



HONEST. EFFICIENCY. ACTIVENESS. RESPONSIBILITY. TEAMWORK 



2009 ANNUAL REPORT

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Company Spokesperson

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Hua Nan Commercial Bank(HNCB)

Address : 8F, 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.(HNSC)

Address : 5F, No. 54, Sec.4, Min Sheng E. Rd.,
Taipei 105, Taiwan, R.O.C.

Telephone : 886-2-2545-6888

Website : <http://www.entrust.com.tw>

South China Insurance Co., Ltd.(SCIC)

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.(HNIT)

Address : 3F.-1, No. 54, Sec.4, Min Sheng E., Rd,
Taipei 105, Taiwan, R.O.C.

Telephone : 886-2-2719-6688

Website : <http://www.hnitc.com.tw>

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

Address : 3F, No. 143, Sec.2, Min Sheng E. Rd.,
Taipei 104, Taiwan, R.O.C.

Telephone : 886-2-2500-0622

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

Address : 3F, No. 143, Sec.2, Min Sheng E. Rd.,
Taipei 104, Taiwan, R.O.C.

Telephone : 886-2-2500-0622

Hua Nan Assets Management Co., Ltd.(HNAMC)

Address : Room 405, 4F., No.18, Sec. 1,
Chang-An E. Rd., Taipei 104, Taiwan, R.O.C.

Telephone : 886-2-2511-2900

Website : <http://www.hnamc.com.tw>

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Stock-Related Services Dept.,****Hua Nan Securities Co., Ltd.**

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**Credit Rating Agency
Taiwan Ratings Corporation**

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Website : <http://www.taiwanratings.com>

CONTENTS

FINANCIAL HIGHLIGHT	02
LETTER TO THE SHAREHOLDERS	03
COMPANY PROFILE	09
CORPORATE GOVERNANCE	10
SHARE & DIVIDEND	17
Corporate Social Responsibility	21
OPERATING RESULTS -HUA NAN FINANCIAL HOLDINGS CO., LTD.	25
HUA NAN COMMERCIAL BANK	28
HUA NAN SECURITIES CO., LTD.	38
SOUTH CHINA INSURANCE CO., LTD.	44
HUA NAN SECURITIES INVESTMENT TRUST CO., LTD.	49
HUA NAN VENTURE CAPITAL CO., LTD.	52
HUA NAN MANAGEMENT & CONSULTING CO., LTD.	
HUA NAN ASSETS MANAGEMENT CO., LTD.	55
RISK MANAGEMENT SUMMARY	58
CONSOLIDATED FINANCIAL STATEMENTS	64

HUA NAN FINANCIAL HOLDINGS CO., LTD (HNFHC)



HONEST

EFFICIENCY

ACTIVENESS

RESPONSIBILITY

TEAMWORK

Financial Highlight

Unit: in NT\$1,000

As of December 31, 2009 and 2008	2009	2008
Income Statement		
Net interest income	16,317,676	26,288,048
Net income (loss) excluding interest income	17,163,123	8,456,176
Net revenues	33,480,799	34,744,224
Provision for bad debts	(11,110,639)	(5,097,863)
Provision for insurance reserves	(338,955)	(204,792)
Operating expenses	(17,486,164)	(18,119,633)
Consolidated income before income tax from continuing operations	4,545,041	11,321,936
Income tax expenses	(96,037)	(2,182,259)
Consolidated net income	4,449,004	9,139,677
Balance Sheet		
Total assets	1,816,498,748	1,710,153,171
Total liabilities	1,722,762,986	1,620,405,156
Total shareholders' equity	93,735,762	89,748,015
Financial Ratios- Consolidated basis		
ROE(after tax)	4.85%	10.06%
ROA(after tax)	0.25%	0.54%
Capital adequacy ratio	125.84%	119.85%
Credit Ratings (long/short/outlook)		
Taiwan Ratings	twA+/twA-1/Stable (2009/06)	

LETTER TO THE SHAREHOLDERS



Chairman
Ming-Cheng, Lin

1.2009 Operating Results

(1) Domestic & International Banking Environment

The global economy in 2009 continued to be impacted by the US sub-prime mortgage crisis that triggered the global financial tsunami. The world economy contracted sharply in the second half of 2008, and the effects of the crisis continued to threaten economies throughout the world in the first half 2009. The global banking system saw a serious contraction in liquidity and trade among countries throughout the world headed south. The overall scale of the economic downturn was unprecedented since the Great Depression. Governments throughout the world, however, adopted loose monetary policies and fiscal stimulus policies to spark the economy. In addition, with the active stances taken by international organizations, such as the IMF and the World Bank to stem the crisis, the length of the banking crisis was brought under control. Starting in the second half of 2009, China and India led a V-shaped economic recovery. An expansion in domestic demand in these nations triggered an economic rebound not only in Asia's emerging markets, but also helped to spark the world economy, thereby confirming that the global economy was on the road to recovery.

Taiwan's economy, which is highly reliant on external trade, was negatively impacted by the aforementioned situation. In the first half of 2009, Taiwan's import and export indicators contracted by the largest margins ever witnessed here. In the

second half of the year, however, indicators began a gradual improvement thanks to the recovery in demand in emerging markets, including China, which helped to underpin trade, industrial output, the banking sector, and consumption. At the end of the year, the composite economic indicator flashed yellow-red, signifying that Taiwan's economy was exhibiting vibrant growth. On the banking front, the nation's Central Bank of China had previously slashed interest rates to stimulate the economy. This led to a rapid whittling in interest rate differentials. Meanwhile, domestic factories and companies, feeling the effects of the international economic downturn, had little demand for capital and in some cases ran into operating difficulties. This led to a contraction in loans among banks and a rise in overdue loans. This climate made it difficult for banks to boost handling fee-related income. The entire banking industry faced extremely large challenges in their business.

(2) Company Structure

Since its establishment on December 19, 2001, the operations of HNFHC Group ("the Company") has spanned banking, insurance, securities, investment trust, asset management, venture capital investment, and management consulting. The Company had a total of seven subsidiaries as of the end of 2009, all wholly owned by the Company.

(3) Business Plans and Results of Business Strategies

It was inevitable that the Company in 2009 would be impacted considerably by the challenging external operating environment described above. Meanwhile, subsidiaries Hua Nan Commercial Bank and Hua Nan Investment Trust bought back financial products from customers who had purchased PEM Group products. This move was made in the interest of investors and to maintain the Company's reputation. The Company have booked about NT\$1.6 billion of losses according to the latest asset pool valuation statement.

However, thanks to the efforts of all employees, while the Company's profitability paled in comparison with the past, it was still above the

LETTER TO THE SHAREHOLDERS



President
Mao-Shyan, Liu

industry average. In addition, in an effort to fulfill the objective of ensuring healthy operations among all subsidiaries, Hua Nan Commercial Bank("the Bank") in 2009 significantly strengthened its asset quality. Its non performing loan ratio fell to 1.58% from 1.67%, while its coverage ratio rose to 70.00% from 59.19%. The Bank's capital adequacy ratio increased to 12.01% from 10.21%. The Company's non-banking subsidiaries, namely securities and insurance, both moved from losses to profit, thereby significantly increasing their contribution to the Company's profits. These results reflect the hard works carried out by each of the Company's subsidiaries.

(4) Company Results

The Company in 2009 posted consolidated net income of NT\$4,449 million, equivalent to net earnings per share of NT\$0.71. Consolidated return on assets was 0.25%, while consolidated return on equity was 4.85%. On a standalone basis, the Company posted a return on assets of 4.5% and return on equity of 4.85%.

The following is the summary of results of each subsidiary:

1. Hua Nan Commercial Bank ("HNCB")

Net income in 2009 was NT\$3,979 million, translating to net earnings per share of NT\$1.05. Return on assets was 0.23% and return on equity was 4.93%.

2. Hua Nan Securities ("HNSC")

Net income in 2009 was NT\$1,002 million, equivalent to net earnings per share of NT\$1.24. Return on assets was 5.13% and return on equity was 9.29%.

3. South China Insurance ("SCIC")

Net income in 2009 was NT\$104 million, which corresponded to net earnings per share of NT\$0.52. Return on assets was 0.99% and return on equity was 5.24%.

4. Hua Nan Investment Trust ("HNIT")

Net loss in 2009 was NT\$255 million, equivalent to a net loss per share of NT\$6.36. Return on assets was -22.41% and return on equity was -42.87%.

5. Hua Nan Venture Capital ("HNVC")

Net income in 2009 was NT\$13 million, translating to net earnings per share of NT\$0.13. Return on assets was 1.25% and return on equity was 1.25%.

6. Hua Nan Management and Consulting ("HNMC")

Net income in 2009 was NT\$4 million, equal to net earnings per share of NT\$3.72. Return on assets was 16.57%, while return on equity was 24.62%.

7. Hua Nan Asset Management("HNAMC")

Net income in 2009 was NT\$31 million, translating to net earnings per share of NT\$0.31. Return on assets was 0.96%, while return on equity was 2.92%.

(5) Research and Development Initiatives in 2009

The state of R&D at the Company and its subsidiaries in 2009 is described below:

After integrating the Analytical CRM System and the Operational CRM System, the Company in 2009 completed the KPI System. These three system tools assist the Company's subsidiaries in boosting marketing analysis, sales applications, and managing for results, respectively. In addition, each subsidiary utilizes customer buying tendency model forecasting results to market specific products to groups of clients with higher purchasing ratios. Meanwhile, the marketing management system generates targeted customers for specific sales activities, streamlines marketing resources and raises the results of sales activities,

thereby boosting the number of products used by the Company's customers and bolstering the Company's income.

Hua Nan Commercial Bank

HNCB continues to encourage its employees to involve themselves in R&D activities. In 2009, employees provided 1,499 suggestions, of which 375 were adopted by the Bank. A total of NT\$322,200 was awarded to the employees whose suggestions were adopted.

Hua Nan Securities

In line with policies and the regulatory environment, HNSC 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 business 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.

HNSC is implementing an overseas sub-broker e-trading platform, expanding its business management system, and putting in place a system for institutions to place futures orders.

HNSC is strengthening its operations risk management and is working in conjunction with related projects with its parent to carry out risk management activities.

HNSC is integrating 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, the company's traders are able to accurately follow the direction of markets and select the best trading points, thereby maximizing profits.

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, managing & consulting, and banking subsidiaries, seeking to expand its pool of customers and promote related services.

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

The Company is looking for possibility of merging the research units from its banking, securities, and investment trust units into a company-wide research center at its subsidiary, Hua Nan Securities Investment Management Co., Ltd. The centre would engage in in-depth research on the global banking environment, the state of the local and overseas economies, and the state of various industries and companies on both a fundamental, technical and capital basis. This will help the Company to remain abreast of the latest investment trends and avoid risky industries. The centre also publishes investment-related publications and holding investment forums from time to time, which in turn provides valuable reference in engaging investments and loans.

South China Insurance

SCIC makes every effort to develop new products and put together diversified marketing proposals to meet changes in the marketplace and satisfy the varied demands of customers. In 2009, it led the industry in developing the all-new "South China Insurance Individuals Building Use Rights Insurance" (designed for use in a development project around the Taipei Train Station) product, which has been approved for sale by authorities. In addition, the SCIC was awarded the 2009 Insurance Faith, Hope & Love Award. Meanwhile, its "Educational Group Liability Insurance" and "Natural Gas Industry Comprehensive Insurance" were singled out for product innovation awards.

LETTER TO THE SHAREHOLDERS

Continuing to nurture its employees and enhancing professional expertise are core aspect of SCIC. The Hua Nan Managers Training Academy, for instance, provides practical training for outstanding employees who display the potential to serve as managers. These initiatives not only respond to the rapid changes in the operating environment, but also meet the developmental needs of SCIC. Excellence among the employees helped SCIC to win the 2009 Insurance Faith, Hope & Love Award's "Excellence in Insurance Expertise" prize.

SCIC works in tandem with the Company's overall risk management policies in setting forth all types of risk guidelines. This has yielded concrete results in the development of the four types of risk management. In market risk, SCIC discloses the exposure among traders and has bolstered management during times of increased equities holdings. In terms of insurance risk, SCIC has established early warning indicators and regularly monitors products and customers to effectively control new risk derived from new insurance products. As for operations risk, SCIC has introduced concrete action plans to boost internal controls. And in terms of credit risk, SCIC has completed a credit risk management platform and has established a credit rating management mechanism.

Hua Nan Investment Trust

Two private equity funds operated by HNIT invested in CLO targets. Organizations issuing the CLO products may have been involved in illegal activities. The impact of this has dealt a blow to the issuance and sale of funds of HNIT. Consequently, while the scale of funds under management in the industry grew, funds under management at HNIT bucked the trend and contracted by 12.03%. However, with the global economic recovery gaining momentum and HNIT setting out anew, we expect HNIT to exhibit

strengthened fund and asset management ability, as well as improved customer service and risk management, thereby winning back the trust of customers. This will help to boost the amount of funds under management in the future.

Hua Nan Management & Consulting

HNMC has been sending managers to related seminars and course for training both in Taiwan and overseas to strengthen their management expertise in appraising investment projects and engaging in post-investment management. It also provides operational assistance and financial planning to its invested companies. By establishing strategic alliances and partnerships, Hua Nan Venture Capital reaps the benefit once the invested companies go listed.

Hua Nan Asset Management

In addition to continuing to observe changes in the NPL market, HNAMC is also strengthening returns from its NPLs. It has also created a stable foundation in engaging in direct investment of real estate and developing a real estate management mechanism. In terms of providing management services of NPLs for other firms, in 2009 the company actively engaged in R&D for corporate receivables collection services. In this weak economic period, it looks to expand the scale of assets that it manages and increase income.

2.2010 Business Plans and Future Development Strategies

In 2010 The Company will continue with the objective of maintaining stable growth in all areas of operations. It will also seek to boost the contribution of profits from overseas, as well as profits from non-banking subsidiaries. In addition, the Company will strengthen its consumer banking operations, seek to yield greater benefits from cross-selling and further enhance its capital structure. This is expected to continue to expand the Company's financial scopes and increase its overall competitive edge. The focus in 2010 is as follows:

1. Establishing Overseas Presence

A.Establishment of branches

a.Branch Network:

- HNCB will hasten the establishment of bank branches in Shenzhen, Macao, Hanoi and Sydney, and will integrate its current branches in Hong Kong, Ho Chi Minh City, and Singapore. The Company aims to establish HNSC and SCIC presence in Shanghai and Shenzhen to complete establishing presence in the Asia-Pacific market.
- The Company will actively seek to take stakes in other companies or establish subsidiaries to strengthen its presence in the Greater China market.

b.Virtual network: HNCB is establishing an Asia-Pacific electronic cash flow services network in an effort to provide financial services to Taiwan companies in the Asia-Pacific region.

B.Asset allocation: The Company sets to raise the weighting of its overseas assets, expanding the scale of operations and boosting the contribution of profits.

2. Boost profit contributions by non-banking subsidiaries

A.HNSC will seek business from mainland Chinese QDII and raise its existing share in the broking market. South China Insurance will move into the real estate investment.

B.The Company's R&D functions will be maximized in order to boost returns in the utilization of capital.

3. Initiating a dual brand strategy

A.HNCB will promote mortgages to public servants, and outstanding customers. Moreover, the Company plans to expand its network in sales of wealth management products and strengthen all employees sales thus increase the contribution of profits from consumer banking.

B.HNCB will create a dual brand business focusing on corporate banking and consumer banking.

4. Boosting sales with cross-selling

A.Enhance the Company's network value by 15%.

B.Established a special team to target high net worth customers.

C.Utilize the CRM system to analyze the Company's targeted customer groups, and increase the assets and contributions among potential clients.

5. Strengthening capital structure

HNCB plans to issue Hybrid Tier I or rights issue in an effort to strengthen the Company's capital structure.

LETTER TO THE SHAREHOLDERS

3. Credit Ratings

		Long	Short	Outlook
HNHFC	Taiwan Ratings (2009/06)	twA+	twA-1	Stable
HNHCB	Taiwan Ratings (2009/06)	twAA-	twA-1+	Stable
	Moody's (2009/11)	A3	P1	Negative
HNSC	Taiwan Ratings (2009/06)	twA+	twA-1	Stable
SCIC	Taiwan Ratings (2009/12)	twAA-	-	Stable
	A.M. Best (2009/02)	A-	-	Stable

Looking at 2010, HNFHC will continue to embrace its corporate culture that stresses stable operations. It will continue to serve the local financial market and seek to realize its vision of becoming Taiwan's leading financial holding company. At the same time, We will seek to expand its business scopes in the Greater China market, moving towards its goal of becoming one of the Asia-Pacific's most outstanding financial institutions, and therefore maximizing Shareholders value.

