in managing their cash. The Bank will increase the quantity and quality of its electronic network to boost customer satisfaction.
- (18) Hua Nan will carefully select domestic and overseas investment targets for its pecuniary trusts. In addition to obtaining regulatory approval from authorities, the Bank will carry out extensive screening of funds with regards to their size, date of establishment, performance, performance rating, prospects, and the reliability and trustworthiness of the local agent (s) for the respective fund (s). This will enable Hua Nan to fulfill its responsibility as manager and avoid any unnecessary sales disputes in the future.
- (19) Hua Nan will select funds under custodianship that exhibit stable performance or have an outstanding image to be included as potential targets when it provides wealth management asset allocation/portfolio services. This will raise the Bank's share in the volume of these funds. The Bank will also carry out custodian operations for funds issued by domestic investment trusts that meet stipulated standards, aiming to boost both volume and quality of this business. It will also seek to serve as custodian bank for new mutual funds as market trends permit.
- (20) In the wake of the financial crisis, the Bank will seek to emphasize asset allocation to help customers diversify risk. The Bank will promote its collective investment accounts to provide an option for a stable investment avenue for its customers and also to help solidify and expand the size of the accounts.
- (21) In light of the reduction in the inheritance tax, Hua Nan will seek to provide long-lasting management of funds under trust and develop new trust products that meet the latest trends.
- (22) Hua Nan will use its corporate banking sales automation system to strengthen its relationship with customers, boost customer satisfaction and enhance sales performance.
- (23) The Bank will work together with other subsidiaries of Hua Nan Financial Holding in carrying out joint marketing activities, helping to drum up more business and providing corporate clients with the best services.
- (24) Hua Nan will continue to promote Treasury Marketing Unit operations, enhancing the services it provides to customers and developing new sources of customers. The Bank will seek to provide hedging and trading services for institutional clients, thereby expanding the Bank's dealings with customers in derivatives trading.
- (25) The Bank will work together with other subsidiaries of Hua Nan Financial Holding in carrying out joint marketing activities. Increased success in telephone marketing initiatives will be sought, maximizing marketing synergy.

- (26) Hua Nan will appropriately allocate banking assets to increase profits: Carefully balancing risk and profit considerations, and keeping the domestic and overseas economic situation in mind, the Bank will strengthen trading of equities and fixed income securities in order to boost capital gains. Hua Nan will continue to invest in outstanding fixed income securities in Taiwan and overseas to raise the rate of return on the Bank's capital.
- (27) Hua Nan will continue to expand its bill underwriting and trading: The Bank will seek to serve as underwriter and buyer of commercial paper for customers that have been guaranteed by other banks. This will enable Hua Nan to generate handling fee income and boost trading income.
- (28) The Bank will continue to establish financial systems: Hua Nan will plan and implement its second phase structured and derivatives products modules in 2009. Work in this regard will include confirming operational standards, judging user acceptance of these products, data transfer, and education & training.
- (29) In order to bolster capital, meet operational development needs and raise the Bank's capital adequacy ratio, Hua Nan plans to apply to the Financial Supervisory Commission to issue bank debentures. Upon approval, Hua Nan will issue the subordinated debentures at an appropriate time based on interest rate trends.
- (30) Hua Nan will boost the coupling of mortgage insurance with mortgage loans, helping to increase risk-free handling fee income.
- (31) The Bank will aggressively promote financing to persons involved in relatively low risk industries.
- (32) Hua Nan will seek to increase cooperation opportunities and alliances strategies for non-performing mobile loan repurchase guarantee agreement in an effort to promote its automobile financing business.
- (33) Hua Nan will establish a credit card rights platform for users of all of its cards, helping to bolster the understanding of the preferential rights of these cardholders.



# Hua Nan Securities Co., Ltd.(HNSC)



## Financial Highlights

As of December 31, 2008 and 2007

	2008	2007
<b>Income Statements (in NT \$thousand)</b>		
Revenue	2,682,693	4,251,986
Expense	(2,708,332)	(2,634,861)
Income before tax	(25,639)	1,617,125
Cumulative effect of change in accounting principles		-
Net income	(218,819)	1,220,025
<b>Balance Sheets (in NT \$thousand)</b>		
Total assets	15,676,456	24,644,340
Total liabilities	5,591,324	12,804,405
Total shareholders' equity	10,085,132	11,839,935
<b>Ratio</b>		
ROE	-	10.74%
ROA	-	5.22%
Capital adequacy ratio	478%	459.92%
<b>Credit Ratings (long/short/outlook)</b>		
Taiwan Ratings	twA+/twA-1/Stable (2008/6)	

# . Hua Nan Securities Co., Ltd.(HNSC)

## Brief History

Hua Nan Securities Corp. (HNSC) was incorporated on June 17, 1988 in conformity with related regulations. HNSC's main business operations are (a) to underwrite securities, (b) to trade securities for itself at HNSC's business location, (c) to accept orders to trade securities at HNSC's business locations, (d) to engage in margin loan and securities financing for securities, (e) to accept orders to buy and sell foreign securities, (f) to engage in securities-related auxiliary futures trading services, to engage in securities-related futures services, (g) to act as a transfer agent for securities, (h) to engage in other securities-related businesses approved by the governing authorities.

## 2008 Business Performance

### 1. Brokerage

As of December 31, 2008, total deposits stood at HNSC had 58 branches (including 14 mini-branches) as of the end of 2008. Daily stock market turnover in 2008 averaged NT\$119.858 billion, which was a decline of 29.32% from 2007's NT\$169.567 billion. HNSC's average market share in 2008 was 2.318%. Its brokerage fee income fell 33.10% in 2008 to NT\$2.282 billion, compared with 2007's NT\$3.411 billion. Meanwhile, brokerage fee income comprised 84.47% of total revenues in 2008, compared with 84.94% in 2007.