Chairman **MING-CHENG , LIN**



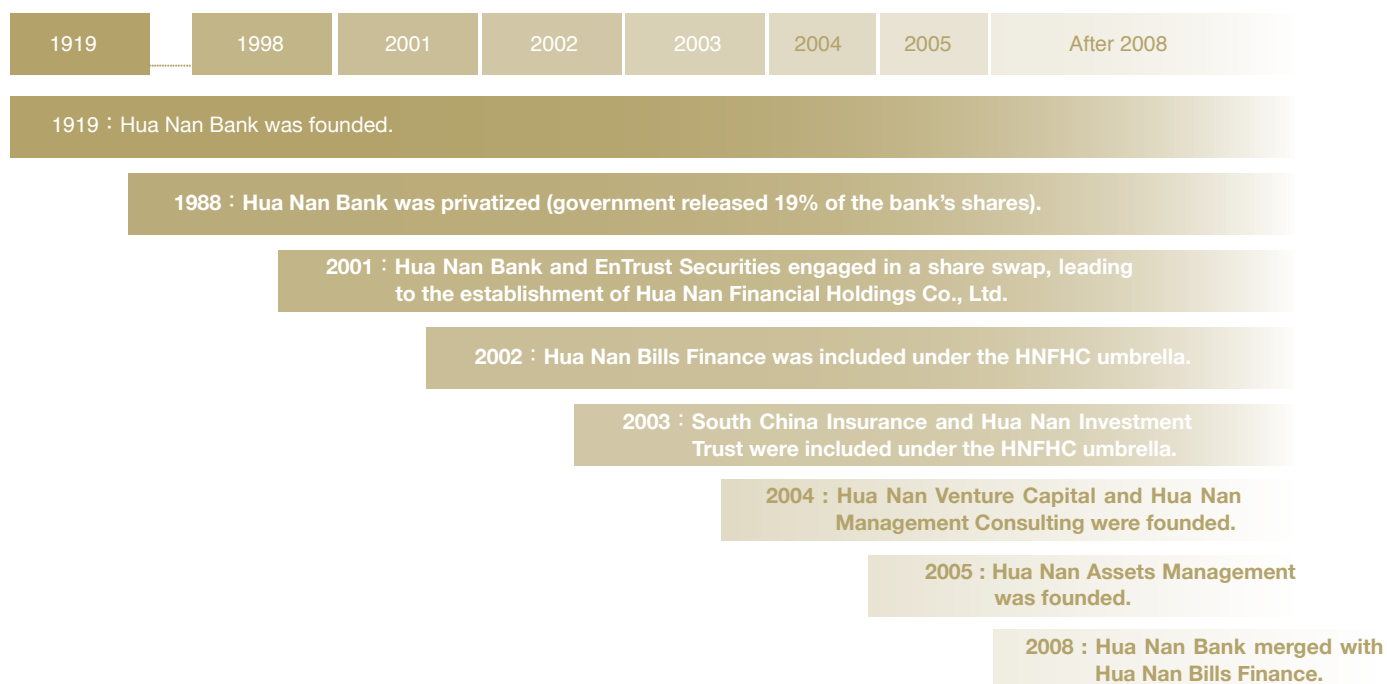
President **MAO-SHYAN , LIU**

COMPANY PROFILE

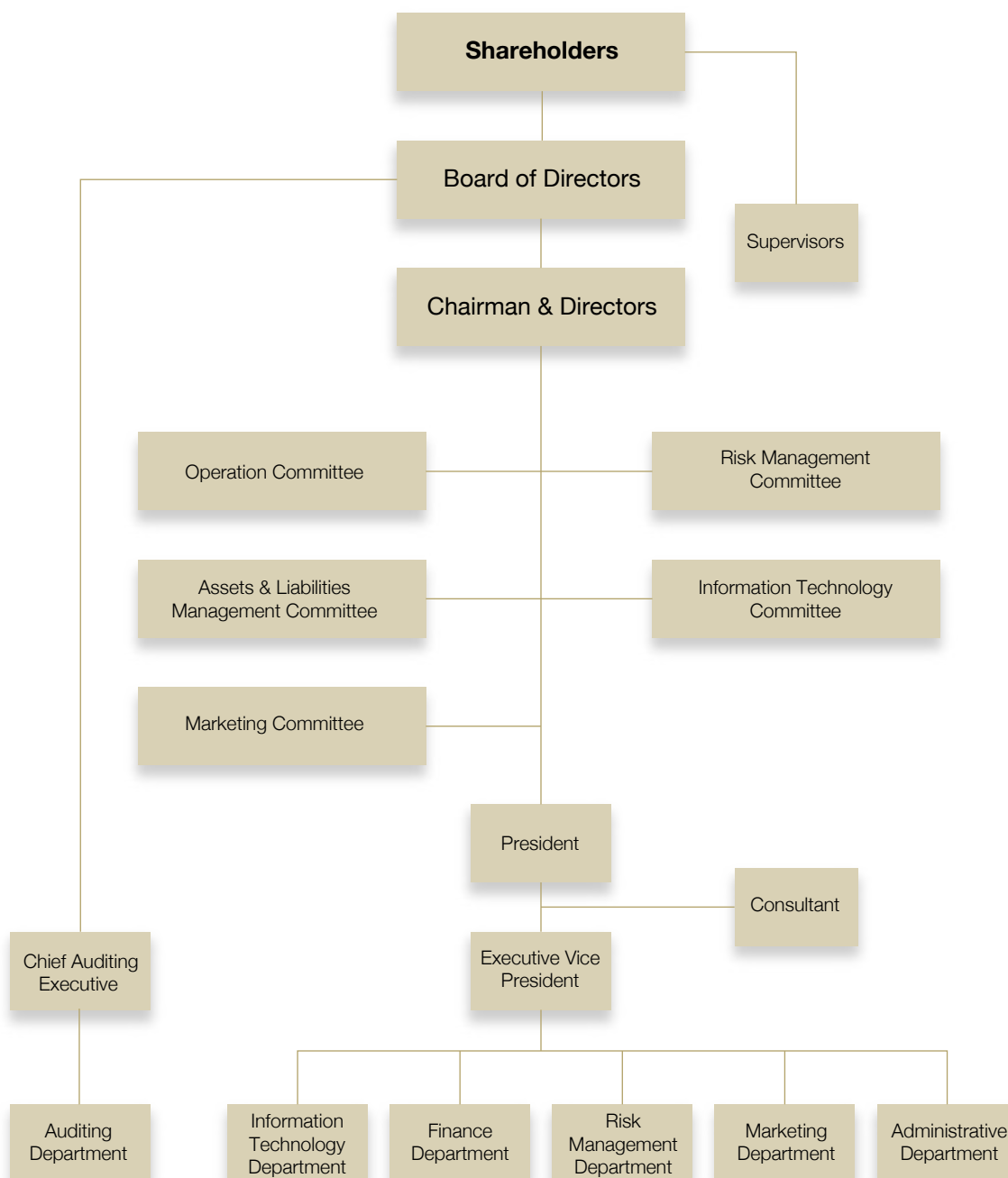
1.Date of Establishment

Hua Nan Financial Holdings Co., Ltd. (HNFHC) was established through a share swap between Hua Nan Commercial Bank Ltd. (HNCB) and EnTrust Securities Co., Ltd. (now called “Hua Nan Securities”) on December 19, 2001.

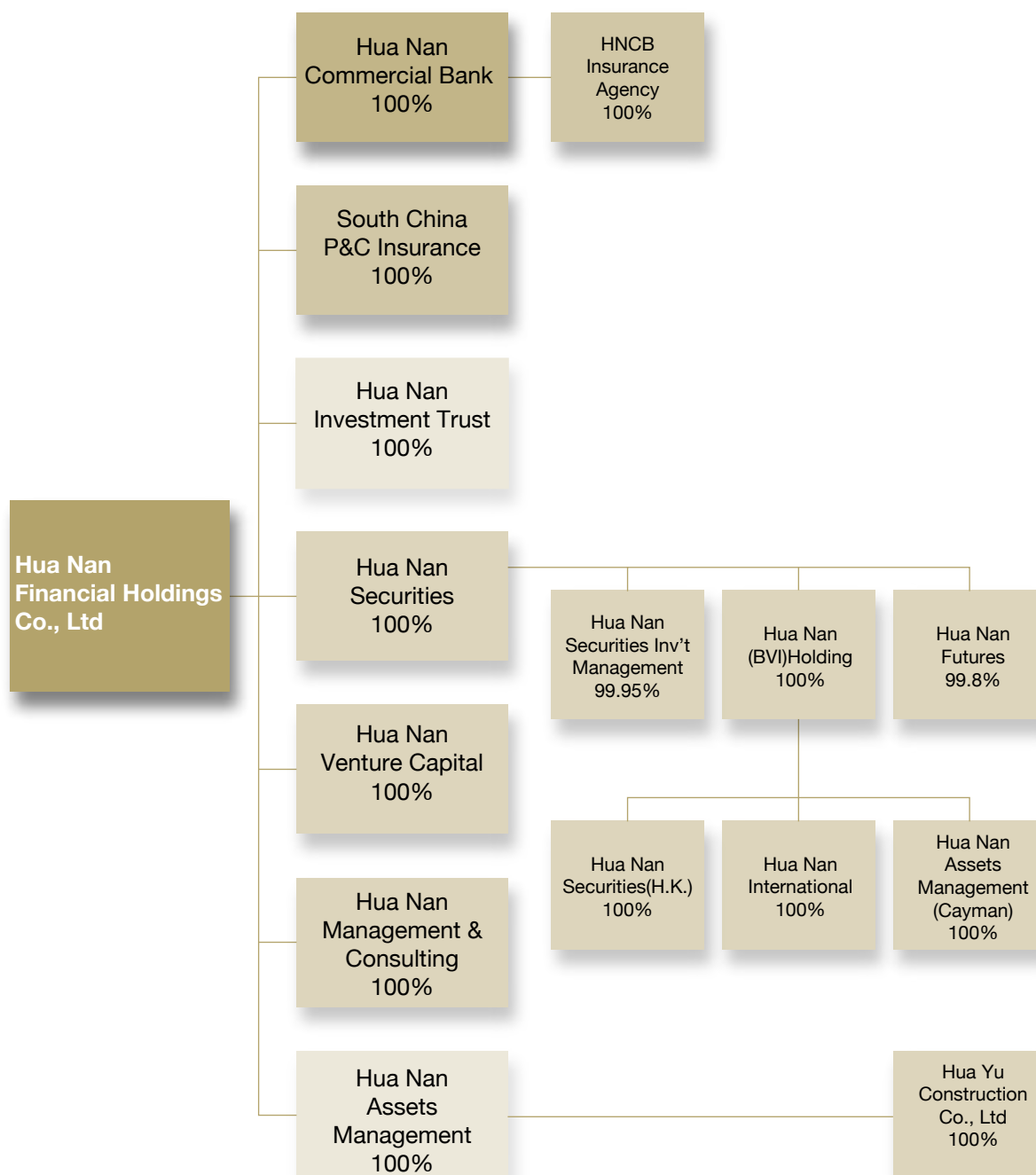
2.Corporate Milestones



1. The Organization Chart



2. Company Structure



Divided by Line of Business

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

3. Board Of Directors and Supervisors

Tenure : 2007.7.1~2010.6.30

2009.09.28

DIRECTORS			
Name	Other Current Position	Experience	Education
Ming-cheng Lin	Chairman, Hua Nan Financial Holdings Co., Ltd. Chairman, Memorial Scholarship Foundation to Mr. Lin Hsiung Chen	Vice Chairman, Hua Nan Commercial Bank, Ltd. Director, The Central Bank of China. President, Ta-Yung Shing Yeh Corp.	Master of Laws, Keio University, Japan.
Ed. M.S. Liu	Director & President, Hua Nan Financial Holdings Co., Ltd.	Executive Vice President, Hua Nan Financial Holdings Co., Ltd.	M.A. in Department of Economics, Chinese Culture University.
Liang Wang	Director General, Department of Customs Administration, Ministry of Finance.	Director, Taichung Customs office, Deputy Director, Keelung Customs Office.	Ph.D., Graduate Institute of American Studies, Tamkang University.
Min-Chang Chen	Executive Vice President, Bank of Taiwan.	Director, Taiwan Stock Exchange Corporation. Supervisor, Taiwan business bank. Director, Taiwan Life Insurance Co., Ltd.	Dept., of Banking and Insurance, Feng Chia University.
Wei-Chi Chen	S.V.P & General Manager, Dept. of Assets Management, Bank of Taiwan.	V.P & General Manager, Hsinchu Branch, Bank of Taiwan.	Graduated from National Open University.
Ai Wei	Associate Professor, Graduate Institute of East Asian Studies, National Chengchi University.	Director, Secretariat, National Cheng Chi University. Chairman, Graduate Institute of East Asian Studies, National Chengchi University.	Ph.D., Graduate Institute of East Asian Studies, National Cheng Chi University.
Yun Lin	Professor, Dept. of Finance, National Taiwan University.	Chairman of Finance Dept., National Taiwan University.	Ph.D., Univ. of Illinois Urbana Champaign, U.S.A.
Ming-Jui Hsieh	Associate Professor, Dept. of Business, National Open Univ.	Chairman, Dept. of Business, National Open University	Ph.D., National Chung Hsing University.
Shiang-Jeh Chen	Vice President, MassMutual Mercuries Life Insurance Co., Ltd.	Chief Investment Officer, MassMutual Mercuries Life Insurance Co., Ltd.	Dept. of Finance & Business Management, N.Y.U., U.S.A. M.B.A. National Chengchi University.
Rung-Fu Hsieh	President, The Great Taipei Gas Corp.	General Manager, Shin Hai Gas Corp. Managing Director, Industrial Bank of Taiwan.	Business Dept., National Open University.
Hsu Hsueh Chang	Supervisor, Fu Chuan Enterprises Co., Ltd.	Supervisor, Fu Chuan Enterprises Co., Ltd.	Taipei First Girl High School. Tokyo Kyalite College, Japan.
Tommy Lin	Special Assistant To The Chairman, Yong Da Construction Co., Ltd.	Fund Manager, Mercury Asset management Co., Ltd. (Japan)	J.D. Law, Univ. of California Los Angeles, U.S.A.
An-Lan Hsu Chen	Director, Hua Nan Securities Co., Ltd.	Chairman, Yuan Ding Investment Co., Ltd Chairman, En Trust Securities Co., Ltd.	Western Culture & Literature, Tung Hai University.
Michael Yuan-Jen Hsu	VP of Financial Derivatives Dept. & Brokerage Management Dept. Hua Nan Securities Co., Ltd.	AVP of Chairman's Office Hua Nan Securities Co., Ltd.	MBA The Wharton school University of Pennsylvania.
Chih-Yang Lin	General Manager, Ta-Yung Hsing Yeh Co., Ltd. Yung-Da Real Estate & Construction Co., Ltd.	General Manager, Ta-Yung Hsing Yeh Co., Ltd. Yung-Da Real Estate & construction Co., Ltd.	Dept. of Law, Master of Accounting, National Taiwan University.
Jia-Dong Shea	Chairman, Taiwan Academy of Banking and Finance.	Minister, Ministry of Finance.	Ph.D. in Economics, Stanford University, U.S.A.
An-Chyr Chen	Consultant, High Wealth Construction.	General manager, First Commercial Bank; Chairman, First Commercial Bank; Chairman, Joint Credit Information Center.	Master of Agricultural Economics, National Taiwan University.
Chung-Yuan Hsu	Professor of Accounting, National Chengchi University.	C.P.A. Professor in Accounting.	Ph.D. in Accounting, The University of Memphis, U.S.A.
Chin-Pin Chen	Attorney of Law of Lexpert Law Firm.	Attorney at Law, Lecturer of University	Master of Law, National Taiwan University.

SUPERVISORS

Name	Other Current Position	Experience	Education
Sou-shan Wu	Dean & Professor, College of Management, Chang Gung University.	Chairman of Management Science Dept., Director of Management Science Institute, National Chiao-Tung University. Academic Advisor to Ministry of Education.	Ph.D. in Finance, Insurance & Real Estate, University of Florida, U.S.A.
Cheng-Mao Chiu	Director-general of National Tax Administration of Southern Taiwan Province, Ministry of Finance	Director-general of Kaohsiung National Tax Administration, Ministry of Finance	MA. Public Finance, National Chengchi University
Li-Yen Yang	S.V.P.&General Manager, International Banking Dept., Bank of Taiwan.	Vice President & General Manager, Los Angeles Branch, Bank of Taiwan.	Business Administration Dept, National Taiwan University.
James Hui-Jan Yen	Chairman, Asia Jewelry Co., Ltd.	Chairman, Asia Jewelry Co., Ltd. Director, Memorial Scholarship Foundation to Mr. Lin Hsiung-Chen. Director, Chinese National Export Enterprises Association.	Tamkang University
Vivien Chia-Ying Shen	-	VP Corporate Sales, The Hongkong & Shanghai Banking Corp.	M.B.A. University of Birmingham, U.K.

4. Management Team

Position	Name	Date of Employment	Education & Experience
President	Ed M.S. Liu	2009/07/01	Senior V.P. and G.M., Banking Dept./Treasury Dept., Hua Nan Commercial Bank Economic Dept., Chinese Culture University
E.V.P. & G.M. of Administrative Department	David Y.C. Cheng	2009/07/29	Senior Vice President & General Manager of Corporate Banking Dept. Graduate Institute of Finance, Fu Jen University
E.V.P. & G.M. of Risk Management Department	James H. J. Liu	2002/03/18	Executive Vice President & G.M. of Risk Management Department V.P., Global Market Group, Union Bank of California Economics & Finance, UCLA
E.V.P. & Chief Auditor Executive	Chin-nan Ku	2009/07/24	Senior Vice President & General Manager of Corporate Credit Dept. Economics Dept., National Taiwan University
G.M. of Marketing Department	Tony Jang	2005/03/22	Senior V.P./Chief Secretary of Hua Nan Commercial Bank International Commerce Dept., Tamkang University
G.M. of Finance Department	Yu-Chi Tsao	2010/01/16	Senior Vice President & General Manager of Finance & Accounting Dept. Business Depts., National Open University
G.M. of Information Technology	Michael Duh	2008/03/01	Senior V.P. & G.M. of IT of Hua Nan Commercial Bank Electrical Engineering Dept., National Taiwan University

5. Remuneration to Directors, Supervisors, President, and Vice President

1. Remuneration to directors

Position	Name	Remuneration to directors								Sum of A, B, C and D as percentage of net income after tax	
		Wages(A)		Pension upon retirement(B)		Allocate from distribution of earnings(C)		Service expenses(D)			
		Hua Nan Financial Holdings	Consolidated subsidiaries	Hua Nan Financial Holdings	Consolidated subsidiaries	Hua Nan Financial Holdings	Consolidated subsidiaries	Hua Nan Financial Holdings	Consolidated subsidiaries	Hua Nan Financial Holdings	Consolidated subsidiaries
Director	Memorial Scholarship foundation to Mr. Lin										
	Ming-Cheng Lin										
	Bank of Taiwan										
Director	Jeng-Yih Lee(2009/7/1 Retirement)										
	Ed M.S. Liu (Since 2009/7/1)										
	Bank of Taiwan										
Director	Tieh-Hai Lin(2009/9/3 Dismissal)										
	Wei-Chi Chen(Since 2009/9/3)										
	Bank of Taiwan										
Director	Rong-Chu Liu(2009/7/10 Dismissal)										
	Liang Wang(Since 2009/7/10)										
	Bank of Taiwan										
Director	Chuan-Chuan Hsieh(2009/8/18 Dismissal)										
	Min-Chang Chen(Since 2009/8/18)										
	Bank of Taiwan										
Director	Fang-Mien Lee(2009/7/10 Dismissal)										
	Chien-Chung Nieh (Since 2009/7/10~2009/9/28)										
	Yun Lin(2009/9/28 Succeed)										
	Bank of Taiwan										
Director	Shiang-Jeh Chen										
	Bank of Taiwan										
Director	Ai Wei(2009/8/12 Assigned)										
	Bank of Taiwan										
Director	Ming-Jui Hsieh(2009/8/12 Assigned)										
Director	Memorial Scholarship foundation to Mr. Lin Hsiung Chen										
	Tommy Lin										
Director	Memorial Scholarship foundation to Mr. Lin Hsiung Chen										
	Chih-Yang Lin										
	Shin Kong Life Foundation										
Director	Hsien-Hsien Hsu (2009/3 Dismissal)										
	Rung-Fu Hsieh (2009/3/4 Succeed)										
Director	Supervisor, Fu Chuan Enterprises Co., Ltd.										
	Hsu-Hsueh Chang										
	Entrust Foundation										
Director	Po-Wei Hsu(2009/5/16 Dismissal)										
	Michael Yuan Jen Hsu (2009/5/16 Succeed)										
	Entrust Foundation										
Director	An-Lan Hsu Chen										
Ind. Director	Jia-Dong Hsu										
Ind. Director	An-Chyr Chen										
Ind. Director	Chung-Yuan Hsu										
Ind. Director	Chin-Pin Chen										
	Total	6,318	28,596	0	551	49,699	49,699	4,848	7,085	1.37%	1.93%