### 2. Underwriting

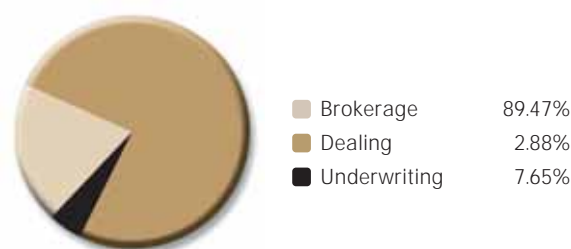
In 2008, HNSC was involved in 25 underwriting contracts either as lead or co-lead, 15 underwriting projects (including financial advisory projects), and served as custodian for 89 companies. Underwriting income for the year stood at NT\$73 million, down 1% from 2007's NT\$74 million, and accounted for 2.88% of all revenues for the year, compared with 1.86% in 2007.

### 3. Dealing

Global stock markets tumbled in 2008 due to the effects of the US sub-prime loan crisis, and Taiwan's stock market was no exception. The index

fell to as low as 3,955 points and ended the year down 46%. Profit contributed to HNSC by the dealing operation fell to NT\$195 million in 2008 from NT\$530 million in 2007, equivalent to a drop of 36.79%. The division's revenues accounted for 7.65% of HNSC's revenues for the year, compared with 13.2% in the previous year.

## 2008 Major Income



## Business Plan for 2009

The world economy has continued to contract so far this year due to the impact of the global financial tsunami. In mid-March, the Dow Jones Index fell below 7,000 points on fears that America's major automakers could go bankrupt as the result of the downturn in consumer spending. Meanwhile, the large increase in the number of jobless people in Europe and the US, and a sharp contraction in spending power is threatening export-oriented Asian economies. Countries throughout Asia have allowed their currencies to depreciate in order to rescue exports. In an effort to maintain 8% GDP growth, China unveiled a NT\$20.1 trillion economic stimulus package. The global economy remains weak and no signs of recovery have been seen yet in Europe, the US or Japan. As an economy that relies on exports, Taiwan will see an economic contraction here unprecedented in the past half century.

The two sides of the Taiwan Strait this year are expected to sign a memorandum of understanding on banking supervision. This is seen as strongly positive for banking and other related shares on the stock market. In addition, Taiwan's regulatory framework

covering the banking and financial sectors is expected to be gradually liberalized, becoming more in line with international practices. This will assist in the development of Taiwan brokerages and financial holding companies into investment banks. This year will be one full of challenges, but also full of opportunities for Taiwan's financial holding companies and brokerages, testing the leadership abilities of top-ranking management. HNSC will continue to emphasize stable operations, trustworthy service, and R&D innovation, providing a full range of investment and personal finance services for its corporate and retail customers.

Focus of Hua Nan Securities' R&D initiatives:

1. In line with policies and the regulatory environment, Hua Nan Securities has engaged in R&D with regards to the trading of emerging stocks, the trading of convertible bond asset swaps, the trading of interest rate swaps, overseas sub-broker services, the issuance of domestic call and put warrants, index and individual stock options and futures, interest rate futures, gold futures, asset securitization, and other new areas of operation or structured derivative products. HNSC is also strengthening the training and recruitment of talent in the areas of investment banking, financial engineering, and risk management.

2. Planning of Related Information Systems:

- (1) Overseas sub-broker e-trading platform: This includes the planning of a system in which trades can be carried out in many markets as well as an account system, an overseas bond sub-broker system, and the planning of a fund transaction system.
- (2) Expansion of business management system: This includes the planning of customer relationship management, regional supervision, managerial, and decision-making support systems.
- (3) HNSC is also putting in place a system for institutions to place futures orders, a system in which brokers can key in orders, and an electronic billing system.

3. HNSC is strengthening its operations risk management culture and is engaging in the following initiatives to promote risk management:

- (1) Project to enable risk self assessment for operations risk
- (2) Operations risk appraisal procedures for new areas of business
- (3) Establishment of an operations risk loss database
- (4) Setting key risk indicators for operations risk
- (5) Continued development and improvement of a mechanism to monitor mid-session performance of products traded by the dealing division
- (6) Draft and enactment of risk management control regulations for new areas of business
- (7) Review and amendment of the risk management framework and regulations for HNSC on a company-wide basis and for each department
- (8) Maintaining risk management systems (FIRMS)

4. HNSC integrates the specialized knowledge from its Overseas Products Department, International Affairs Department, Financial Products Department, and Futures Dealing Department in carrying out research and trading with regards to arbitrage. The Information Department has developed software that focuses on program trading, hedging and arbitrage for all types of new financial derivatives. Coupled with technical analysis via charting, HNSC's traders are able to accurately follow the direction of markets and select the best trading points, thereby maximizing profits.

5. HNSC's Underwriting Department and Bond Department will aggressively enter into strategic alliances with law firms and accounting agencies, and work to train and recruit related talent. The departments will also engage in cooperation with the venture capital, management & consulting, and banking subsidiaries, seeking to expand its pool of customers and expand its services.

6. Under the framework of Hua Nan Financial Holdings, HNSC will look for potential opportunities for mergers with other brokerages, helping to expand the scale of HNSC's operations and ensure sustainable business growth.
7. Hua Nan is looking at the possibility of merging the research units from its banking, securities and investment trust units into a Group-wide research center at Hua Nan Management & Consulting. It would hire leading economists to provide in-depth research on the global banking environment, the state of the local and foreign economies, and the state of various industries and companies on both a fundamental and technical basis. This would help Hua Nan to remain abreast of the latest investment trends and avoid risky industries. In addition to publishing investment-related publications and holding investment forums periodically, the information produced would provide valuable reference in helping the Group's units in engaging in investments and loans.