[illegible]

CORPORATE GOVERNANCE

2. Range of Remuneration to Directors

Breakdown of remuneration to director(NT\$)	Directors			
	Sum of foregoing 4 items(A+B+C+D)		Sum of foregoing 7 items A+B+C+D+E+F+G)	
	Hua Nan Financial Holdings	Consolidated subsidiaries (I)	Hua Nan Financial Holdings	Consolidated subsidiaries (J)
Below 2,000,000	Jeng-Yih Lee、Ed M.S. Liu、Tieh-Hai Lin、Chen,Wei-Chi、Rong-Chu Liu、Liang Wang、Chuan-Chuan Hsieh、Chen, Min-Chang、Fang-Mien Lee、Nieh,Chien-Chung、Lin, Yun、Shiang-Jeh Chen、Wei,Ai、Hsieh,Ming-Jui、Tommy Lin、Chih-Yang Lin、Hsien-Hsien Hsu、Rung-Fu Hsieh、Hsu-Hsueh Chang、Po-Wei Hsu、Michael Yuan Jen Hsu、An-Lan Hsu Chen	Jeng-Yih Lee、Ed M.S. Liu、Tieh-Hai Lin、Chen,Wei-Chi、Rong-Chu Liu、Liang Wang、Chuan-Chuan Hsieh、Chen, Min-Chang、Fang-Mien Lee、Nieh,Chien-Chung、Lin, Yun、Shiang-Jeh Chen、Wei,Ai、Hsieh,Ming-Jui、Tommy Lin、Chih-Yang Lin、Hsien-Hsien Hsu、Rung-Fu Hsieh、Hsu-Hsueh Chang、Po-Wei Hsu、Michael Yuan Jen Hsu	Jeng-Yih Lee、Tieh-Hai Lin、Chen,Wei-Chi、Rong-Chu Liu、Liang Wang、Chuan-Chuan Hsieh、Chen, Min-Chang、Fang-Mien Lee、Nieh,Chien-Chung、Lin, Yun、Shiang-Jeh Chen、Wei,Ai、Hsieh,Ming-Jui、Tommy Lin、Chih-Yang Lin、Hsien-Hsien Hsu、Rung-Fu Hsieh、Hsu-Hsueh Chang、Po-Wei Hsu、Michael Yuan Jen Hsu、An-Lan Hsu Chen	Tieh-Hai Lin、Chen,Wei-Chi、Rong-Chu Liu、Liang Wang、Chuan-Chuan Hsieh、Chen, Min-Chang、Fang-Mien Lee、Nieh,Chien-Chung、Lin, Yun、Shiang-Jeh Chen、Wei,Ai、Hsieh,Ming-Jui、Tommy Lin、Chih-Yang Lin、Hsien-Hsien Hsu、Rung-Fu Hsieh、Hsu-Hsueh Chang、Po-Wei Hsu
2,000,000 (inclusive) ~5,000,000	Ming-Cheng Lin、Jia-Dong Hsu、An-Chyr Chen、Chung-Yuan Hsu、Chin-Pin Chen、Shin Kong Life Foundation、Supervisor, Fu Chuan Enterprises Co., Ltd.	Jia-Dong Hsu、An-Chyr Chen、Chung-Yuan Hsu、Chin-Pin Chen、Shin Kong Life Foundation、Supervisor, Fu Chuan Enterprises Co., Ltd.	Ming-Cheng Lin、Ed M.S. Liu、Jia-Dong Hsu、An-Chyr Chen、Chung-Yuan Hsu、Chin-Pin Chen、Shin Kong Life Foundation、Supervisor, Fu Chuan Enterprises Co., Ltd.	Ed M.S. Liu、Michael Yuan Jen Hsu、Jia-Dong Hsu、An-Chyr Chen、Chung-Yuan Hsu、Chin-Pin Chen、Shin Kong Life Foundation、Supervisor, Fu Chuan Enterprises Co., Ltd.
5,000,000 (inclusive) ~10,000,000	Entrust Foundation	Entrust Foundation	Entrust Foundation	Entrust Foundation
10,000,000 (inclusive) ~15,000,000		An-Lan Hsu Chen		An-Lan Hsu Chen
15,000,000 (inclusive) ~30,000,000	Memorial Scholarship Foundation to Mr. Lin、Bank of Taiwan	Ming-Cheng Lin、Memorial Scholarship Foundation to Mr. Lin、Bank of Taiwan	Memorial Scholarship Foundation to Mr. Lin、Bank of Taiwan	Ming-Cheng Lin、Jeng-Yih Lee、Memorial Scholarship Foundation to Mr. Lin、Bank of Taiwan
30,000,000 (inclusive) ~50,000,000				
50,000,000 (inclusive) ~100,000,000				
Over 100,000,000				
Total	32	32	32	32

3. Remuneration to Supervisors

Position	Name	Supervisor								Sum of A, B, C and D as percentage of net income after tax		Remuner-ation from invested non-subsidiary enterprise
		Wages (A)		Pension upon retirement (B)		Allocate from distribution of earnings (C)		Service expenses (D)				
		Hua Nan Financial Holdings	Consolidated subsidiaries	Hua Nan Financial Holdings	Consolidated subsidiaries	Hua Nan Financial Holdings	Consolidated subsidiaries	Hua Nan Financial Holdings	Consolidated subsidiaries	Hua Nan Financial Holdings	Consolidated subsidiaries	
Supervisor	Ministry of Finance Sou-Shan Wu											
Supervisor	Ministry of Finance Li-Yen Yang											
Supervisor	Ministry of Finance Cheng-Mao Chiu (2009/7/6 Assigned)											
Supervisor	Hong-Ji Investment Co., Ltd James Hui-Jan Yen											
Supervisor	China Main-Made Fiber Co., Ltd. Chia-Ying Shen											
Total		0	0	0	0	11,871	11,871	1,032	1,536	0.29%	0.30%	0

SHARE & DICIDEND

1.Source of Share Capital

Date	Issue Price	Authorized capital stock		Paid-in capital stock		Notes
		Shares	Dollar amount	Shares	Dollar amount	Source of share capital
2001.12	\$10	10 billion	100 billion	4,146,799,357	41,467,993,570	Share swap 41,467,993,570
2002.08	\$10	10 billion	100 billion	4,478,543,305	44,785,433,050	Capital increase of 3,317,439,480 shares out of additional paid-in capital
2003.08	\$10	10 billion	100 billion	4,728,503,594	47,285,035,940	Share swap 1,696,952,890 (South China Insurance) 802,650,000 (Hua Nan Investment)
2004.08	\$10	10 billion	100 billion	5,579,634,240	55,796,342,400	Capital increase out of earnings or capital reserves Capital increase of 8,511,306,460 shares out of earnings & additional paid-in capital
2005.08	\$10	10 billion	100 billion	5,970,208,636	59,702,086,360	Capital increase of 390,574,396 shares out of earnings
2008.08	\$10	10 billion	100 billion	6,089,612,808	60,896,128,080	Capital increase of 119,404,172 shares out of earnings
2009.09	\$10	10 billion	100 billion	6,272,301,192	62,723,011,920	Capital increase of 182,688,384 shares out of earnings

2.Type of Shares

Type of Shares	Authorized capital stock			Notes
	Outstanding shares	Unissued shares	Total	
Common stock	6,272,301,192	3,727,698,808	10 billion	Listed stocks

3.Shareholder Structure

Data baseline date: 2010/4/20

Shareholder structure	Government agencies	Financial institutions	Other institution	Individuals	Foreign institution and Individuals	Total
Quantity						
No. of Shareholders	18	37	433	159,984	295	160,767
Shares held (shares)	1,819,534,390	1,062,962,372	1,285,342,982	1,611,856,906	492,604,542	6,272,301,192
Shareholding ratio□	29.01	16.95	20.49	25.70	7.85	100.00

4. Distribution of Equity

Par value : NT \$10 ,Data baseline date: 2010/4/20

Shareholding category	Number of shareholders	Shares held(shares)	Shareholding ratio(%)
1~ 999	54,644	16,478,506	0.26
1,000 ~ 5,000	62,279	143,866,711	2.29
5,001 ~ 10,000	17,127	119,925,254	1.91
10,001 ~ 15,000	8,603	101,610,529	1.62
15,001 ~ 20,000	4,102	70,810,256	1.13
20,001 ~ 30,000	4,629	110,279,451	1.76
30,001 ~ 50,000	3,855	147,526,250	2.36
50,001 ~ 100,000	3,026	207,945,876	3.32
100,001 ~ 200,000	1,418	187,827,389	2.99
200,001 ~ 400,000	505	140,090,237	2.23
400,001 ~ 600,000	176	86,272,219	1.38
600,001 ~ 800,000	107	73,884,695	1.18
800,001 ~ 1,000,000	58	51,684,906	0.82
1,000,001以上	238	4,814,098,913	76.75
Total	160,767	6,272,301,192	100.00

5.List of Major Shareholders (Top 10 Shareholders)

Data baseline date: 2010/4/20

Major shareholders	Shares	Shares held(shares)	Shareholding ratio(%)
Bank of Taiwan		1,559,511,517	24.86
Shin Kong Life Insurance Co. Ltd		475,511,926	7.58
Bank Taiwan Life Insurance Co. Ltd		282,253,145	4.50
Ta-Yung Hsing Yeh Co. Ltd		244,599,693	3.90
First Commercial Bank		169,455,099	2.70
Yuan Ding Investment Co. Ltd		141,517,210	2.26
Memorial Scholarship Foundation to Mr. Lin Hsiung Chen		125,432,172	2.00
Ministry of Finance		124,860,939	1.99
Chung Hwa Post Co. Ltd		83,706,885	1.33
Yoong Cai Investment Corporation		79,514,661	1.27
Yung-Zei Investment Co. Ltd		73,338,183	1.17
Yung-Cheng Investment Co. Ltd		64,188,969	1.02

6.Values Per Share During The Most Recent Two Years

Item		Year	2009	2008	Ending 2010/3/31
Market value per share(NT\$)	Highest		24.40	32.35	20.55
	Lowest		15.25	13.60	17.90
	Average		19.08	23.61	19.44
Book value per share(NT\$)	Before distribution		14.94	14.74	15.05
	After distribution		Note.9	13.63	-
EPS(NT\$)	Weighted average number of shares		6272301	6089613	6272301
	EPS		0.67	1.38	0.20
Dividends per share(NT\$)	Cash dividend		0.20	0.70	-
	Stock dividend	Out of earning	0.55	0.30	-
		Out of additional paid-in capital	NA	NA	-
	Cumulative Undistributed Dividends		NA	NA	-
ROI analysis	P/E ratio		26.87	15.74	23.14
	P/D ratio		95.40	33.73	-
	Cash dividend yield		1.05%	2.96%	-

7.Dividend Policy and Implementation

(1)HNFHC has adopted a residual dividend policy, for the purpose of continuing to expand the scale 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:

A.No more than 1% can be used for remuneration of board directors and supervisors.

B.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.

C.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.

(2)Shareholders' meeting resolution concerning the distribution of dividends: A cash dividend of NT\$0.2 per share, and Stock dividend NT\$0.55 per share.

8.The Influences of The Stock Dividends Distribution Proposed by Shareholders' Meeting on The Company's Business Performance and Earnings Per Share.

			2010 (estimated)
Paid-in capital, beginning of the year-NT\$ in thousands			62,723,012
Stock and cash dividends distribution	Cash dividend per share-NT\$		0.2
	Stock dividend per share from capitalization of retained earnings-shares		0.055
	Stock dividend per share from additional capital surplus		-
Change of operational performance	Operating Income		NA(note)
	Percentage change in operating income		
	Net Income		
	Percentage change in net income		
	Earnings per share		
	Percentage change in earnings per share		
	Average annual return on investment (the reciprocal of average annual P/E ratio)		
Pro forma EPS and P/E ratio	If stock dividends from capitalization of retained earnings were all replaced by cash dividends	Pro forma EPS	
		Pro forma average annual return on investment	
	Had there been no capitalization of capital surplus	Pro forma EPS	
		Pro forma average annual return on investment	
	Had there been no capitalization of capital surplus and stock dividends fromcapitalization of retained earnings been replaced by cash dividends	Pro forma EPS	
		Pro forma average annual return on investment	

Note:There was no published financial forecast for the Company in year 2010. According to the stipulation of date 2000/02/01 Ministry of Finance (1) No.00371,no disclosure of such information is required.

9. Corporate Bonds

Bond type		2006 First Unsecured Bond
Date issue		2006.6.29
Face value		NT\$ 1,000,000
Place of issuance and exchange		Taiwan
Issue price		The bond is issued at full face value
Total amount		NT\$ 4,700,000,000
Interest rates		Annual coupon rate 2.85%
Duration		7 years Due date : 2013/06/29
Priority of repayment		Subordinated
Guaranteeing institution		None
Trustee		Mega International Commercial Bank
Underwriting institution		N/A
Certifying attorney		Due Law To Reason Attorney Office Shui-Shen Hou
Independent auditing firm		Deloitte & Touche Hung-Hsiang Tsai 、 San-Chien Tu
Repayment method		1. Interest pays annually at coupon rate. 2. Principal pays on due date.
Outstanding principal balance		NT\$4,700,000,000
Terms of redemption or early repayment		N/A
Restrictive term		If making interest or principal payments would lower Capital Adequacy Ratio to the level which does not meet minimum legal requirement, then interest or principal payments shall be stopped until the aforementioned Ratio meet the minimum legal requirement. (Interest shall be accumulated, but shall not be additionally applied during the period which no interest has been paid. Interest on principal is otherwise calculated based on annual coupon rate.)
Whether included in qualifying capital		Yes
Credit Rating		twA- by Taiwan Ratings Corp. dated 2006/05/25
Other rights	Amount of converted (traded or subscribed) common stock, overseas depository receipts, or other negotiable securities up to the publication date of this annual report	None
	Issuance and conversion (traded or subscribed) regulations	None
Possible dilution of equity and impact on equity of existing shareholders due to issuance and conversion, trading or subscription rules, or issuance terms		None
Name of commissioned custodial institution for objects exchanged		None

2009

Corporate Social Responsibility



HONEST



EFFICIENCY



ACTIVENESS



RESPONSIBILITY



TEAMWORK

10. Corporate Social Responsibility

(1) In January 2009, HNFHC in response to government policies to stimulate spending, to help farmers get through a tough economic time, and to assist the underprivileged, bought a large amount of oranges through the Council of Agriculture's Agriculture and Food Agency. The Company assisted in the marketing and sale of this fruit, and the produce was distributed to branch offices of the Taiwan Fund for Children and Families throughout Taiwan to families in need.



Social workers at the Taoyuan Branch Office of the Taiwan Fund for Children and Families are delighted to receive the oranges sent by HNFHC.

(2) HNFHC was involved in sponsoring the Taipei City Government-organized 2009 Taipei Lantern Festival that ran from February 6-15, 2009. The Company took part in this event to become more involved in social and cultural activities, become closer to the public, build its image as a supporter of public service and hone its brand image. In addition, it specifically promoted the 2009 Deaflympics in Taipei that was also organized by the city government.

(3) In February and March 2009, the Company was involved in drumming up support for Taiwan's team in the World Baseball Classic. HNFHC donated NT\$1 million of funds from its Aborigine Baseball Development Fund to the Chinese Taipei Baseball Association to help build momentum for the development of baseball among aboriginal youth.



HNFHC sponsors the 2009 Taipei Lantern Festival and promotes the 2009 Deaflympics in Taipei.



HNFHC Vice President Ed Liu (back row third from the left) visited Fengbin Primary School in Hualien County to donate baseball equipment. He took a picture with the school's baseball team.

(4) From July to October 2009, HNFHC helped finance the screening and release of the documentary film *Baseball Boys*, about a little league aboriginal baseball team, by young director Ko-shang Shen. Large-scale outdoor screenings were held, and the Company provided funding for many of these events, as well as a tour of the film through aboriginal villages. The film tells the story of a group of underprivileged children living in the mountains who are looking for a focus in the lives and realize their baseball dream. The theme of the film was quite similar to the philosophy behind the Company's baseball promotion project. The movie not only helped to boost confidence among baseball fans, but also forge a passion for the sport in its truest sense. *Baseball Boys* was an overwhelming success, winning an award at the 2008 Taiwan International Documentary Festival, the Best Asian Documentary Award at the 2009 Shanghai Film Festival, and the 1999 Golden Horse Award for Best Documentary. On December 19, 2009 *Baseball Boys* won Best Documentary at the 53rd Asia-Pacific Film Festival. When the cast and crew accepted the award and in interviews with the media, they specially expressed their thanks to HNFHC and its chairman for their assistance, enabling the film to be screened and distributed and helping more people who love films and baseball to see the movie. This experience with *Baseball Boys* further extended HNFHC's spirit of public service in promoting the development of baseball among aboriginal youth. It also established a model for the corporate sector to support local arts and help the public see the work of outstanding and talented artists.