# South China Insurance Co., Ltd.(SCIC)



## Financial Highlights

As of December 31, 2008 and 2007

	2008	2007
<b>Income Statements (in NT \$thousand)</b>		
Operating income	9,632,543	10,017,643
Operating cost	(8,964,456)	(8,793,344)
Gross income from operations	668,087	1,224,299
Operating expense	(909,952)	(974,666)
Net operating income	(241,865)	249,633
Non-operating revenue	19,133	19,261
Non-operating expense	(76)	(788)
Income before tax	(222,808)	268,106
Cumulative effect of change in accounting principles		-
Net income	(202,725)	216,238
<b>Balance Sheets (in NT \$thousand)</b>		
Total assets	10,149,216	10,592,224
Total liabilities	8,273,245	8,216,388
Total shareholders' equity	1,875,971	2,375,836
<b>Ratio</b>		
ROE	(9.54)%	8.96%
ROA	(1.95)%	2.07%
Risk- Based Capital	547.76%	730.03%
<b>Credit Ratings (long/outlook)</b>		
Taiwan Ratings	twAA-/Stable (2008/11)	
A.M. Best Ratings	A- /Stable(2009/2)	



# . South China Insurance Co., Ltd.(SCIC)

## Brief History

South China Insurance Co., Ltd. (SCIC) was incorporated on May 1, 1963. SCIC is mainly engaged in non-life insurance services including fire insurance, marine insurance, motor insurance, casualty insurance, and reinsurance of the preceding insurance businesses. As of December 31, 2008, SCIC has a head office in Taipei, seven branches and twenty nine liaison offices in main cities in Taiwan.

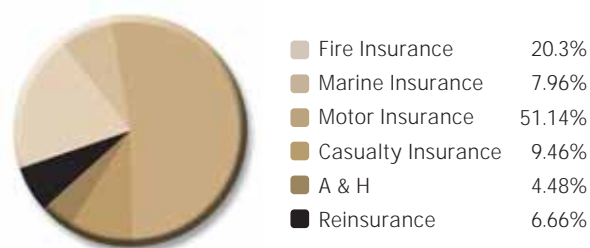
## 2008 Business Performance

South China Insurance Co., Ltd. (SCIC) posted operating income in 2008 of NT\$9.633 billion, including NT\$5.590 billion of premium income, recovered various reserves of NT\$2.362 billion, and other operating income of NT\$1.681 billion. The company's operating costs stood at NT\$8.965 billion, including NT\$2.607 billion of insurance claims and payouts various reserves of NT\$2.567 billion, and other operating costs of NT\$3.791 billion. SCIC posted operating expenses of NT\$910 million and an operating loss of NT\$242 million, which comprised -2.51% of operating income. Net non-operating income was NT\$19 million and pre-tax losses were NT\$223 million, which was -2.31% of operating income. After accounting for tax, the Company's net loss for the year was NT\$203 million.

Total non-life insurance market premiums in 2008 stood at NT\$108.03 billion, which was a drop of 4.11% from the previous year due to a fall in casualty insurance and slumping sales of new automobiles. However, SCIC's total premiums in 2008 stood at NT\$5.22 billion, a fall of just 2.67% from 2007. Meanwhile, the Company's market share increased to 4.83%.

## 2008 Major Income

unit in NT\$m



## Business Plan for 2009

1. To establish a health insurance information system to underpin an expansion of business in this area.
2. To develop a residential fire database and operations model to support an expansion of fire insurance operations.
3. To work in tandem with improvements in operational procedures to enhance information systems, thereby boosting efficiency, such as in processing re-insurance billings.
4. To develop a sales automation system to support an expansion of operations and boost efficiency in business management.
5. To update hardware and software, as well as information systems, to strengthen Internet data security.
6. To continue research into and amendment of SCIC's expense allocation project in order to more accurately categorize costs.



7. To develop and employ an actuarial system and to train related personnel, effectively providing information for decision making.
8. To establish a product operations think tank, legal affairs unit, and product databases, and to more quickly respond to market changes by efficiently developing new products that meet market needs.
9. To draft a benefit evaluation mechanism to analyze new products and to monitor the performance of newly developed products on a regular basis.
10. To draft various training programs to fit in all-level marketing, claim-handling and underwriting staffs. to expand rotation of employees within the Company to boost employee expertise, thereby raising service quality and operational efficiency.
11. To draft and implement training for reserve management and to cultivate highly talented employees within the company in order to foster business development.
12. To expand the education and training platform, to continue promoting e-learning, to strengthen vocational training, and to promote a learning passport system; to encourage employees to continually boost the level of their professional licenses; to offer training to top employees to cultivate core managers and boost employee competitiveness.
13. To develop new distribution channel, providing products that meet the needs of consumers and thus increasing the Company's competitiveness.
14. To strengthen cooperation and coordination within the group to generate and maximize synergy.
15. To cultivate an actuarial system and financial risk management staff to be able to effectively assess risk associated with investment in various areas, thereby creating the most suitable asset/liability allocation and minimizing risk.
16. To continue with an elite training project, honoring the Company's most outstanding staff and to expand the education and training platform, creating the foundation for a learning-oriented organization.
17. To implement project-oriented staff that provide loss prevention services to major clients, and to establish a mechanism for regular discussion; to build up our own quantitative risk assessment system by factoring in the local and international standard.(such as NFPA, FM. A.M.Best etc.) and the systems used by major reinsurers, such as MR, HR Allianz Re.
18. To create a comprehensive non-life insurance customer service center to provide insurance inquiry and advisory services, insurance purchase and claim services, and to accept and handle complaints; to provide professional and sincere services, and to offer one stop service; to provide a direct marketing channel through Internet referrals, and to generate profits through the services provided.

# Hua Nan Investment Trust Corporation (HNITC)



## Financial Highlights

As of December 31, 2008 and 2007

	2008	2007
<b>Income Statements (in NT \$thousand)</b>		
Operating income	311,016	330,062
Operating expense	(203,273)	(226,008)
Net operating income(loss)	107,743	104,054
Non-operating revenue	9,916	10,829
Non-operating expense	(9,971)	(1,618)
Income before tax	107,688	113,265
Cumulative effect of change in accounting principles	-	-
Net income	133,231	93,466
<b>Balance Sheets (in NT \$thousand)</b>		
Total assets	678,602	670,306
Total liabilities	36,295	77,112
Total shareholders' equity	642,307	593,194
<b>Ratio</b>		
ROE	21.57%	16.90%
ROA	19.75%	15.45%

# . Hua Nan Investment Trust Corporation(HNITC)

## Brief History

Hua Nan Investment Trust Corporation (HNITC) was registered on September 29, 1992. HNITC is mainly engaged in public offering of securities investment trust funds and securities investments with the preceding funds. HNITC was authorized by the governing authorities to be engaged in the operation of discretionary investment services. As of December 31, 2007, HNITC has two branches in Taichung and Kaohsiung.