HNFHC sponsored the press conference for the opening of *Baseball Boys*, and the guests watered a symbolic baseball tree. In the back row from the left are Fuyuan Elementary School Principal Huang Hsin-lung, Legislator Justin Chou, Vice Premier Paul Chiu, Legislative Yuan Vice President Tseng Yung-Chuan, HNFHC Chairman Min-cheng Lin, and Chinese Taipei Baseball Association President Chen Tai-cheng. In the front row from the left is director Liao Ching-ao, producer Mao-chang Huang, and director Ko-shang Shen

HNFHC Chairman Ming-cheng Lin (right) donates baseball equipment to the Fuyuan Elementary School little league baseball team in Hualien County. *Baseball Boys* is the story of the team. On the left is Fuyuan Principal Hsin-lung Huang.



- (5) In September 2009, HNFHC planned to help sponsor a series of activities planned by the Ministry of Interior to mark the 10th anniversary of the September 21, 1999 earthquake, including the shooting of a film, evening gatherings in various places, as well as an exhibition showing the success in rebuilding areas. However, due to the early August flooding and landslides in southern and eastern Taiwan caused by Typhoon Morakot, the activity was extended to places devastated by the flooding. A series of events was held to help console victims of the disaster.
- (6) HNFHC held activities to drum up support among Taiwan's baseball fans for Taiwan's team in the August 2009 IBA AA World Youth Baseball Championship. HNFHC specially provided funding to help the team participate in the competition and also donated prize money, hoping to encourage the best performance by the team.



HNFHC Chairman Ming-cheng Lin (back row third from the right) and Taichung City Mayor Jason Hu (back row fourth from the right) drum up support for Taiwan's team participating in the AA World Youth Baseball Championship.

- (7) In August 2009, Typhoon Morakot triggered heavy flooding and landslides, causing the worst damage to Taiwan in the past 50 years. The Company donated NT\$21 million to the Ministry of Interior's disaster relief account to assist the residents of disaster areas in rebuilding their communities and returning to life as normal as quickly as possible.
- (8) On September 24, 2009, the multinational operatic pop vocal group Il Divo, made up of baritones and tenors from the United States, Switzerland, Spain, and France were invited to perform at Taichung's Fulfillment Amphitheatre. HNFHC was a sponsor of this event in an effort to express its support for arts and culture.
- (9) The Executive Yuan and the Taipei City Government invited the NBA to hold a game in Taipei. The game, between the Denver Nuggets and the Indiana Pacers was held at Taipei Arena on October 8, 2009. HNFHC was a sponsor of this event.
- (10) HNFHC sponsored the 5th Presidential Culture Awards of the National Cultural Association. The Association is a non-profit organization founded by the Ministry of Interior that seeks to create new cultural prospects for Taiwan. The Association in 2001 inaugurated the Presidential Culture Awards, aiming at discovering and encouraging even more people in their efforts to promote and engage in cultural activities.
- (11) HNFHC on December 15 and December 16, 2009 sponsored the 2009 Cross-Strait Banking and finance Seminar at the Taiwan Academy of Banking and Finance. The event was jointly held by the Banking Education Association of Taiwan, National Taiwan University's Center for China Studies, and National Taiwan University's Center for the Study of Banking and Finance. Participants examined the state of the cross-strait banking, securities, insurance, bills, investment trust, and investment consulting industries, discussed the business opportunities that will arise from cross-strait banking and financial interaction, and explored cross-strait financial supervision and corporate governance.

2009

Operating Results



HONEST



EFFICIENCY



ACTIVENESS



RESPONSIBILITY



TEAMWORK

1. Operating Results

(1) Composition of Operating Income for 2008 and 2009

Unit: NT\$1,000

Item	Year	2009		2008	
		Amount	%	Amount	%
Operating Income					
Long-term Equity Investment Income		4,876,791	100	9,307,068	100
Hua Nan Bank		3,978,796	83	9,538,476	102
Hua Nan Securities		1,002,241	20	(235,899)	(2)
South China Insurance		104,012	1	(205,856)	(2)
Hua Nan Investment Trust		(255,031)	(5)	132,390	1
Hua Nan Venture Capital		12,534	-	27,759	-
Hua Nan Management & Consulting		3,717	-	3,410	-
Hua Nan Assets Management		30,522	1	46,788	1

(2) Future Plans to Develop New Banking Products and Services

The Company provides customers with comprehensive and integrated services to satisfy the various needs of customers. The businesses of the subsidiaries cover a wide range of areas. HNFHC always remains abreast of information in local and foreign financial markets as well as product trends. It develops and sells a range of financial products and is committed to providing innovative product lines and platforms to meet customer needs. At the same time, HNFHC actively develops customer management systems to be able to effectively remind customers of their needs and respond to their other requirements. This achieves the objective of creating a win-win situation for customers and the Company.

The planning of integrated products, various screening and management mechanisms and platforms, and up-to-the-minute information on local and foreign markets and product trends enable the subsidiaries to create integrated and packaged products. HNFHC employs a CRM system to analyze customer attributes, enabling it to provide across-the-board personal finance services.

2. Industry Environment

Local banking institutions in 2009 were impacted considerably by the financial tsunami, having to take significant losses on financial products issued by overseas banking institutions. In addition, the level of overdue loans increased sharply. The nation's Central Bank of China repeatedly cut interest rates in an attempt to spark the economy. This, however, caused the difference in deposit and lending rates to shrink rapidly. Coupled with the poor performance of the local stock market, which was also affected by movements overseas, the performance of banks in 2009 was far from ideal. These conditions made it an extremely challenging year for the banking industry.

Major rescue packages adopted in the United States and Europe, as well as expansionary policies among countries throughout the world helped to get the world back on the road to recovery. This led to a rebound in Taiwan's external trade and also generated a gradual recovery in private investment. Taiwan's economy contracted 1.87% according to figures released by Directorate General of Budget, Accounting and Statistics, but GDP growth is predicted to reach 4.72% in 2010.

Looking ahead to 2010, various factors suggest a recovery and stability in the economy, including a global economic rebound, a rise in external trade, growth in private consumption and investment, continued expansion of infrastructure projects, and rebuilding in the aftermath of Typhoon Morakot. In addition, the government has promoted the normalization of relations between the two sides of the Taiwan Strait. The two sides have signed a memorandum of understanding on cross-strait banking supervision. Taiwan banks are poised to enter mainland China's banking market, serving Taiwan enterprises that have long operated in the mainland and the expanding mainland banking market. This will help to alleviate some of the market pressures that banks face in Taiwan's overly competitive banking market. In light of this, developing operations in mainland China will be the next stage in the industry's development.

3. Research and Development

(1) Marketing

A. The Company has established a well-rounded customer relationship management organization, has set forth a direction in how to manage customer relationships, and has implemented well thought-out operational procedures. Other system tools and business intelligence have also been established. Customer management in recent years has emphasized providing service to high net worth customers, followed by developing customers with high potential. At the same time, HNFHC utilizes its CRM sales database and business intelligence to understand and predict the tendencies of customers in purchasing products. Moreover HNFHC engages in marketing activities at appropriate junctures to increase its contact with customers and maintain its relationships with clients, thereby helping to expand income for the Company.

B. In the future, the core of CRM will be on boosting the average number of HNFHC products purchased by customers and expanding the scale of high net worth customers. Each subsidiary will work on selling products that make a high contribution and will utilize customer purchasing habit forecast data and the results of customer analysis to provide the products and services required by customers at the appropriate time. This will help to sell Company products and increase customer value.

(2) Risk Management

From 2006 to 2008, the Company, with the assistance of an outside consultancy, carried out a project to strengthen risk management culture and abilities, and to implement the Basel II Capital Accord. The abundant substantive experience of the consultant proved effective in assisting the Company to achieve both of these objectives, along with maximizing the value of equity.

The Company's risk management framework is based on risk management rules set forth by HNFHC, which act as the highest principles internally to manage risk. HNFHC has gradually completed corporate banking credit risk, consumer banking credit risk, market risk, operations risk, and asset & liability policies and guidelines. In the future, HNFHC will adjust these appropriately and strengthen its management mechanisms. It will also provide education and training with the expectation of deepening awareness of risk management throughout the Company.

4. Short and Long-term Business Development Plans

(1) Financial Management

In the short term, the focus will be on strengthening and reforming the Company's organizational structure and on emphasizing organic growth. However, in considering the Company's four main lines of business – banking, securities, insurance and asset management -- HNFHC will not rule out the possibility of mergers and acquisitions to expand the existing scale of its operations.

In the medium and long term, HNFHC will look at mergers and acquisitions, specifically focusing on outstanding, large-sized domestic banks or financial holding companies with banks as their core. Meanwhile, as cross-strait banking is liberalized, HNFHC will look at banking institutions in mainland China as potential merger and acquisition targets. These moves will enhance the Company's competitiveness and enable HNFHC to achieve its objective and vision of becoming Taiwan's leading financial holding company.

(2) Marketing

In the short term, HNFHC will utilize its 247 cross-selling counters as a means to share resources and provide cross-selling services, thereby maximizing the Company's cross-selling synergy. It will also provide assistance to each subsidiary in helping employees test for licenses in the various products and services the Company provides. The cross-selling counters will serve as a center, with the employees of subsidiaries providing support and cooperation. The efforts to plan various packages of products will yield composite products, which in turn will help to boost the number of products used by customers and expand cross-marketing synergy. In addition, HNFHC will provide integrated financial services and product lines to meet the needs of customers of each subsidiary. HNFHC will form an integrated marketing team comprised of managers in north, central, and south of Taiwan to promote and manage the mechanism, integrate the Company's marketing abilities and maximize synergy.

In addition, HNFHC will continue to utilize business intelligence to effectively increase the number of products bought by customers. It will also establish models to monitor customer tendencies in purchasing high contribution products, and it will employ models and forecast data to select specific customers for marketing activities. This will make the best use of the marketing budget and enhance the results of marketing activities.

Over the long term, Company will continue to coordinate use of its network, products, customers and staff to promote cross-selling operations, helping to achieve its target of having over 20% of its business derived from cross-selling initiatives.

HNFHC will develop comprehensive policies and projects to manage customers in order to be able to provide the appropriate products and services for each individual at various stages throughout their life. This will forge long lasting relationships between customers and the Company and create a win-win situation. These initiatives will also solidify customer loyalty and cause customers to champion the brand.

HUA NAN COMMERCIAL BANK (HNCB)



HONEST

EFFICIENCY

ACTIVENESS

RESPONSIBILITY

TEAMWORK

Financial Highlight

Unit: in NT\$1,000

As of December 31, 2009 and 2008	2009	2008
Income Statement		
Net interest income	15,897,798	25,549,416
Net income excluding interest income	12,539,376	6,263,284
Gross income	28,437,174	31,812,700
Provision for bad debts	(10,644,117)	(5,080,408)
Operating expenses	(14,164,407)	(14,550,760)
Income before tax	3,628,650	12,181,532
Cumulative effect of change in accounting principles		-
Net income	3,978,796	9,983,766
Balance Sheet		
Total assets	1,776,296,497	1,678,043,408
Total liabilities	1,693,001,599	1,600,047,049
Total shareholders' equity	83,294,898	77,996,359
Financial Ratios		
ROE	4.93%	12.80%
ROA	0.23%	0.60%
Tier I ratio	7.40%	6.13%
Capital adequacy ratio	12.01%	10.21%
NPL ratio	1.58%	1.67%
Coverage ratio	70%	59.19%
Credit Ratings (long/short/outlook)		
Taiwan Ratings	twAA-/twA-1+/Stable (2009/06)	
Moody's Ratings	A3/P1/Negative (2009/11)	

HNCB operating results over the past year are described below:

1. Deposits

As of December 31, 2009, total deposits stood at NT\$1.53 trillion, an increase of NT\$124.52 billion, or 8.87%, from the end of 2008. After deducting deposits by other financial institutions, deposits stood at NT\$1.51 trillion, which was a rise of 9.15%, or NT\$126.63 billion, from the end of the previous year.

In terms of deposits by category, demand deposits stood at NT\$858.56 billion, an increase of NT\$175.63 billion, or 25.72%, from 2008. Time deposits decreased 6.99%, or NT\$49.00 billion, to NT\$652.34 billion, while deposits by other financial institutions fell 10.76%, or NT\$2.11 billion, to NT\$17.47 billion.

Demand deposits comprised 56.18% of all deposits, time deposits 42.68%, and interbank deposits 1.14%.

2. Loans

HNCB's total loans as of December 31, 2009 stood at NT\$1.10 trillion (including bills purchased and import/export negotiations), with 93.98%, or NT\$1.03 trillion, loaned domestically. Loans by overseas branches and OBU accounted for the remaining 6.02%, or NT\$66.1 billion. Of the domestically extended loans, 89.01%, or NT\$978.2 billion, was denominated in NT dollars, while the remaining 4.97%, or NT\$54.6 billion, was in foreign currency. Of the NT dollar-denominated loans, 55.72%, or NT\$612.4 billion, were extended to companies, while NT\$365.8 billion, or 33.29%, were provided to individuals. Of the corporate loans, private enterprises accounted for 44.26%, or NT\$486.4 billion. Government organizations and state-run enterprises comprised 11.46%, or NT\$126.0 billion.

Total loans at the end of 2009 fell 1.39%, or NT\$15.5 billion, compared with the end of 2008. Domestically issued loans fell NT\$3.2 billion, or 0.31%, while loans by overseas branches and OBU declined NT\$12.3 billion, or 15.68%. NT dollar-denominated domestically extended loans increased NT\$3.1 billion, or 0.32%, while foreign currency-denominated loans declined NT\$6.3 billion, or 10.34%. Of the NT dollar-denominated loans, those to the corporate sector fell

NT\$14.2 billion, or 2.27%, while those to individuals rose NT\$17.3 billion, or 4.96%. Loans to private companies decreased NT\$41.5 billion, or 7.86%, while loans extended government organizations and state-run enterprises increased NT\$27.3 billion, or 27.66%.

3. Domestic Remittance and Agency Services

(1) Remittance Business: In 2009, HNCB processed NT\$7.53 trillion of outward remittances, a fall of 19.16%, or NT\$1.784 trillion, from the previous year. HNCB collected 8,466,946 checks, which was a decline of 9.81%, or 921,184 checks, from 2008.

(2) Agency Business: HNCB serves as an agent in the following areas: (1) Agent for National Treasury; (2) Agent for payment of bills, including insurance premiums, taxes, telecommunications fees, electricity fees, water fees, gas fees, tuition-related expenses, labor insurance fees, national health insurance fees, collection of funds in stock offerings, payment of principal and interest on bonds, payment of dividends, and payment of winnings in the local welfare lottery; (3) Agent for purchase of government bonds; and (4) Agent for the sale of gold and silver coins and lottery tickets.

4. Electronic Banking

HNCB's electronic banking operations (including Internet bank and batch magnetic strip) in 2009 tallied a total of 69.43 million transactions, which was an increase of 4.99 million transactions, or 7.74%, from the previous year. The value of the transactions stood at about NT\$6.74 trillion, which was a decrease of NT\$111.3 billion, or 1.63%, from 2008.

5. Foreign Exchange and International Operations

In 2009, HNCB's domestic and overseas offices handled 2.23 million foreign exchange transactions, which was a decline of 5.14%, or 120,831 transactions, from 2008. Foreign exchange business amounted to US\$197.16 billion, which was a decrease of 22.17% from the previous year. Of these totals, the Bank handled 64,491 import letters of credit and collections, which was a decline of 8.70%

from the year earlier. This area of business was valued at US\$8.41 billion, which was a fall of 23.94% from the previous year. Meanwhile, a total of 73,386 export negotiations and collections was handled, which was a decline of 12.66% from the previous year. The amount of this business was valued at US\$10.13 billion, which was a fall of 16.65% from 2008. HNCB also handled 2.09 million foreign exchange remittances (including inward and outward remittances), which was a decline of 4.74% from the year earlier. The amount of this business stood at US\$178.63 billion, a drop of 22.37% from the previous year.

HNCB's OBU and six overseas branches in 2009 generated a pre-tax profit of US\$44.04 million, which was an increase of US\$86.23 million from 2008. Total deposits at these units stood at US\$2.99 billion, an increase of US\$276.93 million, or 10.18%, from the previous year. The number of letters of credit and collections handled was 8,316, a decline of 11.80% from the year earlier, with the amount of business handled in this regard at US\$1.093 billion, a drop of 15.78% from 2008. The number of export negotiations and collections handled in 2009 stood at 12,937, a drop of 12.04% from the year earlier, while the amount of business handled fell 15.53% to US\$1.22 billion. Meanwhile, 439,379 foreign exchange transactions (inward and outward remittances, and purchases or sales of foreign currency) were handled, which was a drop of 6.71% from the year earlier. The volume of this business stood at US\$30.69 billion, a decrease of 20.09% from the previous year.

6. Personal Banking

The amount of credit extended as of the end of 2009 stood at NT\$365.8 billion, which was an increase of 4.96%, or about NT\$17.3 billion, from the NT\$348.5 billion at the end of 2008.

7. Trust

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

A.Foreign Currency Trust Funds: At the end of 2009, the amount of foreign currency trust funds stood at US\$992.53 million, which was a net increase of US\$640,000 from the end of 2008.

B.NT Dollar Trust Funds: At the end of 2009, the amount of trust funds under management stood at NT\$148.55 billion, a net increase of NT\$13.78 billion from the end of 2008.

C.Handling fee income in 2009 amounted to NT\$1.17 billion.

(2) Custodial Services:

A.As of the end of 2009, HNCB provided custodial services for 53 mutual funds. Presently, 71 customers have contracted HNCB for custodial services and the Bank provides securities custodianship for 10 foreign institutional investors. The commissioned custodial amount for 2009 was NT\$143.4 billion.

B.Handling fee income in 2009 was NT\$162.2 million.

(3) Securities Certification:

A.In 2009, HNCB handled certification for shares and bonds in 433 instances, with the amount certified totaling NT\$55.348 billion.

B.Certification handling fee income in 2009 amounted to NT\$6.53 million.

(4) Personal Trusts:

A.As of the end of 2009, trust assets (not including collective investment accounts) amounted to NT\$27.85 billion.

B.As of the end of 2009, the total net asset value of three collective investment accounts operated was NT\$2.54 billion.

C.Trust handling fee income (including collective investment accounts) in 2009 stood at NT\$86.23 million.

8. Financial Trading and Marketing

(1) **Financial Trading Business:** HNCB's financial trading includes NT dollar and foreign currency capital operations, adjustments in reserves, foreign exchange trading, bills operations, investment in fixed income securities, and investment in equities. In 2009, net profit in these operations came to NT\$2.12 billion, which was 105% above the Bank's internal target for the year of NT\$2.02 billion.

(2) **Treasury Marketing Business:** HNCB's treasury marketing operations focus on the trading of treasury products for customers, as well as the design and implementation of new financial products. Products include NTD/foreign currency structured investment products, foreign exchange forwards, forex swaps, currency options, NTD/foreign currency interest rate swaps, and cross currency swaps. In reflection of the global financial crisis, HNCB's handling of derivative financial product trading for its customers in 2009 fell 34% from 2008 to NT\$14.3 billion.

9. Wealth Management

HNCB's wealth management operations in 2009 generated handling fee income of NT\$1.79 billion, which was 2% above HNCB's internal target of NT\$1.75 billion. However, this was a drop of NT\$181 million, or 9%, from 2008's handling fee income in this area of operations of NT\$1.970 billion.

Operating Results in 2009:

(1) Employees: As of the end of 2009, HNCB employed 299 financial consultants throughout its 183 branches, which was a decrease of 33 people from 2008. In addition to providing assistance to related personnel to obtain professional licenses, HNCB held many education and training courses, helping to enhance the knowledge and expertise of its personnel in these operations, boost service quality, and comply with rules set forth by regulatory agencies.

(2) Policies: HNCB has established a team to assist business units in developing high-value customers. It has set forth measures related to structured note products to screen the suitability of clients to purchase such products, as well as monitor marketing procedures. This is aimed at reducing inappropriate sales and possible litigation

arising from such. HNCB has also implemented a mechanism to manage high-value customers and monitors customers on a regular basis using 49 different indicators, thereby having the data to develop business opportunities.

(3) Products: HNCB has added a target personal finance account platform and also provides a spreadsheet function on its internet banking, enabling customers to regularly monitor their personal finance objectives. This mechanism reminds customers the state of carrying out their investments, thereby assisting them in achieving various targets in specific stages of life. This function helps to expand the number of customers engaged in dollar cost average basis investment. HNCB's main insurance products are traditional policies that promote savings and generate yields higher than those of time deposits. The Bank also markets a variety of capital return medical insurance and accident insurance products. HNCB markets mutual funds as a means to appropriately balance portfolios. It equally emphasizes timing and fund selection. The Bank, in response to market trends and changes, will select well-known and highly reputable mutual fund companies that have comprehensive product lines, and will pick funds that exhibit outstanding performance to be included on its fund trading platform and to serve as reference in investment recommendations. It will hold a series of marketing activities for these funds, such as meetings to explain the products, advertisements in the media, and various investment incentives in order to boost the success of the marketing campaigns.

(4) Marketing: In 2009, HNCB held 935 seminars on topics such as the dollar cost averaging investment strategy and established a dollar cost averaging fund platform. This helped to increase the number of transactions and reduce trades carried out at counters in branches, providing more time for personal finance consultants to provide service to high contribution customers. HNCB also held events in conjunction with a well-known investment consulting firm at which noted speakers provided investment introductions to major customers. HNCB utilizes customer relationship management

to differentiate its clients into groups. Over the past year, it held five marketing activities with different themes to play to different groups and boost business.

(5)Systems: In order to enhance its wealth management product marketing supervision mechanism and to comply with regulations set forth by regulators, HNCB has established a personal finance recording system to boost the risk awareness among personal finance consultants and financial product salespeople. The recording system is used to monitor marketing procedures in the sale of structured products. The recordings also prove that customers are aware of the conditions of the products and the nature of risk involved. The recordings are safeguarded in order to reduce suits or disputes involving customers. The Internet banking has added a KYC and risk preference survey. Internet banking customers must complete the survey before being allowed to place orders for mutual funds. This is being carried out in compliance with regulations set forth by regulators. In addition, HNCB's VIP system now offers the ability to check the ratio of investment products purchased by customers as a portion of his/her AUM. Also, an E-TABS fund transaction system monitors a customer's investments in excess of his/her acceptable level of risk. The Bank has enhanced the function of its SFA system to boost effectiveness of marketing activities. It has also established a KPI system to strengthen management of customer relationships.

10. Financial Results

Net profit in 2009 came to NT\$3.98 billion, which was 90.08% of the Bank's internal target. Total net income was NT\$28.44 billion. Of this, net interest income accounted for 55.90% (interest income stood at NT\$28.23 billion, while interest expense was NT\$12.33 billion). Non-interest net income accounted for 44.10% (including net service fee income of NT\$4.04 billion, asset and collateral disposal income of NT\$3.47 billion, asset impairment loss of NT\$1.51 billion, recovery of bad debts and overdue accounts of NT\$1.27 billion, foreign exchange gains of NT\$1.08 billion, and other non-interest net income of NT\$1.17 billion). Bad debt expense was NT\$10.6 billion, and operating

expense was NT\$14.16 billion (personnel expense was NT\$9.14 billion, depreciation and amortization was NT\$1.09 billion, and other business and management expense was NT\$3.94 billion). Income tax stood at NT\$350.1 million, and after-tax earnings per share was NT\$1.05.

11. Development of New Financial Products

- (1)HNCB is expanding its services aimed at salaried workers, increasing earmarked loans and entering into strategic alliances with system furniture companies. It will introduce "home decoration installment loan" products in an effort to expand its network and increase its source of customers.
- (2)In an effort to increase trust business handling fees and expand the variety of trust products offered, HNCB will introduce futures trust funds. These products offer a greater range of investment targets in comparison with equities investment trust funds. These funds can be traded both on a long and short basis, and can become part of an investment portfolio, effectively reducing risk and boosting returns.
- (3)HNCB will plan and complete a single portal for trade services at its Ho Chi Minh City branch internet banking platform. This is aimed at increasing demand deposits and handling fee income.
- (4)HNCB will draft a mechanism to monitor HNCB ATMs not located on HNCB's premises, thereby strengthening management of HNCB's ATMs located at places such as hospitals and department stores, and boosting service quality.
- (5)HNCB will introduce foreign currency Commodity Option operations.
- (6)HNCB will introduce foreign currency Commodity Swap operations.
- (7)HNCB will introduce foreign currency Forward Rate Agreement operations.

12.Measures to Strengthen Competitiveness

- (1)HNCB will expand its working capital and capital expenditure lending to companies exhibiting normal operations.
- (2)HNCB is aggressively marketing loan products to SMEs and will utilize guarantees from the Small and Medium Enterprise Credit Guarantee Fund to reduce lending risk and boost loans to SMEs.
- (3)HNCB will provide lending services to companies that are involved in major infrastructure projects that are being promoted by the government.
- (4)HNCB will aggressively seek to lead domestic and overseas syndicated loans.
- (5)HNCB will engage in import and export-related foreign exchange lending in tandem with government policies to promote international trade.
- (6)HNCB will promote domestic and international factoring business, strengthening the range of banking services it provides to enterprises.
- (7)HNCB will promote factoring and online internet banking services for companies throughout the production-sales supply chain, including central and satellite factories.
- (8)HNCB will engage in joint marketing with companies under the HNFHC umbrella, taking advantage of the HNFHC's resources to provide corporate customers with outstanding service and a comprehensive range of products.
- (9)HNCB will boost the volume of new mortgage loans through various programs aimed at civil servants and individuals, as well as a project that provides speedy decisions on applications. It will also increase its dealings with real estate agent.
- (10)HNCB will encourage packaging of mortgage insurance with its mortgages, thereby increasing no-risk handling fee income.
- (11)HNCB will expand its services aimed at salaried workers, increasing earmarked loans and promoting financing to employees in science-based industrial parks, thereby boosting the volume of lending.
- (12)HNCB will seek strategic alliances and cooperative opportunities for non-performing automobile loan repurchase guarantee agreements in an effort to promote its automobile financing business.
- (13)HNCB will expand the ways loyalty points can be used and increase the number of contracted stores that offer installment plans, thereby increasing the volume of credit cards issued and amounts charged.
- (14)HNCB will group its customers into various segments and market portfolios of products to each segment. This will enable it to provide one-stop shopping services, boost the number of products utilized by potential customers, raise customer value, and increase the contribution to earnings by each customer.
- (15)In light of the government's policy to encourage urban redevelopment, HNCB will contact real estate and construction companies in an effort to expand urban redevelopment-related trust business. The trust mechanism will enable HNCB to monitor capital and property rights. As various redevelopment projects progress, HNCB will be able to create a win-win-win situation for construction firms, landowners, and HNCB.
- (16)HNCB will carefully select domestic and overseas investment targets for its pecuniary trusts. In addition to obtaining regulatory approval from authorities, HNCB will carry out extensive screening of funds with regards to their size, date of establishment, performance rating, prospects, and the reliability and trustworthiness of the local agent (s) for the respective fund (s). This will enable HNCB to fulfill its responsibility as manager.HNCB will also simplify trading procedures and enhance its e-trading platform to increase the willingness of customers to purchase these funds, thereby continuing to expand the scale of trusted funds under management.

- (17)HNCB 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, thus raising HNCB's market share in the custodian market. HNCB 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.
- (18)In the wake of the financial crisis, HNCB will seek to emphasize asset allocation to help customers diversify risk. HNCB will promote its collective investment accounts to provide an option for a stable investment avenue for its customers. It will promote these accounts based on the market climate in an effort to expand the size of the accounts and assets under management.
- (19)HNCB will strengthen promotion of the forex functions in its internet banking and provide batch scheduled file outward remittances to assist customers in their cash flow needs. This will reduce operational costs for HNCB.
- (20)HNCB will hold activities to engage greater business in its forex operations. It will promote import and export-related forex lending, helping to expand its foreign currency lending.
- (21)HNCB will boost planning associated with upgrading its Hanoi and Shenzhen representative office to branches. It will also 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.
- (22)HNCB will promote XML interbank remittance operations, providing convenience to corporate customers in their capital allocation requirements 24 hours a day.
- (23)HNCB will continue to strengthen its internet banking platform in an effort to increase income on funds on demand, as well as handling fee income.
- (24)HNCB will continue to look to electronic and centralized operations to reduce personnel and operating costs, and increase transaction efficiency.
- (25)HNCB will work together with other subsidiaries in carrying out joint marketing activities. It will seek to maximize telemarketing initiatives to sell a range of personal finance and insurance products. This will raise business volume, increase the number of products bought by each customer, and boost the contribution made by each customer to HNCB.
- (26)HNCB will focus both on volume and quality of its deposits. It will seek to continue to display a high ratio of demand deposits and the lowest average deposit rates among its "Big 3" commercial bank counterparts.
- (27)HNCB will enter into a strategic alliance with Bank of Taiwan in introducing "Gold Passbook" business. It will also begin to offer gold coins.
- (28)HNCB will repeatedly remind employees to have an awareness of risk. It will strengthen the ability of tellers to monitor abnormal accounts, and will also boost the ability of internal management to reduce operational risk.
- (29)HNCB will seek to increase risk-free handling income. It will seek to increase the number of products used by each customer on average by 0.5. It will continue to carry out Automatic Clearing House operations and marketing activities to engage customers to have various fees deducted directly from their deposit accounts.

(30)HNCB will best utilize the two operating licenses of Hua Nan Bills Finance in Taipei and Kaohsiung, and will seek to expand operations to its Changchun, Luzhou, Dazhong, and Dachang branches. It will continue to analyze the operations of branches that exhibit weaker performances in order to strengthen HNCB's business network.

(31)HNCB will continue to improve the operational procedures of branch. For instance, it will establish a new safe deposit box management system, centralized operations for documents for impounding rulings issued by the court, account opening procedures at branches, and demand and time deposit seal management systems.

(32)HNCB will continue to promote Treasury Marketing Unit operations, enhancing the services it provides to customers and developing new sources of customers. HNCB will seek to provide hedging and trading services for institutional clients, thereby expanding its dealings with customers in derivatives trading.

(33)HNCB will strengthen cross selling incentives to engage in domestic convertible bond operations. It will seek to increase bonds acquired in the primary market and carry out asset trades. In the secondary market, it will buy and sell bonds to generate capital returns.

(34)HNCB at appropriate times will invest in 10-year treasuries issued by the United States and German governments to benefit from interest rate differentials or generate capital returns. It will continue to purchase corporate bonds of blue-chip companies overseas or debentures, increasing its yield on foreign currency funds.

(35)HNCB will seek commercial paper certification and underwriting business, and trading of CP in the secondary market. This will increase handling fee income and trading returns.

(36)HNCB will strengthen its negative intervention practices. It will seek to obtain cheaper sources of capital in the market and use these funds to purchase CBC NCDs that offer higher yields, thereby benefiting from the difference in yields.

(37)HNCB in 2010 will focus on strengthening its wealth management business on four fronts – employee expertise, network, products and customer management. This will help to expand business and not only achieve annual targets, but also increase its share in the wealth management market.

13.Employee Expertise:

(1)Increasing the number of personal financial consultants.

(2)Offering classes to train reserved personal financial consultants.

(3)Holding practical coursework on-site within HNCB, providing digital courses, an A/V weekly report, introductions to products, and advanced training in sales of insurance products.

14.Network:

Increasing the number of counters at branches, promoting targeted internet banking personal finance accounts, promoting telemarketing, and increasing product lines at the Hong Kong branch.

(1)All Bank employees except for those involved in deposit and remittance operations should be included in promoting this initiative.

(2)Promoting targeted personal finance accounts: These accounts can provide appropriate products, monitoring of products and suggestions, as well as suggestions on when to add to or cut positions, thereby attracting Internet-based customers.

(3)HNCB will continue to engage in telemarketing to introduce products to customers.

(4)HNCB will expand its fund transaction platform to its Hong Kong branch, expanding the line of personal finance products offered there. It will ask employees at the Hong Kong branch to increase the functionality of its internet banking trading platform.

15.Products:

HNCB will seek to develop institutional customers and clients with large amounts of foreign currency deposits to purchase funds. It will enter into strategic alliances with insurance firms to market top-notch insurance products. It will also increase the willingness of staff to promote collective investment accounts and seek to serve as custodian for funds, thereby boosting handling fee income.

(1)HNCB will select outstanding funds platforms as investment targets and carefully pick short- and medium-term cooperative partners.

(2)HNCB will enter into strategic alliances with insurance companies and continue to provide outstanding products. It will primarily promote:(a) traditional products that have been successful; (b) capital return products (life insurance, accident insurance, hospitalization insurance and other products designed with a capital return function); and (c) traditional foreign currency policies.

(3)HNCB will work to enhance the performance of collective investment accounts and the amount of funds deposited in those accounts.

(4)HNCB will seek to serve as custodian for various funds based on market trends and specific themes, increasing the number of funds for which it serves as custodian.

16.Customer Management:

HNCB will implement a high-value customer management mechanism. It will hold VIP events and activities to increase the number of products utilized by customers. This will boost assets under management by high-valued customers, as well as level of contribution, rate of retention, and number of products used.

(1)HNCB will periodically hold activities to thank its customers for their support, such as receptions or meals.

(2)HNCB will sponsor large-scale concerts or arts or cultural performances.

(3)HNCB will use the media and outdoor billboards to boost the image of its wealth management operations.

HUA NAN SECURITIES CO., LTD (HNSC)



HONEST

EFFICIENCY

ACTIVENESS

RESPONSIBILITY

TEAMWORK

Financial Highlight

Unit: in NT\$1,000

As of December 31, 2009 and 2008

2009

2008

Income Statement

Revenue	3,447,221	2,682,693
Expense	(2,249,991)	(2,708,332)
Income before tax	1,197,230	(25,639)
Cumulative effect of change in accounting principles	-	-
Net income	1,002,219	(218,819)

Balance Sheet

Total assets	23,431,901	15,676,456
Total liabilities	11,947,216	5,591,324
Total shareholders' equity	11,484,685	10,085,132

Financial Ratios

ROE	9.29	-
ROA	5.13	-
Capital adequacy ratio	377%	478%

Credit Ratings (long/short/outlook)

Taiwan Ratings	twA+/twA-1/Stable (2009/6)
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1. Operating Results

(1) Composition of income from main areas of business in 2007-2009

Unit: NT\$1,000

Year Business	2007		2008		2009	
	Amount	Share %	Amount	Share %	Amount	Share %
Broking	3,410,847	84.94%	2,282,229	89.47%	2,482,174	75.16%
Underwriting	74,614	1.86%	73,349	2.88%	175,032	5.30%
Dealing	530,211	13.20%	195,193	7.65%	645,119	19.54%
Total	4,015,672	100.00%	2,550,771	100%	3,302,325	100%

(2) Changes in contribution to income among major areas of business:

A. Broking

As of December 31, 2009, HNSC Securities had 56 branches (including 12 mini-branches). Daily stock market turnover in 2009 averaged NT\$139.12 billion, which was a rise of 16.07% from 2008's NT\$119.86 billion. The average market share was 2.608%. Its brokerage fee income rose from 2008's NT\$2.01 billion to NT\$2.64 billion, an increase of 31.28%.

B. Underwriting

In 2009, HNSC was involved in 18 underwriting contracts either as lead or co-lead, 38 underwriting projects (including financial advisory projects), and served as custodian for 99 companies. Underwriting income for the year stood at NT\$175 million, a 140% rise from the previous year's NT\$73 million, and accounted for 5.3% of all revenues for the year, compared with 2.88% in 2008.

C. Dealing

Nations throughout the world formulated policies in response to the 2008 financial tsunami, leading to the release of enormous amounts of capital and the unveiling of various economic stimulus measures. This set the foundation for a liquidity-driven rally in the stock market. Coupled with normalized relations between Taiwan and China, Taiwan's stock index rose throughout the year, ending 2009 with a gain of 78%. The Dealing operations (including financial products and futures dealing) generated profit of NT\$645 million, from NT\$195 million in the previous year, equivalent to a rise of 230.77%. The division's revenues accounted for 19.54% of revenues for the year, compared with 7.65% in the previous year.

(3) Plans to develop new financial products and services

In light of the gradual relaxation of securities and banking regulations, as well as the signing of the cross-strait MOU on banking supervision, more and more new financial products are being allowed. Taiwan's major brokerages are preparing to grab a piece of this pie and are actively engaging in R&D and are cultivating related talent. Looking at 2010, HNSC will evaluate and plan the following new products and services so long as the regulatory environment permits:

A. Offer cash management accounts and will engage in wealth management operations via trusts.

B. Actively develop comprehensive investment banking operations. The government has encouraged brokerages to transform into investment banks and develop corporate restructuring, M&A and other financial consulting and advisory operations in addition to broadly defined broking and underwriting business. HNSC is moving in this direction, setting its eyes on becoming an investment bank.