## 2008 Business Performance

Operating income in 2008 stood at NT\$311 million and net profit was NT\$133 million, equivalent to net earnings per share of NT\$3.31. Return on assets was 19.75%, while return on equity was 21.57%.

HNITC's various businesses are as follows:

**Equity Funds:** The size of equity funds at the end of 2008 was NT\$6.150 billion, a drop of 60.57% from 2007.

**Fixed Income Funds:** The size of fixed income funds at the end of 2008 was NT\$54.184 billion, an increase of 135.71% from the end of the previous year.

**Private Equity Funds:** The scale of private equity funds at the end of 2008 was NT\$1.702 billion, an increase of 128.27% from 2007.

**Discretionary Investment:** Funds entrusted for discretionary investment at the end of 2008 stood at NT\$1.654 billion, a decrease of 22.60% from the previous year.

## 2008 AUM Distribution



Equity	64.70%
Fixed Income	28.08%
Discretionary Investment	2.92%
Fee Income	3.79%
Private Placement	0.51%

## Business Plan for 2009

1. Pursuing technical cooperation and strategic partnerships with mainland Chinese fund management companies.
2. Strengthening asset management ability in the pursuit of stable business performance.
3. Promoting e-commerce to enhance customer service.
4. Strengthening customer service and maintaining relationships, as well as promoting brand name marketing.
5. Enhancing employee education and training to set the foundation for the Company's long-term development and to boost service quality.

# Hua Nan Venture Capital Co., Ltd.(HNVC)

## Hua Nan Management&Consulting Co., Ltd.(HNMC)



### Financial Highlights(HNVC)

As of December 31, 2008 and 2007

	2008	2007
<b>Income Statements (in NT \$thousand)</b>		
Operating Income	72,502	95,949
Operating expenses	( 26,533)	( 21,187)
Net operating income (loss)	45,969	74,762
Non-operating revenue	6,390	6,289
Non-operating expense	( 22,773)	( 23,345)
Income(loss) before tax	29,586	57,706
Net income (loss)	27,761	53,962
<b>Balance Sheets (in NT \$thousand)</b>		
Total assets	993,576	1,187,510
Total liabilities	1,406	3,259
Total shareholders' equity	992,170	1,184,251
<b>Ratio</b>		
ROE	2.55%	5.00%
ROA	2.55%	4.99%

### Financial Highlights(HNMC)

As of December 31, 2008 and 2007

	2008	2007
<b>Income Statements (in NT \$thousand)</b>		
Operating Income	23,810	19,048
Operating expenses	(18,863)	(16,236)
Net operating income	4,947	2,812
Non-operating revenue	392	304
Income before tax	5,339	3,116
Net income	3,804	2,185
<b>Balance Sheets (in NT \$thousand)</b>		
Total assets	21,155	18,230
Total liabilities	6,204	5,117
Total shareholders' equity	14,951	13,113
<b>Ratio</b>		
ROE	27.11%	16.76%
ROA	19.32%	12.45%



# Hua Nan Venture Capital Co., Ltd. (HNVC) Hua Nan Management & Consulting Co., Ltd. (HNMC)

## Brief History

Hua Nan Venture Capital Co., Ltd. (HNVC) was registered under the "Company Act" and "Regulations for Scope and Guidance to Venture Capital Business". HNVC is mainly engaged in venture capital investments in domestic and overseas technology companies, other venture capital companies, domestic manufacturing companies, and other companies allowed by the related regulations.

Hua Nan Management & Consulting Co., Ltd. (HNMC) was established in February 2004 and is mainly engaged in investments consulting, enterprise operation management consulting and venture capital management consulting.

## 2008 Business Performance

### Hua Nan Venture Capital Co., Ltd. (HNVC)

HNVC invested in six projects in 2008 with a total investment of NT\$111 million. Investments were primarily in semiconductors, IC design, information, opto-electronics, and biotechnology. Investment during the year was 45% of the budgeted amount.

### Hua Nan Management & Consulting Co., Ltd. (HNMC)

HNMC in 2008 evaluated 79 investment projects, and forwarded 11 of these projects to Hua Nan Venture Capital's board of directors for consideration. Out of the 11 projects forwarded, four new investment projects were approved, while approval was granted in six instances to increase investment in existing investments or purchase stakes in listed companies. Total investment in 2008 stood at NT\$111 million, which was 45% of Hua Nan Venture Capital's budgeted amount for the year.

## Business Plan for 2009

### Hua Nan Venture Capital Co., Ltd. (HNVC)

HNVC expects to invest NT\$200 million in 2009. Investments will be primarily in Taiwan, but the Company has adopted strategies to diversify risks. HNVC will continue to pursue investments that are expected to exhibit long-term growth and profit potential.

The ratio of HNVC's new investments in start-ups and early stage companies will gradually decline, with investment targets increasingly focused on companies in the expansion phase or that are already mature. HNVC will emphasize investments in companies with significant developmental potential in the opto-electronics, semiconductor, IC design, and photovoltaic industries.

### Hua Nan Management & Consulting Co., Ltd. (HNMC)

In addition to engaging in cooperation with Group companies, HNMC's main objectives in 2009 will be to tap Group resources to seek investment targets with long-term development and profit potential. It will also establish and manage the investment portfolio of Hua Nan Venture Capital from both a short- and long-term profit perspective. HNMC will remain abreast of the latest market developments in order to boost profits. It will also seek out strategic partners to bolster its ability in managing funds and engaging in investment management, expand the scale of funds as appropriate, and plan new start-ups to boost profitability.