C. Aggressively develop sub-broker operations for Hong Kong stocks to provide greater services to the investing public.

D. Promote underwriting business for subordinated debentures and asset securitization products.

E. Design and introduce call and put warrants, asset swaps, structured products, and other derivative financial products.

F. Serve as a market maker in the futures, Taiwan index and individual stock options markets. Its Financial Products Department and Futures Dealing Department will continue to promote market-making activities in order to generate more trading activity in related products.

G. Integrate 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.

H. Form a special team to create a single platform to display information on all securities, futures, local and overseas funds, and Hong Kong sub-brokered products. Taking advantage of network and information technology, products will be listed according to their level of risk. This will provide the investing public with the latest information on these products and the ability to place orders from an e-trading system. Staff will also use this integrated platform to find the most appropriate products for customers according to their various needs. This will strengthen sales and be conducive to promoting operations and providing customers with rapid and convenient services.

I. The government is encouraging Taiwan firms overseas to come back to list on the stock market here. The Underwriting Department will use various avenues, such as its contacts in Hong Kong, accounting firms, and lawyers, to make contact with overseas Taiwan companies and help them to come back to list here.

J. HNSC established a representative office in Shanghai in November 2009. The office will work to establish an industrial and economic research platform to provide investment information for both sides of the Taiwan Strait. It will also evaluate opportunities to invest in other companies or to engage in strategic alliances with mainland brokerages.

2. Business Plan for 2010

The global economy finally began to emerge from its most serious contraction since World War II earlier this year thanks to the economic stimulus packages introduced by countries throughout the world, along with buoyant demand from Asia. However, the steps by Europe and the US to continually issue debt has caused fiscal deficits in some nations to reach levels leading to concerns about sovereign debt risk. Meanwhile, international hot money continues to flow into emerging markets, pushing capital markets to what some have described as bubble levels. In addition, concerns about high levels of hidden unemployment, a drop in the US dollar and inflation are clouding the road toward recovery. Taiwan's economy is heavily reliant on export industries and as such is vulnerable to international economic fluctuations. These factors have increased investment risk this year.

The cross-strait MOU on banking supervision has taken effect, and the Economic Cooperation Framework Agreement between the two sides has been signed. Recently, some have said that China has provided concessions in the area of banking, which analysts indicate could give an enormous boost to financial stocks and shares of companies in related industries. In addition, Taiwan is poised to liberalize its financial and securities regulatory framework to be more in line with international practices, and at the same time allow local financial firms to engage in greater investment and operations in mainland China. This will aid in the development of these firms into investment banks. This year will be one that is full of opportunities and challenges for Taiwan's financial holding companies and securities firms, 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.

(1) Research and Development

The focus of HNSC future R&D projects are detailed below:

A. In line with policies and the regulatory environment, HNSC 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.

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 account 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 working in conjunction with the parent company and ABN AMRO risk management consultants on 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.

(2) Short and Medium-term

Business Development Projects

A. Short-term strategies: HNSC is striving for balanced development among its broking, underwriting, dealing, and new financial product lines of business. It is also promoting wealth management and other areas of new operations. HNSC's objective is to be among the Top 10 local brokerages in profits and capital scale.

B. Medium and long-term strategies

a. Broking operations: To complete the establishment of a comprehensive network and to expand new areas of business.

b. Investment banking operations: To strengthen underwriting operations and expand capital scale.

c. Asset management: To expand the scale of capital management and boost performance of trading management.

d. Financial innovation: To strengthen fiscal engineering abilities and introduce new financial products from Taiwan and overseas.

e. Corporate efficiency: To integrate corporate resources and enhance operational efficiency.

f. Risk management: To monitor risky assets in order to reduce operations risk.

3. Market Prospects

Supply Side:

- (1) Amid M&A activity in the securities industry, the number of securities houses has declined. Medium and large-scale securities brokerages are increasingly being integrated into financial holding companies.

Changes in Number of Securities Brokerages in Recent Years :

Year	No. of Securities Brokerages		
	Headquarters	Branches	Total
2004	148	1,084	1,232
2005	143	1,065	1,208
2006	137	1,050	1,187
2007	133	1,024	1,157
2008	132	1,011	1,143
2009	147	1,005	1,152

Source: FSC's Securities and Futures Bureau website

The gradual decline in the number of headquarters signifies that brokerages are moving in the direction of becoming large-scale companies. In this situation, large firms tend to become larger. In addition, firms interested in internationalization must engage in M&A to expand their size, otherwise they will be unable to compete with foreign brokerages. Meanwhile, large-scale brokerages still actively engage in adjusting their branch network in an effort to generate growth in market share among each branch. Medium- and large-sized brokerages are gradually becoming incorporated into financial holdings companies. As the resources of these holding firms continue to expand, small and medium-sized brokerages are forced to either transform or exit the market.

- (2) Growth in scale of capital market stagnates

The Taiwan stock market experienced a buoyant year in 2009. The year saw the underwriting of 36 companies in listing their shares, which was a decline of three companies from 2008. However, with the market on the rebound, investors were more willing to participate in subscribing to shares among firms raising new capital. The number of underwriting cases in this respect rose to 144 in 2009 from 71 in 2008. Typically, underwriting business expands in periods of market strength, which is having a positive impact on the contribution of underwriting income.

- (3) As of the end of 2009, a total of 63 Taiwan brokerages offered e-trading platforms. The volume of e-trades for the year (including Internet and voice) rose to NT\$1.476 trillion, which accounted for 24.5% of total market volume, up from 22% in 2008. HNCS's market share in e-trading rose 30% from the previous year.

E-trading can significantly reduce costs and the time needed for investors to place orders. Brokerages in recent years have promoted e-trading and voice-based orders, along with wireless means, such as placing orders via cell phones and stock market consoles. The number of customers turning to such devices has risen as technology has progressed, and the percentage of e-trading as a part of overall trading is poised to rise further. HNCS will continue to promote e-trading in an effort to further boost its market share.

Demand Side:

- (1) Taiwan has instituted a series of liberalization measures since joining the WTO to make related laws and systems in sync with international practices. For instance, the stock exchange will continue to work to have the FTSE index designated Taiwan as a developed nation. The exchange will also sign MOUs with major exchanges throughout the world, promoting more activity in the local securities market.
- (2) Investors have more needs for integrated securities firms in reflection of a wider diversity of financial products on offer. Taiwan's investors in the past focused primarily on stocks and bonds. Today, investors also utilize futures, call and put warrants and other derivative products, which points to the developmental potential of new investment tools.
- (3) Companies and institutions increasingly turn to the stock market to raise capital. In addition, the percentage of foreign investment in Taiwan's stock market continues to increase, which is increasing the importance of brokerages.
- (4) Information travels fast and Taiwan's public is highly educated. Coupled with the increasing diversity of investment tools, investors are increasingly demanding securities-related

information and services. This is underpinning continued growth in needs for services provided by brokerages.

Business Targets

- HNSC is focusing on six areas of operations – M&A of single branches that it deems important for its network, strengthening e-trading, boosting productivity, introducing new lines of business, issuing a diverse array of financial products, and actively developing corporate customers. It also is working to strengthen risk management, enhance service quality and provide education and training to its employees. HNSC seeks to engage in close cooperation with other subsidiaries under the HNFHC umbrella in an effort to reduce costs and generate synergy from cross-marketing.
- Positive and negative factors impacting HNSC's vision for development:

Positive Factors:

- (1) With a warming in cross-strait relations and the signing of MOUs, restrictions on QDII and mainland Chinese investment in Taiwan are gradually being relaxed. This will provide a new source of liquidity for Taiwan stocks. In addition, Taiwan brokerages are actively engaged in talks with their mainland counterparts on cooperation and are seeking investment opportunities. This year offers the best opportunity to move into the mainland market.
- (2) The government is encouraging brokerages to gradually transform into investment banks, financial advisors and consultants. Restrictions on brokerages having operations in these areas of business are being lifted. This is conducive to the development of new business niches for brokerages.
- (3) Restrictions are being relaxed on new lines of business and financial products. This will provide brokerages with new niche markets and help them generate new sources of profits.
- (4) The establishment of related risk management systems will help to contain the company's balance sheet positions within acceptable limits and reduce operations risk to a minimum.

HNSC will emphasize balanced business development in the pursuit of stable profits.

Negative Factors:

- (1) Large-sized foreign brokerages have gradually established offices in Taiwan since Taiwan's entry into the WTO. They have a competitive edge in their immense capital and human resources. In addition, mainland Chinese brokerages will soon be allowed to set up operations here, which will add to the competitive environment for the brokerage industry. Foreign brokerages are able to use group resources and generate operational synergy, resulting in strong profits. Local brokerages, on the other hand, engage in relatively simple businesses and face many regulatory restrictions. This has consistently been a major hurdle to the development of Taiwan's brokerages.
- (2) Quotas for foreign investment have been increased and foreign exchange restrictions have been relaxed. This has caused the Taiwan market to move more and more in step with international capital markets.
- (3) Domestic financial holding companies are engaging in M&A activities, with a focus being on incorporating brokerages into their holding companies. This is significantly enhancing the competitive abilities of these firms. In the course of competing for a greater market share, price wars have developed, which is detrimental to the profits of brokerages.
- (4) Nations throughout the world have been running loose monetary policies to stimulate the economy. This is causing debt to pile up and is increasing the risks of a debt crisis. A double-dip downturn is also possible, which would impact the movement of Taiwan and global stocks.
- (5) Many countries still suffer from high unemployment rates. In addition, consumption is on the decline and capital investment is weak. This is creating liquidity risk and even the possibility of deflationary pressure, which would hamper an economic recovery.

SOUTH CHINA INSURANCE CO., LTD (SCIC)



HONEST

EFFICIENCY

ACTIVENESS

RESPONSIBILITY

TEAMWORK

Financial Highlight

Unit: in NT\$1,000

As of December 31, 2009 and 2008	2009	2008
Income Statement		
Operating income	9,873,789	9,632,543
Operating cost	(8,587,401)	(8,964,456)
Gross income from operations	1,286,388	668,087
Operating expense	(894,595)	(909,952)
Net operating income	391,793	(241,865)
Non-operating revenue	21,567	19,113
Non-operating expense	(2,189)	(76)
Income before tax	411,171	(222,808)
Cumulative effect of change in accounting principles	-	-
Net income	104,012	(202,757)
Balance Sheet		
Total assets	10,960,661	10,149,216
Total liabilities	8,870,353	8,273,245
Total shareholders' equity	2,090,308	1,875,971
Financial Ratios		
ROE	5.24%	(9.54%)
ROA	0.99%	(1.95%)
Capital adequacy ratio	555.61%	547.76%
Credit Ratings (long/outlook)		
Taiwan Ratings	twAA-/Stable (2009/12)	
A.M. Best	A-/Stable (2009/02)	

1. Industry Environment

In the wake of global financial crisis and the consequent recession in 2008, many had taken the view that the global economy is going to pick up in 2009. However with high unemployment rates persisted in some major countries restraining consumer expenditures, the road to global economy recovery has been a slow one.

The Accounting Office, Executive Yuen, adjusted the 2009 economic growth of Taiwan marginally upward from the initial forecast of -2.0% to -1.87%.

During 2009, domestic property insurance market faced a dire economic environment. Stagnant economy and shrunken foreign trades cast a severe impact on demand for insurance coverage. As a result, Marine Cargo insurance dropped significantly. Massive decline in car sales during the first half of 2009, coupled with the introduction of the third phase of tariff liberalization that brought motor premium rate down by 10%, both the total premium written and profitability in Motor insurance were reduced. Similarly, tariff liberalization, market competition and rates decline caused a substantial fall in overall Fire premium income.

Faced with keen competitions, putting off of major public projects and sluggish consumers spending, the domestic property market posted a total written premium of NTD 101, 353 Million in 2009, a significant decline of 6.18% from that of 2008.

2. Financial Results

Performance

During 2009, SCIC posted a total written premium of NTD 5,228 Million, representing 100.55% of budgeted target and a growth of 0.20% over that of 2008. Motor premium grew by 0.23%, totaling NTD 2,865 Million. Fire premium dropped by 5.97%, totaling NTD 1,067 Million. Marine premium declined by 3.03%, standing at NTD 432 Million. Casualty & Miscellaneous registered a growth of 6.40%, reaching total of NTD 562 Million. Personal Accident & Health grew significantly by 20.05%, posting a total of NTD 302 Million. Inward reinsurance dropped by 5.10%, totaling NTD 353 Million.

Claims paid during the period totaled NTD 2,520 Million, representing 48.20% of total premium written. Motor claims paid amounted to total of NTD 1,564 Million, equivalent to 54.60% of total Motor premium income. Fire claims totaled NTD 207 Million, or 19.35% of Fire premium. Marine claims totaled NTD 275 Million, or 63.74% of Marine premium. Casualty & Miscellaneous claims totaled NTD 230 Million, or 40.90% of Casualty premium. Personal Accident totaled NTD 244 Million, equivalent to 80.88% of Personal Accident premium income.

SCIC has been able to achieve a steady growth through strengthening of client servicing, increase of underwriting capacity, underwriting and claims control, increase of retention ratio, upgrading of IT systems, monitoring of budget and integration of resources. In terms of market share, SCIC ranked the 8th place for 2009, compared with the 10th in the proceeding year.

SCIC is rated 'Financial Strength A-', with Stable Outlook' and 'Issuer Credit Rating a- , with Stable Outlook' by A.M. Best. The company is also rated 'twAA- with a Stable outlook' by Taiwan Ratings. The ratings reflect the outstanding performance, capital strength and liquidity of SCIC.

Unit: NTD 1,000

Financial Highlight	2007	2008	2009
Premium Written	5,711,549	5,590,198	5,581,852
Reserves	5,611,867	7,594,278	7,951,645
Investments	251,265	-177,646	194,155
Total Assets	8,662,297	10,149,216	10,960,661
Profit (Loss) before Tax	268,106	-222,808	411,171
Earnings per Share (NTD)	1.08	-1.01	0.52

Portfolio Analysis	2007	2008	2009
Motor Insurance	53.26%	51.14%	51.33%
Fire Insurance	19.28%	20.30%	19.12%
Marine Insurance	7.78%	7.96%	7.73%
Casualty Insurance	9.94%	9.46%	10.08%
Personal Accident & Health	3.60%	4.48%	5.41%
Reinsurance	6.14%	6.66%	6.33%
	100.00%	100.00%	100.00%

Budget and Execution

During 2009, SCIC posted a total Operating Revenues of NTD 9,874 Million, equivalent to 99.64% of the budgeted revenues of NTD 9,910 Million. Operating Costs totaled NTD 8,587 Million, equivalent to 98.29% of the budgeted costs total of NTD 8,737 Million. Operating Income for 2009 totaled NTD 391.79 Million, representing 122.12% of the budgeted Income.

Profitability

During 2009, SCIC's Operating Revenues totaled NTD 9,874 Million, generating a profit of NTD 104 Million, or NTD 0.52 per share, after tax. Return on Assets at 0.99% and Shareholders' Equity at 5.24%.

Research & Development

To cope with the fast changing market and clients' needs, SCIC has paid special attention on new product development as well as marketing of diversified packages.

SCIC obtained approval from the Insurance Bureau of the Financial Supervisory Committee, Executive Yuen, to market the 'Right of Use of Property – Erected by an Individual' policy (Development Project of the Taipei Main Station Special Area referred). SCIC's 'Liability Insurance for Educational Institutions' and 'Natural Gas Comprehensive Insurance' policies were

respectively awarded the Best Product Innovation and Excellent awards by the Risk Management, Insurance & Finance Foundation in 2009.

In line with the Company's risk management policy, SCIC has set up risk management guidelines which had achieved remarkable results.

On marketing risks, the mechanism has disclosed potential exposures of traders and the control necessary for the safe keeping of quoted share certificates. An advanced warning mechanism has been established for insured risks. Periodical monitoring provides control over risks derives from new insurance products. On the operation sector, internal control has been significantly strengthened with improvement schemes. Framework for credit risks management has been completed with a credit rating mechanism for monitoring purpose.

3. Business Plan for 2010

Company Vision-

Best Client Service & Best Choice for Protection

In continuation of 2009's Year of Service, SCIC in 2010 will further expand on Efficiency, Quality and Care to improve workflow, service quality and to demonstrate its social responsibilities. SCIC aims to highlight its corporate image and continues to charge forward under SCIC vision of Best Client Service and Best Choice for Protection.

In support of the government's economy policy and insurance regulations, SCIC will take active initiatives to provide risk assessment and insurance planning services to the general public. In 2010, SCIC plans to solidify its insurance business, increase capital utilization and consolidate other business. SCIC sets itself a total premium income target of NTD 5,356 Million in 2010.

(1) Operation Targets

Faced with a swiftly changing domestic market, global financial slowdown, tariff liberalization and an increasingly dynamic insurance development across the Strait, SCIC sets its operation goals as follow:

A. Increase of Market Share

- a. Marketing – Strengthening existing quality business sources and to develop new alternate marketing channels through financial institutions, life carrier, insurance agents and brokers.
- b. Renewal Business – Effective monitoring of renewals with IT systems and to provide added-value services to increase renewal rate and client loyalty.
- c. Cross Selling – Integration of resources within the Company and to implement CRM project to promote cross-sales.

B. Costs Saving

- a. Cost Management - To implement cost control system and to digitalize documentations.
- b. IT Management - Integration of IT systems and development of marketing platform, strengthening the application of client information and to reduce labor costs.

C. Investments

- a. Capital Utilization - To explore opportunities in commercial real estate investments for risk spread and stable income; To expand outsourcing of investment management and to further adjust the portfolio mix of stocks and shares investments.
- b. Investment Management - Implementation of investment limit control and management.

D. Competitiveness

- a. Product Development - To develop premium variation rating system in accordance with risks factors, client categories, frequency, protections available and actual loss experience.
- b. Diversified Services - To strengthen Loss Prevention services and value-added claims settlement service; To provide diversified and simplified premium payment procedures.
- c. Overseas services - To set up service offices abroad in coordination with the Company's overseas strategies; To develop an overall service workflow to serve Taiwanese interest abroad.