HNMC's primary business is venture fund management and its primary sources of income are from fund management and performance incentives. In 2009, it expects fund management income of about NT\$23.81 million. Operating costs are forecast at around NT\$22.56 million (mainly personnel expense, operating expense, employee bonuses, and performance-based payments). HNMC expects after-tax profit for the year to be about NT\$1.003 million, equivalent to earnings per share of about NT\$1.

Global economic growth in 2009 is expected to slow in comparison with 2008 due to the effects of the financial crisis. HNMC, however, will continue to cautiously manage its investment portfolio and even plans to raise funds in order to expand the scale of funds under management, thereby increasing income. It will also hire outstanding professionals who will gradually expand the Group's asset management business.

# Hua Nan Asset Management Corp. (HNAMC)



## Financial Highlights

As of December 31, 2008 and 2007

	2008	2007
<b>Income Statements (in NT\$ thousand)</b>		
Revenue	210,794	158,707
Expense	(117,312)	(94,002)
Income	93,482	64,705
Non-operating revenue	48,848	8,995
Non-operating expense	(75,451)	(53,934)
Income before tax	66,879	19,766
Net income	47,610	19,768
<b>Balance Sheets (in NT \$thousand)</b>		
Total assets	3,404,587	3,916,108
Total liabilities	2,354,868	2,896,207
Total shareholders' equity	1,049,719	1,019,901
<b>Ratio</b>		
ROE	4.60%	1.96%
ROA	1.30%	0.66%

# . Hua Nan Asset Management Corp. (HNAMC)

## Brief History

Hua Nan Asset Management Corp. (HNAMC) was invested by HNFH and was established on May 10, 2005. HNAMC is mainly engaged in purchasing, evaluating, auction and managing services of monetary creditor's rights of financial institutions.

## 2008 Business Performance

HNAMC in 2008 continued with its business plan of acquiring and managing secured distressed debt, as well as expanding its direct investment into court-auctioned real estate, and strengthening property management in order to enhance the value of purchased real estate assets and increase its income. HNAMC's business performance in 2008 is described below:

### (1) NPL Acquisition and Disposal:

The amount of distressed debt sold in Taiwan shrank in 2008, with financial institutions selling just NT\$60.653 billion of such, a decline of 74.38% from the previous year's NT\$236.786 billion. HNAMC opted not to bid in any NPL sales during the year due to various considerations, such as the type of assets being sold, the size of them, as well as pricing issues and changes in the market. At the end of 2008, HNAMC's portfolio of NPLs purchased stood at NT\$13.6 billion. In 2008, income from disposals of related assets stood at NT\$137.542 million, a rise of 42% from the previous year.

### (2) Service Fee Income from Managing NPLs:

#### A. Income from Services Managing Hua Nan Commercial Bank NPLs:

In 2008, HNAMC service fee income associated with collections of HuaNan Commercial Bank NPLs stood at NT\$21.942 million, a rise of 9% from 2007.

#### B. Income from Services Managing Deutsche Bank and Lend Lease Assets Management NPLs:

In 2008, HNAMC service fee income associated with managing NPLs of Deutsche Bank and Lend Lease Assets Management stood at NT\$10.661 million, down 25% from the previous year. The main reason for this is that all of the assets entrusted to HNAMC by Lend Lease Assets Management had been disposed of in December 2007. In addition, the disposal of NPLs entrusted to HNAMC by Deutsche Bank is nearing an end after two years.

### (3) Direct Investment in Real Estate and Property Management:

#### A. Income from Disposal of Direct Investment in Real Estate

HNAMC began direct investment in court-auctioned real estate in the fourth quarter of 2006. As of the end of 2008, it had directly invested in 43 units. In 2008, income from disposal totaled NT\$19.397 million, a decrease of 7% from 2007. The main reason for the drop was the downturn in the market after the second quarter of 2008.

#### B. Rental Income

Rental income in 2008 stood at NT\$20.736 million, an increase of 216% from the previous year.

In addition to evaluating and participating in the bidding for NPLs, HNAMC continues to expand its management services of NPLs for other firms. It is also developing direct investment operations and creating a real estate management mechanism. In 2008, HNAMC created a subsidiary responsible for ensuring that Group assets are used in the smartest means possible. HNAMC is looking to diversify its operations and boost its competitiveness both among domestic and foreign counterparts in the increasingly heated asset management company industry.



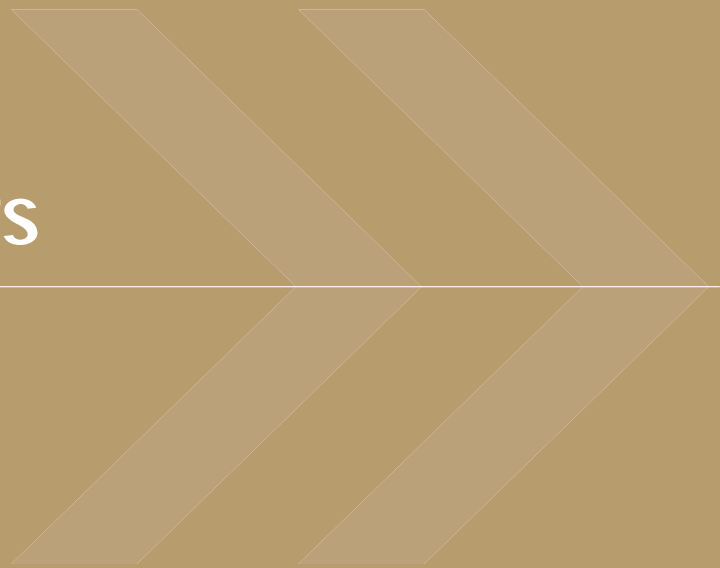
## Business Plan for 2009

1. To continue to monitor auctions of secured non-performing debt. HNAMC will carry out the necessary preliminary research and due diligence, enabling it to understand the latest situation and any changes in the NPL market.
2. To continue to maintain contact with domestic and foreign counterparts and exchange market information with them. This will set the foundation for cooperative alliances in the future or to engage in the management of NPLs on behalf of others.
3. To continue to expand services to Hua Nan Commercial Bank to collect NPLs on behalf of the Bank.
4. To develop accounts receivable collection services on behalf of small- and medium-sized enterprises. HNAMC believes that this will provide another source of income amid the weak economy.
5. To continue to during the distressed asset management policies of foreign banks and provide asset management services when the opportunity arises, to expand income for the Company.
6. To continue to dispose of existing assets mainly through court auctions or the sale of creditor rights. Properties that are not easily sold in the short term but that are likely to increase in value over the long term will be rented for the time being. This will increase income until the property can be sold.
7. To increase the sale of remaining assets depending on the state of the market in order to hasten the recovery of capital and rid itself of the assets.
8. To continue to monitor news and changes in the court-auction market and to carefully carry out direct investment in real estate. HNAMC's investments will be targeted to those in which it can achieve capital gains within one year.
9. To strengthen training in industry expertise, to provide legal compliance education, and to offer other related education and training. In 2009, however, the Company will reduce external training courses and will instead increase the ratio of internal training.
10. To complete the development of systems for major areas of operations over a three-year period. This will help spread expenses out over a longer period and also provide a broader time-frame in which to accumulate practical experience, thereby ensuring that the systems meet the needs of the Company in its business development.

# 2008

## Consolidated Financial Statements

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# . 2008 Consolidated Financial Statements

## INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders

Hua Nan Financial Holdings Co., Ltd.

We have audited the accompanying consolidated balance sheets of Hua Nan Financial Holdings Co., Ltd. and subsidiaries as of December 31, 2008 and 2007, and the related consolidated statements of income, changes in stockholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the Rules Governing the Audit of Financial Statements of Financial Institutions by Certified Public Accountants and auditing standards generally accepted in the Republic of China ("ROC"). 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 misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Hua Nan Financial Holdings Co., Ltd. and subsidiaries as of December 31, 2008 and 2007, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with the Guidelines Governing the Preparation of Financial Reports by Financial Holding Companies, Regulations Governing the Preparation of Financial Reports by Securities Issuers, Guidelines Governing the Preparation of Financial Reports by Public Banks, Regulations Governing the Preparation of Financial Reports by Securities Firms, Regulations Governing the Preparation of Financial Reports by Futures Commission Merchants, Regulations Governing the Preparation of Financial Reports by Enterprises Engaging in Non-life Insurance, and accounting principles generally accepted in the ROC.

As stated in Note 3 and Note 39 to the accompanying financial statements, Hua Nan Financial Holdings Co., Ltd. and subsidiaries adopted the newly amended Statement of Financial Accounting Standards (SFAS) No. 34 "Financial Instruments: Recognition and Measurement", effective July 1, 2008. The amendments to SFAS No. 34 mainly deals with reclassifying financial instruments that conform to specific conditions.

February 27, 2009



### Notice to Readers

The accompanying consolidated financial statements are intended only to present the consolidated 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 consolidated financial statements are those generally accepted and applied in the Republic of China.

For the convenience of readers, the auditors' report and the accompanying consolidated 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.

# . 2008 Consolidated Financial Statements

## HUA NAN FINANCIAL HOLDINGS CO., LTD. AND SUBSIDIARIES

### CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2008 AND 2007

(In Thousands of New Taiwan Dollars)

ASSETS	2008 Amount	2007 Amount	Percentage of Variation %
Cash and cash equivalents	\$ 32,179,189	\$ 23,033,883	40
Due from the Central Bank and other banks	121,304,504	153,320,292	( 21)
Financial assets at fair value through profit or loss, net	43,892,275	41,855,262	5
Bonds and bills purchased under resale agreements	7,350,430	2,324,363	216
Receivables, net	35,152,731	47,408,251	( 26)
Discounts and loans, net	1,122,676,237	1,053,763,226	7
Available-for-sale financial assets, net	101,475,140	120,575,741	( 16)
Held-to-maturity financial assets, net	187,493,639	171,777,998	9
Investments accounted for by the equity method	87,545	94,761	( 8)
Other financial assets, net	10,183,391	10,244,593	( 1)
Investments in real estate ,net	595,884	468,335	27
Property and equipment, net	26,586,679	26,042,594	2
Intangible assets	592,225	667,635	( 11)
Other assets, net	20,583,302	18,669,395	10
TOTAL	<u>\$1,710,153,171</u>	<u>\$1,670,246,329</u>	2

The accompanying notes are an integral part of the consolidated financial statements.  
(With Deloitte & Touche audit report dated February 27, 2009)

LIABILITIES AND STOCKHOLDERS' EQUITY	2008 Amount	2007 Amount	Percentage of Variation %
Due to the Central Bank and other banks	\$ 51,736,738	\$ 89,175,648	( 42)
Commercial paper Issued, net	414,570	5,795,626	( 93)
Financial liabilities at fair value through profit or loss	48,063,588	40,731,697	18
Bonds and bills sold under repurchase agreements	36,779,523	37,111,281	( 1)
Payables	47,587,265	45,401,080	5
Deposits and remittances	1,382,462,269	1,297,243,813	7
Bond and bank debentures payable	34,500,000	39,600,000	( 13)
Other borrowings	1,825,000	5,781,000	( 68)
Accrued pension liability	1,383,012	1,035,810	34
Other financial liabilities	749,916	708,884	6
Reserves for operations	7,912,359	8,027,150	( 1)
Other liabilities	6,990,916	7,654,245	( 9)
Total Liabilities	1,620,405,156	1,578,266,234	3
STOCKHOLDERS' EQUITY			
Common stock	60,896,128	59,702,086	2
Capital surplus	12,408,866	12,408,866	-
Legal reserve	4,815,039	3,895,160	24
Special reserve	111,017	111,017	-
Unappropriated earnings	13,668,178	12,708,746	8
Unrealized revaluation increments	4,154,744	3,403,045	22
Cumulative translation adjustments	( 83,362)	( 54,983)	-
Unrealized Losses on valuation of available-for-sale financial assets	( 6,223,945)	( 195,146)	-
Total parent stockholders' equity	89,746,665	91,978,791	( 2)
MINORITY INTEREST			
Total stockholders' equity	1,350	1,304	4
	89,748,015	91,980,095	( 2)
TOTAL	\$1,710,153,171	\$1,670,246,329	2