E. Internal Control

- a. Risk Management - To provide IT tools for management with risk modules and integration of capital investments.
- b. Legal Compliance - Forums and departmental discussions are to be organized to promote general awareness of legal compliance.

F. Human Resources & Staff Training

- a. Staff Training - To develop job rotation system and provide training for multi-tasks capability.
- b. E-Learning - To strengthen in-house education and to upgrade E-Learn amongst staff.

(2) Major Marketing Strategies**A. Motor**

- a. Diversification of marketing with non-motor dealers to ensure stable profitability.
- b. To develop new products.
- c. To maintain and strengthen up-selling of existing clients.
- d. To strengthen existing connections with motor dealers.

B. Fire

- a. Profitability: Continue to upgrade underwriting know-how and to increase retention by way of risks quantification analysis. Well management on risks selection to lower down the loss ratios, and therefore heighten the contribution on profit.
- b. Residential Fire: To develop new residential fire business outlets and to enlarge the residential portfolio.
- c. Commercial Fire: Continue to expand the portfolio size of quality commercial fire business through competitive rating structures. To further increase small and medium size accounts. Emphasis will also be placed on soliciting business through agents and brokers. Continue to strengthen joint-sales of resources within the Company to increase market share.

C. Marine

Focus will be maintained on expansion of cargo business. Retention on quality cargo business is to be gradually increased to create underwriting profit.

D. Casualty

- a. Continue to work towards the 5% market share target. Further improvement is to be made on portfolio composition for bigger retention and profitability.
- b. To develop new products aiming at providing clients with a full range of product lines. To increase participation in fronting and co-insurance of various risk categories.

E. Health & Personal Injuries

- a. Profitability: To continue to improve risks selection. To develop new business outlets on Comprehensive Travel Insurance that has produced remarkable results and profitability.
- b. Marketing: To reinforce existing business channels and to develop new sources through banking institutions, agents and brokers. To expand business portfolios whilst maintaining a balanced growth of all business sources.

F. Overseas Business

A representative office was set up in Shenzhen in 2007. With the forthcoming conclusion of MOU and ECFA, it is anticipated that the financial and insurance operations on both sides of the Strait will surge forward with increasing dynamics. SCIC will further strengthen its operation in the China market in step with the Greater China development strategies of HNFHC.

HUA NAN SECURITIES INVESTMENT TRUST CO., LTD (HNIT)



HONEST

EFFICIENCY

ACTIVENESS

RESPONSIBILITY

TEAMWORK

Financial Highlight

Unit: in NT\$1,000

As of December 31, 2009 and 2008	2009	2008
Income Statement		
Operating income	297,540	311,016
Operating expense	(189,617)	(203,273)
Net operating income(loss)	107,923	107,743
Non-operating revenue	9,382	9,916
Non-operating expense	(464,494)	(9,971)
Income before tax	(347,189)	107,688
Cumulative effect of change in accounting principles	-	-
Net income	(255,031)	133,231
Balance Sheet		
Total assets	1,597,486	678,602
Total liabilities	1,050,119	36,295
Total shareholders' equity	547,367	642,307
Financial Ratios		
ROE	(42.87%)	21.57%
ROA	(22.41%)	19.75%

1. Business Scope

(1) Main areas of business:

- A. Issuance of beneficiary certificates on securities investment trust funds.
- B. Utilization of securities investment trusts funds to engage in investment in securities and related products.
- C. Providing discretionary investment services for customers.
- D. Other areas of business permitted by supervisory agencies.

(2) Composition of Business

Category of Assets		Ratio (%)
Mutual Funds	Equity	41.27%
	Fixed Income	52.70%
Private Equity		1.76%
Discretionary Investment		3.58%
Fee Income		0.69%
Total		100.00%

(3) Plans to develop new financial products and services

HNIT will provide new financial products, as well as diversified and convenient service avenues to meet market trends and the personal finance needs of customers.

2. Business Plan for 2010

- (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 create a foundation for HNIT's long-term development and to boost service quality.

3. Industry Environment

2009 was an extremely dramatic year. Global stock markets, which started the year full of pessimism, turned around and as sentiment improved ended up staging a V-shaped rebound. Investor sentiment turned more optimistic as global stock and bond markets headed upward. Consequently, net asset values rose and investors were willing to purchase more funds. The dual effects of this pushed the size of domestic mutual funds from NT\$1.57 trillion at the end of 2008 to NT\$1.98 trillion at the end of 2009, an increase of 25.69%.

Multinational investment fixed income bond funds and multinational investment composite bond funds exhibited the largest inflows of funds during the year. The primary reason for this was that the prices of many bonds became severely oversold during the financial crisis. As bond prices headed upward and investor confidence returned, the size of multinational investment fixed return bond funds grew from NT\$6.5 billion at the end of 2008 to NT\$37.7 billion at the end of 2009, an increase of 479.45%. Meanwhile, multinational investment composite bond funds grew from NT\$21.7 billion at the end of 2008 to NT\$47.8 billion at the end of 2009, a rise of 120.07%.

Meanwhile, an enormous amount of funds was funneled into equities-style funds in 2009, reflecting the rebound of the Taiwan stock market. The scale of equities-style funds increased 61.16% in 2009 to NT\$384.7 billion, from NT\$238.7 billion in the previous year. Meanwhile, multinational equities-style funds also saw an inflow of funds as local fund companies initiated 18 new funds during 2009. The scale of these funds grew 79.57% in 2009 to NT\$350.3 billion, compared with NT\$195.0 billion in 2008.

2009 marked a year in which relations between the two sides of the Taiwan Strait took a great leap forward. The government relaxed restrictions on investing in red chips in Hong Kong and on stocks in China's stock markets. As a result, quite a few securities investment trust companies looked to issue Greater China funds and engaged in talks with Chinese counterparts on cooperative business relationships. The MOU on financial supervision between the two sides took effect on January 16,

2010. As of the present, a number of companies have begun applying for quotas to invest here as QFII. Taiwan's securities investment trust companies will experience even greater room for development in the wake of the signing of the cross-strait Economic Cooperation Framework Agreement.

Taiwan investors are seeing a wider variety of investment avenues as restrictions on the trading of offshore funds here have been relaxed. As of the end of 2009, some 999 offshore funds have been introduced here, and local investors have over NT\$2 trillion invested in these offshore funds, setting a two-year high. Broadly speaking, as cross-strait liberalization gains pace, new areas of business are permitted and a wider selection of products becomes available, the larger-sized securities investment trust firms are going to gain momentum in market share. Therefore, 2010 will be a challenging year for companies in the industry in terms of asset management, managing their brand name, and marketing acumen.

4. Research and Development

The development of new financial products by securities investment trust companies is largely steered by liberalization and approval provided by supervisory agencies. Besides closely monitoring the policies of these authorities, companies must be aware of the latest market trends and develop appropriate products. Over the past two years, HNIT has developed the following products:

- (1) On September 7, 2009, HNIT issued the Hua Nan Yellow River Century Fund that focuses on investment in equities in Hong Kong, China, and Taiwan.
- (2) On April 17, 2008, HNIT issued a fund that focuses on investment in leading Taiwan blue chips.

5. Short and Long-term Business Development Projects

(1) Short and medium-term business development projects

- A. To gradually establish a comprehensive product line that is customer driven.
- B. To strengthen the long-term performance of funds and create flagship funds.
- C. To create a specific image for HNIT and to strengthen media exposure.
- D. To strengthen customer service and boost customer satisfaction.
- E. To strengthen risk management, promote rationalization of operational procedures, and boost overall service efficiency.

(2) Long-term business development projects

- A. To become a brand name in Greater China whose products customers specifically seek to buy.
- B. To become one of the Top 10 securities investment trust firms in Taiwan in terms of assets under management.

HUA NAN VENTURE CAPITAL CO., LTD (HNVC)

HUA NAN MANAGEMENT&CONSULTING CO., LTD (HNMC)



HONEST

EFFICIENCY

ACTIVENESS

RESPONSIBILITY

TEAMWORK

Financial Highlight(HNVC)

Unit: in NT\$1,000

As of December 31, 2009 and 2008	2009	2008
Income Statement		
Operating Income	104,538	72,502
Operating expenses	(27,986)	(26,533)
Net operating income (loss)	76,552	45,969
Non-operating revenue	2,450	6,390
Non-operating expense	(64,308)	(22,773)
Income(loss) before tax	14,694	29,586
Net income (loss)	12,534	27,761
Balance Sheet		
Total assets	1,016,187	993,576
Total liabilities	3,551	1,406
Total shareholders' equity	1,012,636	992,170
Financial Ratios		
ROE	1.25%	2.55%
ROA	1.25%	2.55%

Financial Highlight(HNMC)

Unit: in NT\$1,000

As of December 31, 2009 and 2008	2009	2008
Income Statement		
Operating Income	25,247	23,810
Operating expenses	(20,389)	(18,863)
Net operating income	4,858	4,947
Non-operating revenue	374	392
Income before tax	5,232	5,339
Net income	3,717	3,804
Balance Sheet		
Total assets	23,715	21,155
Total liabilities	8,471	6,204
Total shareholders' equity	15,244	14,951
Financial Ratios		
ROE	24.62%	27.11%
ROA	16.52%	19.32%

Hua Nan Venture Capital (HNVC)

1. Business Scope

- (1) Provides capital to invested companies
- (2) Provides corporate operations, management and advisory services to invested companies

2. Business Plan for 2010

- (1) HNVC expects to invest NT\$200 million in 2010. In an effort to diversify investment risk, HNVC will continue to look for investment targets, mainly on Taiwan, that exhibit long-term development and profit potential. The amount of investment directed at start-ups or early stage companies will gradually decline, with investment targets increasingly focused on firms in the expansion phase or that are already mature. HNVC will emphasize investments in companies with significant developmental potential in the opto-electronics, semiconductor, and IC design sectors, and traditional industrial sectors that exhibit potential.
- (2) HNVC will establish an optimal investment portfolio and will look for appropriate times to sell its investments to generate the greatest investment returns for its shareholders.
- (3) With regards to its existing investment portfolio, HNVC will consider appropriate times to realize profits. It will closely monitor invested companies that have not performed well and will either provide assistance or book impairment when appropriate to exhibit reasonable investment value in its books.
- (4) The life of the fund will be extended to 10 years from seven. In addition, it will continue to outsource operation of the fund to HNMC.

3. Industry Environment

- (1) State of fundraising: Two new venture capital funds were established in 2008, increasing paid-in capital in this regard to NT\$6.05 billion. Increase in capital for the year stood at NT\$1.38 billion, while the decrease in capital hit a three-year low at NT\$8.23 billion. In 2008, net outflows from domestic venture capital funds stood at NT\$797 million, which was a significant improvement in comparison to the outflows in 2006 and 2007.

- (2) State of investment: The total number of venture capital investment projects in 2008 was 620, with the investment amount reaching NT\$13.64 billion. This was a significant contraction from the 974 investment projects in 2007 and investment in that year of NT\$20.62 billion.
- (3) Invested industries: The opto-electronics, biotechnology, and electronics industries received the largest amount of investment in 2008. The opto-electronics industry was the largest recipient of investment in 2007, demonstrating that it is a favorite among investors. Meanwhile, biotechnology is becoming increasingly popular among investors, with the amount of funds funneled into that industry rising by the year.
- (4) Investment stage: Some 54.01% of venture capital funds in 2008 were injected during the expansion phase, followed by 28.97% in the mature phase. Together, these accounted for 82.98% of funds invested.
- (5) Areas of investment: Some 70.92% of venture capital funds were invested in Taiwan in 2008, while 9.92% of the funds were invested in companies in other areas in Asia.
- (6) Investment performance: In 2008, a total of 22 venture capital-invested companies listed on the stock market, comprising 44% of the new listings for the year. In light of the effects of the sub-prime crisis, the plunge in world stock markets, and the global recession, the average EPS of the Taiwan venture capital industry in 2008 was the second lowest in the past decade at -NT\$0.02, which was only modestly better than the low of -NT\$0.09 recorded in 2004.

4. Research and Development

Related industrial research is provided by HNMC.

5.Short and Long-term

Business Development Projects

- (1) As for its existing portfolio,HNVC will look to realize profits at appropriate junctures. It will closely monitor invested companies that have not performed well and will either provide assistance or book impairment when appropriate to exhibit reasonable investment value in its books.
- (2) HNVC will re-invest mainly in companies that will soon be listed or that are in the expansionary or mature phase and in which profits can be realized within three years. It will also appropriately allocate investment among various industries and regions.

Hua Nan Management & Consulting (HNMC)

1.Business Scope

- (1) Manage Hua Nan Venture Capital.
- (2) Corporate operations management and consulting
- (3) Investment consulting.

2.Business Plan for 2010

- (1) To manage the venture capital portfolio to generate the greatest returns for investors.
- (2)To boost the professional expertise and performance of the investment management team, to expand the size of the fund, and to maintain sustainable development for HNMC.
- (3)To sign new agreements or extend existing agreements with Hua Nan Venture Capital on providing services to the latter. It seems to extend its arrangement with Hua Nan Venture Capital to 10 years from the current seven.
- (4)To actively raise funds for a second venture capital fund. The size of this fund is expected to be NT\$1 billion and it will be in existence for seven years.
- (5)To pursue strategic partners, management new funds, and enhance investment management abilities, enabling HNMC to expand the size of its funds at appropriate times.

3.Industry Environment

As of the end of 2008, Taiwan had 84 fund management teams (including self-managed ones), and a total of 176 venture capital start-ups managed by management and consulting firms (not including 89 that have changed their name and are pursuing different businesses and 11 yet-to-be-established or whose establishment has been delayed. The total capital under management was NT\$161.001 billion.

4.Research & Development

HNMC dispatches its managers to industry-related seminars and training courses in order to strengthen their ability to evaluate investment opportunities and boost their post-investment management expertise. HNMC also assists invested companies in their operations and fiscal planning, and establishes strategic alliances and partnerships. Investors are rewarded once the stocks are listed on the market.

5.Short and Long-term

Business Development Projects

HNMC's primary business objective is to engage in in-depth industry trend analysis in order to pursue potential investment opportunities and to engage in professional investment analysis on these opportunities. It seeks to generate short-term profits on the investments in its portfolio.

HNMC carefully manages its investment portfolio and will expand the scale of the funds under management to boost returns. It will introduce outstanding individuals to its team in an effort to gradually expand the asset management operations.

HUA NAN ASSETS MANAGEMENT CO., LTD (HNAMC)



HONEST

EFFICIENCY

ACTIVENESS

RESPONSIBILITY

TEAMWORK

Financial Highlights

Unit: in NT\$1,000

As of December 31, 2009 and 2008	2009	2008
Income Statement		
Revenue	159,984	210,794
Expense	(104,276)	(117,312)
Income	55,708	93,482
Non-operating revenue	2,254	48,848
Non-operating expense	(27,630)	(75,451)
Income before tax	30,332	66,879
Net income	30,522	47,610
Balance Sheet		
Total assets	2,926,803	3,404,587
Total liabilities	1,889,411	2,354,868
Total shareholders' equity	1,037,392	1,049,719
Financial Ratios		
ROE	2.92%	4.60%
ROA	0.96%	1.30%

1. Business Scope

(1) Main areas of business

- A. Management and disposal of acquired NPLs in accordance with Article 15 of the Financial Institutions Merger Law.
 - a. Purchase of NPLs from financial institutions
 - b. Management and disposal of NPLs acquired from financial institutions
 - c. Disposal of collateral backing NPLs acquired from financial institutions
 - d. Disposal of collateral backing NPLs from enforcement agencies
- B. Disposal of NPLs and assets on behalf of financial institutions or companies
 - a. Entrusted to dispose of financial institutions' NPLs or corporate overdue receivables
 - b. Entrusted to handle assets already borne by financial institutions
- C. Engage in other asset management-related business allowed under the law

(2) Composition of Business

Area of Business	Share
Disposal of NPLs	43.82%
Managing NPLs	17.70%
Direct Investment in Court-Auctioned Real Estate	36.92%
Other	1.56%

(3) Plans to develop new financial products and services

- A. With regards to collateral or impaired assets of financial institutions at auction, HNAMEC plans to apply for land rezoning or amendment of the designated use of various structures in order to unlock asset value.
- B. HNAMEC will evaluate and prepare to expand into corporate restructuring and corporate M&A business.

2. Business Plan for 2010

- (1) HNAMEC will continue to monitor changes in the NPL market and target acquisition of secured impaired assets from the corporate sector.
- (2) HNAMEC will strengthen the recovery of all types of assets with the objective of lowering debt, raising its turnover ratio, and building investment momentum.
- (3) HNAMEC will directly invest in specific types of real estate in designated areas through court auctions to generate short-term capital returns.
- (4) HNAMEC will continue to develop diversified operations in an effort to avoid overconcentration of income derived from the disposal of NPLs.

3. Industry Environment

Statistics indicate that a total of NT\$185.061 billion of distressed debt was auctioned in 2005 by local financial institutions. This figure peaked in 2007 at NT\$236.79 billion, after which it fell to just around NT\$60 billion in 2008 and 2009.

Amid expectations that the sale of distressed assets will continue to stay low, quite a few local and foreign asset management companies are looking to transform their operations or modify their business strategies. This is creating a trend toward branching out into a greater range of operations among Taiwan's AMCs.

4. Research and Development

HNAMEC will continue to monitor changes in the NPL market and strengthen its bid to generate income from disposing of these assets. In addition, HNAMEC already has created a stable foundation for itself in direct investment in real estate and developing a real estate management mechanism. In terms of managing NPLs for others, in 2009 HNAMEC actively engaged in R&D to develop collection services for receivables in the corporate sector. HNAMEC expects that expanding the scale of its asset management services will boost income in this weak economic period.



5.Short and Long-term Business Development Projects

(1) Short-term projects

- A.To strengthen staff training, introduce NPL evaluation, and investigation education and simulation training. This will enhance quality in appraising assets and boost investigation efficiency.
- B.To continue to strengthen recovery of all types of assets with the objective of lowering debt, raising its turnover ratio, and accumulating investment momentum.
- C.To continue to develop diversified operations in an effort to avoid overconcentration of income derived from the disposal of NPLs.

(2) Long-term projects

- A.With regards to collateral or impaired assets of financial institutions at auction, HNAMEC plans to apply for land rezoning or amendment of the designated use of various structures in order to unlock asset value.
- B.To evaluate and prepare to expand into corporate restructuring and corporate M&A business.