# . 2008 Consolidated Financial Statements

## HUA NAN FINANCIAL HOLDINGS CO., LTD. AND SUBSIDIARIES

### CONSOLIDATED STATEMENTS OF INCOME

#### YEARS ENDED DECEMBER 31, 2008 AND 2007

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

	2008	2007	Percentage of Variation
	Amount	Amount	%
INTEREST INCOME	\$ 52,402,215	\$ 53,455,550	( 2)
INTEREST EXPENSE	( 26,114,167)	( 27,275,913)	( 4)
INTEREST INCOME, NET	26,288,048	26,179,637	-
NET INCOME EXCLUDING INTEREST INCOME			
Service fee and commission income, net	5,935,835	8,159,351	( 27)
Income from insurance premiums, net	1,367,464	1,672,541	( 18)
Losses on financial assets and liabilities at fair value through profit or loss	( 456,291)	( 101,246)	-
Realized (losses) gains of available-for-sale financial assets	( 243,823)	765,650	( 132)
(Losses) gains from investments accounted for by the equity method	( 7,216)	2,146	( 436)
Income from investments in real estate	25,154	13,720	83
Foreign exchange gains, net	1,313,481	820,279	60
Impairment loss	( 1,969,139)	( 74,128)	-
Recovered bad debts and overdue accounts, net	1,459,831	2,925,715	( 50)
Other non-interest income, net	1,030,880	1,649,183	( 37)
NET REVENUES	34,744,224	42,012,848	( 17)
BAD-DEBT EXPENSES	( 5,097,863)	( 9,253,827)	( 45)
PROVISIONS FOR INSURANCE RESERVES	( 204,792)	( 553,496)	( 63)
OPERATING EXPENSES			
Personnel	( 10,909,877)	( 11,482,225)	( 5)
Depreciation and amortization	( 1,291,579)	( 1,278,491)	1
Other general and administrative expenses	( 5,918,177)	( 6,204,847)	( 5)
CONSOLIDATED INCOME BEFORE INCOME TAX FROM CONTINUING OPERATIONS	11,321,936	13,239,962	( 14)
INCOME TAX EXPENSE	( 2,182,259)	( 4,041,119)	( 46)
CONSOLIDATED NET INCOME	\$ 9,139,677	\$ 9,198,843	( 1)
ATTRIBUTABLE TO			
Parent company	\$ 9,139,597	\$ 9,198,794	( 1)
Minority interest	80	49	63
	\$ 9,139,677	\$ 9,198,843	( 1)



	2008		2007	
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
BASIC EARNINGS PER SHARE	<u>\$ 1.86</u>	<u>\$ 1.50</u>	<u>\$ 2.17</u>	<u>\$ 1.51</u>

The accompanying notes are an integral part of the consolidated financial statements.  
(With Deloitte & Touche audit report dated February 27, 2009)

# . 2008 Consolidated Financial Statements

## HUA NAN FINANCIAL HOLDINGS CO., LTD. AND SUBSIDIARIES

### CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

YEARS ENDED DECEMBER 31, 2008 AND 2007

(In Thousands of New Taiwan Dollars)

	Capital Surplus				
	Common Stock	Additional Paid-in Capital	Treasury Stock	Donated Assets Received	Other Reserve
BALANCE, JANUARY 1, 2007	\$ 59,702,086	\$ 12,352,244	\$ 52,361	\$ 2,936	\$ 1,325
Appropriation of 2006 earnings					
Legal reserve	-	-	-	-	-
Remuneration to directors and supervisors	-	-	-	-	-
Employees bonus	-	-	-	-	-
Cash dividends	-	-	-	-	-
Translation adjustments on investments accounted for by the equity method	-	-	-	-	-
Minority interest obtained from subsidiary company	-	-	-	-	-
Net income for the year ended December 31, 2007	-	-	-	-	-
BALANCE, DECEMBER 31, 2007	59,702,086	12,352,244	52,361	2,936	1,325
Appropriation of 2007 earnings					
Legal reserve	-	-	-	-	-
Remuneration to directors and supervisors	-	-	-	-	-
Employees bonus	-	-	-	-	-
Cash dividends	-	-	-	-	-
Stock dividends	1,194,042	-	-	-	-
Translation adjustments on investments accounted for by the equity method	-	-	-	-	-
Net income for the year ended December 31, 2008	-	-	-	-	-
BALANCE, DECEMBER 31, 2008	<u>\$ 60,896,128</u>	<u>\$ 12,352,244</u>	<u>\$ 52,361</u>	<u>\$ 2,936</u>	<u>\$ 1,325</u>

The accompanying notes are an integral part of the consolidated financial statements.  
(With Deloitte & Touche audit report dated February 27, 2009)

Retained Earnings			Equity Adjustments				
Legal Reserve	Special Reserve	Unappropriated Earnings	Unrealized Revaluation Increments	Cumulative Translation Adjustments	Unrealized Gains (Losses) on Financial Instruments	Minority Interest	Total
\$ 3,100,052	\$ 111,017	\$ 10,358,277	\$ 3,403,045	\$( 62,903)	\$ 1,667,226	\$ 6,497	\$ 90,694,163
795,108	-	( 795,108)	-	-	-	-	-
-	-	( 71,559)	-	-	-	-	( 71,559)
-	-	( 11,449)	-	-	-	-	( 11,449)
-	-	( 5,970,209)	-	-	-	( 56)	( 5,970,265)
-	-	-	-	7,920	( 1,862,372)	-	( 1,854,452)
-	-	-	-	-	-	( 5,186)	( 5,186)
-	-	9,198,794	-	-	-	49	9,198,843
3,895,160	111,017	12,708,746	3,403,045	( 54,983)	( 195,146)	1,304	91,980,095
919,879	-	( 919,879)	-	-	-	-	-
-	-	( 82,789)	-	-	-	-	( 82,789)
-	-	( 13,246)	-	-	-	-	( 13,246)
-	-	( 5,970,209)	-	-	-	( 34)	( 5,970,243)
-	-	( 1,194,042)	-	-	-	-	-
-	-	-	751,699	( 28,379)	( 6,028,799)	-	( 5,305,479)
-	-	9,139,597	-	-	-	80	9,139,677
\$ 4,815,039	\$ 111,017	\$ 13,668,178	\$ 4,154,744	\$( 83,362)	\$( 6,223,945)	\$ 1,350	\$ 89,748,015

# . 2008 Consolidated Financial Statements

## HUA NAN FINANCIAL HOLDINGS CO., LTD. AND SUBSIDIARIES

### CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2008 AND 2007

(In Thousands of New Taiwan Dollars)

	2008	2007
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Consolidated net income	\$ 9,139,677	\$ 9,198,843
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	1,314,480	1,307,273
Losses (gains) from investments accounted for by the equity method	7,216	( 2,146)
Bad-debt expenses	5,097,863	9,253,827
Provisions for insurance reserves	82,059	147,561
Losses (gains) on disposal of assets	3,125	( 29,239)
Impairment loss	1,969,139	74,128
Deferred income tax	( 448,211)	3,320,153
Net changes in operating assets and liabilities		
Financial assets at fair value through profit or loss	( 1,711,989)	17,580,404
Receivables	12,040,071	( 4,496,631)
Other financial assets	( 529,934)	227,944
Other assets	266,972	( 150,923)
Financial liabilities at fair value through profit or loss	7,326,999	5,600,382
Payables	675,705	( 6,212,634)
Accrued pension liability	339,945	233,286
Other financial liabilities	40,825	( 113,859)
Other liabilities	13,790	142,111
Others	1,944,323	518,525
Net cash provided by operating activities	37,572,055	36,599,005
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
(Increase) decrease in bonds and bills purchased under resale agreements	( 5,029,968)	3,322,618
Decrease (increase) in due from the Central Bank and other banks	29,815,788	( 5,803,421)
Increase in discounts and loans	( 73,693,533)	( 41,683,301)
Decrease in available-for-sale financial assets	10,955,282	8,603,828
Decrease in other financial assets	186,450	1,736,991
Increase in investment in real estate	( 149,537)	( 676,676)
Proceeds from sale of properties	1,992	7,235
Acquisition of properties	( 692,222)	( 855,331)
Increase in intangible assets	( 121,579)	( 278,248)
(Increase) decrease in other assets	( 1,650,337)	2,086,448
Acquisition of held-to-maturity financial assets	( 15,715,641)	( 5,814,429)
Net cash used in investing activities	( 56,093,305)	( 39,354,286)

	2008	2007
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Decrease in due to the Central Bank and other banks	\$( 35,238,910)	\$( 5,827,282)
(Decrease) increase in commercial paper payable	( 5,381,056)	1,827,456
Decrease in bonds and bills sold under repurchase agreements	( 331,758)	( 22,722,492)
Increase in deposits and remittances	85,218,456	22,837,951
Decrease in bond and bank debentures payable	( 5,100,000)	( 6,050,000)
(Decrease) increase in other borrowings	( 3,956,000)	2,570,741
(Decrease) increase in other liabilities	( 1,004,506)	210,372
Bonuses paid to directors and employees	( 546,511)	( 594,245)
Cash dividends paid	( 5,948,610)	( 5,956,533)
Net cash provided by (used in) financing activities	27,711,105	( 13,704,032)
EFFECT OF EXCHANGE RATE CHANGES	( 44,549)	8,179
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	9,145,306	( 16,451,134)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	23,033,883	39,485,017
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$32,179,189</u>	<u>\$ 23,033,883</u>
<b>SUPPLEMENTAL CASH FLOW INFORMATION</b>		
Interest paid	<u>\$ 26,196,156</u>	<u>\$ 27,355,499</u>
Income tax paid	<u>\$ 1,610,421</u>	<u>\$ 1,130,546</u>

The accompanying notes are an integral part of the consolidated financial statements.  
(With Deloitte & Touche audit report dated February 27, 2009)

# . Shareholders Information

## Headquarters

### **Hua Nan Financial Holdings Co., Ltd.**

Address: 8F, No. 38, Sec.1, Chung-king S. Rd.,  
Taipei 100, Taiwan, R.O.C.  
Telephone: 886-2-2371 3111  
Website: <http://www.hnfhc.com.tw>

### **Hua Nan Commercial Bank**

Address: No. 38, Sec.1, Chung-king S. Rd.  
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Telephone: 886-2-2371 3111  
Website: <http://www.hncb.com.tw>

### **Hua Nan Securities Co., Ltd.**

Address: No. 54, Sec.4, Minsheng E. Rd,  
Taipei 105, Taiwan, R.O.C.  
Telephone: 886-2-2545 6888  
Website: <http://www.entrust.com.tw>

### **South China Insurance Co., Ltd.**

Address: 5F, No. 560, Sec. 4, Chung Hsiao E. Rd.,  
Taipei 110, Taiwan, R.O.C.  
Telephone: 886-2-2758 8418  
Website: <http://www.south-china.com.tw>

### **Hua Nan Securities Investment Trust Co., Ltd.**

Address: 3F.-1, No. 54, Sec.4, Minsheng E. Rd,  
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Telephone: 886-2-2719 6888  
Website: <http://www.hnisc.com.tw>

### **Hua Nan Venture Capital Co., Ltd.**

Address: 3F, No. 143, Sec.2, Minsheng E. Rd,  
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### **Hua Nan Management & Consulting Co., Ltd.**

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Telephone: 886-2- 2500 0622

### **Hua Nan Asset Management Co., Ltd.**

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Telephone: 886-2-2511 2900  
Website: <http://www.hnamc.com.tw>

### **Equities Administration Center**

Address: 4F, No. 54, Sec.4, Minsheng E. Rd,  
Taipei 105, Taiwan, R.O.C.  
Telephone: 886-2-2718 6425

### **Investment Relations**

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