2009

RISK MANAGEMENT SUMMARY



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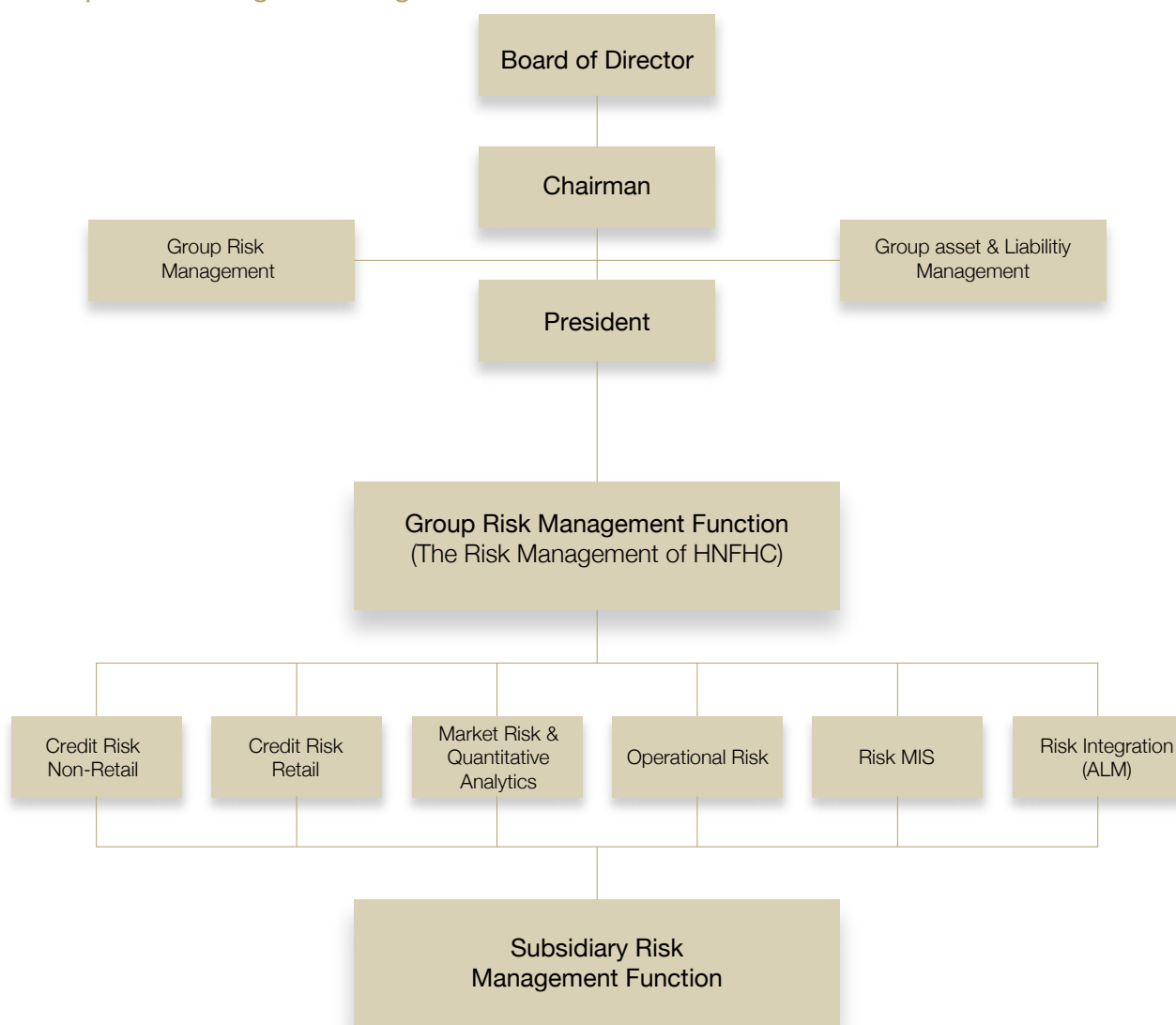


TEAMWORK

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 Company's risk management are as follows:

- Integrating Company risks.
- Developing, approving and implementing risk management policies for the Company.
- Setting, approving and monitoring risk limits for the Company.
- Coordinating and managing risk issues across subsidiaries.
- 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 Company to identify, measure, control, monitor and manage risks. This ensures that all risks are controlled at an acceptable level, while reflecting the 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 mechanism, 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 HNCB to develop its internal credit rating systems 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 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 Policies 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 HNCB 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 HNCB 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 Company'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.

HNHFC measures risk using value-at-risk (VaR) on a daily basis. To calculate VaR, HNHFC takes past 250-day historical data and uses historical simulation, based on a one-day time horizon and 99% confidence level. To evaluate VaR model, HNHFC conducts back-testing periodically.

(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 improvement, 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. 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. HNHFC 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 Company. KORC also serves as a minimum requirement for internal controls and reference for other operational risk management tools.

E.Key Risk Indicator, KRI

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.

(5)Insurance Risk Management

HNHFC has assisted its subsidiary, SCIC 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 SCIC 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 SCIC 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 SCIC'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.

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 risk measurement ALM 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 infrastructures 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 launched 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 system 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 is launched in the second half of 2009.

8.Crisis Management and Business Continuity Planning

To promptly minimize the impact from any crisis, HNFHC has a sound crisis management and business continuity planning called “Crisis Management Policy”. HNFHC and its subsidiaries will be able to cope with anything in crises by assembling a special team to help the group back on the track when necessary. During crises, HNFHC will follow the disclosure requirement with proper announcement on newspapers or at a press conference.

In addition, HNFHC has established a Group Significant Event Reporting Mechanism for all subsidiaries to report significant events such as malfeasance, theft, fire, natural catastrophe, violence, critical changes on risk exposure, major financial losses, reputational damage, etc. According to this reporting mechanism, HNFHC and its subsidiaries should report such significant events promptly and inform examination reports at a certain period.

2009

CONSOLIDATED FINANCIAL STATEMENTS



HONEST



EFFICIENCY



ACTIVENESS



RESPONSIBILITY



TEAMWORK

2009 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 (collectively, the "Company") as of December 31, 2009 and 2008, 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 Regulations Governing Auditing and Certification of Financial Statements by Certified Public Accountants, 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, 2009 and 2008, 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, Business Accounting Act, Regulation on Business Entity Accounting Handling and accounting principles generally accepted in the ROC.

Deloitte & Touche

March 24, 2010

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.

2009 CONSOLIDATED FINANCIAL STATEMENTS

HUA NAN FINANCIAL HOLDINGS CO., LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2009 AND 2008

(In Thousands of New Taiwan Dollars)

ASSETS	2009	2008	Percentage of Variation %
	Amount	Amount	
Cash and cash equivalents	\$ 22,612,227	\$ 32,179,189	(30)
Due from the Central Bank and other banks	158,603,970	127,338,743	25
Financial assets at fair value through profit or loss, net	30,564,528	43,892,275	(30)
Bonds and bills purchased under resale agreements	4,207,728	7,350,430	(43)
Receivables, net	47,782,437	36,351,373	31
Discounts and loans, net	1,104,845,657	1,122,676,237	(2)
Available-for-sale financial assets, net	74,026,832	101,475,140	(27)
Held-to-maturity financial assets, net	323,514,101	187,493,639	73
Investments accounted for by the equity method	90,152	87,545	3
Other financial assets, net	10,236,107	10,183,391	1
Investments in real estate, net	444,626	595,884	(25)
Property and equipment, net	25,685,218	26,584,367	(3)
Intangible assets	532,693	592,461	(10)
Other assets, net	13,352,472	13,352,497	-
TOTAL	<u>\$ 1,816,498,748</u>	<u>\$ 1,710,153,171</u>	6

LIABILITIES AND STOCKHOLDERS' EQUITY	2009	2008	Percentage of Variation %
	Amount	Amount	
Due to the Central Bank and other banks	\$ 48,621,314	\$ 51,736,738	(6)
Commercial paper issued, net	4,211,898	414,570	916
Financial liabilities at fair value through profit or loss	42,265,550	48,063,588	(12)
Bonds and bills sold under repurchase agreements	22,946,876	36,779,523	(38)
Payables	42,178,480	47,587,521	(11)
Deposits and remittances	1,510,245,575	1,382,462,269	9
Bonds and bank debentures payable	31,000,000	34,500,000	(10)
Other borrowings	3,300,000	1,825,000	81
Accrued pension liability	1,622,286	1,383,012	17
Other financial liabilities	690,156	749,916	(8)
Reserves for operations	8,338,173	7,912,359	5
Other liabilities	7,342,678	6,990,660	5
Total liabilities	<u>1,722,762,986</u>	<u>1,620,405,156</u>	6
STOCKHOLDERS' EQUITY			
Common stock	62,723,012	60,896,128	3
Capital surplus	12,408,844	12,408,866	-
Legal reserve	5,728,999	4,815,039	19
Special reserve	2,152,563	111,017	1,839
Unappropriated earnings	9,072,017	13,668,178	(34)
Unrealized revaluation increments	3,931,740	4,154,744	(5)
Cumulative translation adjustments	(121,708)	(83,362)	-
Unrealized losses on financial instruments	(2,161,043)	(6,223,945)	-
Total parent stockholders' equity	93,734,424	89,746,665	4
MINORITY INTEREST	1,338	1,350	(1)
Total stockholders' equity	<u>93,735,762</u>	<u>89,748,015</u>	4
TOTAL	<u>\$ 1,816,498,748</u>	<u>\$ 1,710,153,171</u>	6

HUA NAN FINANCIAL HOLDINGS CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2009 AND 2008

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

	2009	2008	Percentage of Variation %
	Amount	Amount	
INTEREST INCOME	\$ 28,825,138	\$ 52,402,215	(45)
INTEREST EXPENSE	(12,507,462)	(26,114,167)	(52)
INTEREST INCOME, NET	<u>16,317,676</u>	<u>26,288,048</u>	(38)
NET INCOME (LOSS) EXCLUDING INTEREST INCOME			
Service fee and commission income, net (Notes 2 and 33)	6,210,562	5,935,835	5
Income from insurance premiums, net	1,581,829	1,367,464	16
Gains (losses) on financial assets and liabilities at fair value through profit or loss (Notes 2 and 6)	2,183,620	(773,609)	-
Realized gains of available-for-sale financial assets	582,878	73,495	693
Realized losses of held-to-maturity financial assets	(683)	-	-
Investment income (loss) recognized under equity method	2,607	(7,216)	-
Income from investments in real estate	54,965	25,154	119
Foreign exchange gains, net	1,095,782	1,313,481	(17)
Impairment loss	(101,496)	(1,969,139)	-
Recovered bad debts and overdue accounts, net	1,272,979	1,459,831	(13)
Gains on disposal of collaterals assumed, net	2,112,062	267	790,934
Gains on disposal of assets, net	1,360,646	7,340	18,437
Other non-interest income, net	<u>807,372</u>	<u>1,023,273</u>	(21)
NET REVENUES	<u>33,480,799</u>	<u>34,744,224</u>	(4)
BAD-DEBT EXPENSES	(11,110,639)	(5,097,863)	118
PROVISIONS FOR INSURANCE RESERVES	(338,955)	(204,792)	66
OPERATING EXPENSES			
Personnel	(11,313,371)	(10,920,404)	4
Depreciation and amortization	(1,209,877)	(1,291,579)	(6)
Other general and administrative expenses	(4,962,916)	(5,907,650)	(16)
CONSOLIDATED INCOME BEFORE INCOME TAX FROM CONTINUING OPERATIONS	4,545,041	11,321,936	(60)
INCOME TAX EXPENSE	(96,037)	(2,182,259)	(96)
CONSOLIDATED NET INCOME	<u>\$ 4,449,004</u>	<u>\$ 9,139,677</u>	(51)
ATTRIBUTABLE TO			
Parent company	\$ 4,448,958	\$ 9,139,597	(51)
Minority interest	<u>46</u>	<u>80</u>	(43)
	<u>\$ 4,449,004</u>	<u>\$ 9,139,677</u>	(51)
	2009		2008
	Pretax	After-tax	Pretax
BASIC EARNINGS PER SHARE	<u>\$ 0.72</u>	<u>\$ 0.71</u>	<u>\$ 1.81</u>
			<u>\$ 1.46</u>

2009 CONSOLIDATED FINANCIAL STATEMENTS

HUA NAN FINANCIAL HOLDINGS CO., LTD. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY YEARS ENDED DECEMBER 31, 2009 AND 2008

(In Thousands of New Taiwan Dollars)

	Capital Stock		Capital Surplus		
	Common Stock	Additional Paid-in Capital	Treasury Stock	Donated Assets Received	Others
BALANCE, JANUARY 1, 2008	\$ 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	60,896,128	12,352,244	52,361	2,936	1,325
Appropriation of 2008 earnings					
Legal reserve	-	-	-	-	-
Special reserve	-	-	-	-	-
Cash dividends	-	-	-	-	-
Stock dividends	1,826,884	-	-	-	-
Translation adjustments on investments accounted for by the equity method	-	-	-	-	-
Treasury stock transaction - subsidiary's sale of the Company's stock	-	-	(22)	-	-
Net income for the year ended December 31, 2009	-	-	-	-	-
BALANCE, DECEMBER 31, 2009	<u>\$ 62,723,012</u>	<u>\$ 12,352,244</u>	<u>\$ 52,339</u>	<u>\$ 2,936</u>	<u>\$ 1,325</u>

Note : For the year ended December 31, 2008, the remuneration to directors and supervisors amounting to \$61,841 thousand and employees bonus amounting to \$6,184 thousand are deducted from consolidated statements of income.

Retained Earnings			Equity Adjustments			Minority Interest	Total
Legal Reserve	Special Reserve	Unappropriated Earnings	Unrealized Revaluation Increment	Cumulative Translation Adjustments	Unrealized Gains (Losses) on Financial Instruments		
\$ 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
913,960	-	(913,960)	-	-	-	-	-
-	2,041,546	(2,041,546)	-	-	-	-	-
-	-	(4,262,729)	-	-	-	(58)	(4,262,787)
-	-	(1,826,884)	-	-	-	-	-
-	-	-	(223,004)	(38,346)	4,062,902	-	3,801,552
-	-	-	-	-	-	-	(22)
-	-	4,448,958	-	-	-	46	4,449,004
<u>\$ 5,728,999</u>	<u>\$ 2,152,563</u>	<u>\$ 9,072,017</u>	<u>\$ 3,931,740</u>	<u>\$ (121,708)</u>	<u>\$ (2,161,043)</u>	<u>\$ 1,338</u>	<u>\$ 93,735,762</u>

2009 CONSOLIDATED FINANCIAL STATEMENTS

HUA NAN FINANCIAL HOLDINGS CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2009 AND 2008

(In Thousands of New Taiwan Dollars)

CASH FLOWS FROM OPERATING ACTIVITIES	2009	2008
Consolidated net income	\$ 4,449,004	\$ 9,139,677
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	1,235,470	1,314,480
Investment (income) loss recognized under equity method	(2,607)	7,216
Bad-debt expenses	11,110,639	5,097,863
Provisions for insurance reserves	360,538	82,059
Provisions for other reserves	37,424	22,518
Gains on disposal of investment in real estate	(48,842)	(19,496)
(Gains) losses on disposal of other assets	(2,249,886)	2,777
(Gains) losses on disposal of property and equipment	(1,223,357)	348
Losses on disposal of intangible assets	670	-
Impairment loss	101,496	1,969,139
Deferred income tax	(337,922)	(448,211)
Realized deferred credits	(6,557)	(7,243)
Unrealized deferred credits	1,340	752
Net changes in operating assets and liabilities		
Financial assets at fair value through profit or loss	13,328,141	(1,711,989)
Receivables	(13,048,978)	12,105,683
Other financial assets	172,659	(538,782)
Other assets	(12,771)	206,527
Financial liabilities at fair value through profit or loss	(5,792,867)	7,326,999
Payables	(5,543,312)	675,496
Accrued pension liability	236,126	339,945
Other financial liabilities	(59,760)	41,032
Other liabilities	101,529	13,792
Others	-	1,944,030
Net cash provided by operating activities	2,808,177	37,564,612
CASH FLOWS FROM INVESTING ACTIVITIES		
Decrease (increase) in bonds and bills purchased under resale agreements	3,142,702	(5,026,068)
(Increase) decrease in due from the Central Bank and other banks	(31,265,227)	25,337,739
Decrease (increase) in discounts and loans	8,505,085	(73,693,648)
Decrease in available-for-sale financial assets	31,677,617	10,954,290
(Increase) decrease in other financial assets	(516,590)	182,550
Increase in investment in real estate	(292,514)	(287,322)
Proceeds from disposal of investment in real estate	507,861	157,281
Proceeds from disposal of property and equipment	1,384,165	1,992
Proceeds from disposal of other assets	3,115,093	167,917
Acquisition of property and equipment	(615,000)	(692,063)
Acquisition of other assets	(7,105)	(2,836)
Increase in intangible assets	(104,119)	(121,989)
(Increase) decrease in other assets	(554,339)	2,662,882
Acquisition of held-to-maturity financial assets	(136,013,879)	(15,730,972)
Net cash used in investing activities	(121,036,250)	(56,090,247)

(Continued)

CASH FLOWS FROM FINANCING ACTIVITIES		
Decrease in due to the Central Bank and other banks	(3,115,424)	(35,238,910)
Increase (decrease) in commercial paper payable	3,797,328	(5,381,056)
Decrease in bonds and bills sold under repurchase agreements	(13,832,647)	(331,758)
Increase in deposits and remittances	127,783,306	85,218,456
Decrease in bonds and bank debentures payable	(3,500,000)	(5,100,000)
Increase (decrease) in other borrowings	1,475,000	(3,956,000)
Increase (decrease) in other liabilities	374,716	(1,016,444)
Cash bonus to directors, supervisors and employees	-	(546,511)
Cash dividends	(4,248,368)	(5,948,610)
Net cash provided by financing activities	108,733,911	27,699,167
EFFECT OF EXCHANGE RATE CHANGES	(72,800)	(28,226)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(9,566,962)	9,145,306
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	32,179,189	23,033,883
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 22,612,227</u>	<u>\$ 32,179,189</u>
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid	<u>\$ 15,319,102</u>	<u>\$ 26,196,156</u>
Income tax paid	<u>\$ 3,159,727</u>	<u>\$ 1,613,586</u>



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