

2010 ANNUAL REPORT



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HUA NAN FINANCIAL HOLDINGS CO., LTD. Annual Report 2010

Hua Nan Financial Holdings Co., Ltd.(HNFHC)

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Taipei 100, Taiwan, R.O.C.

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Company Spokesperson

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Position : Executive Vice President

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Company Deputy Spokesperson

Name : James H. J. Liu

Position : Executive Vice President

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Investor Relations

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Hua Nan Commercial Bank(HNCB)

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Hua Nan Securities Co., Ltd.(HNSC)

ADD: 5F, No. 54, Sec.4, Min Sheng E. Rd.,
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South China Insurance Co., Ltd.(SCIC)

ADD: 5F, No. 560, Sec. 4, Chung Hsiao E. Rd.,
Taipei 110, Taiwan, R.O.C.

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WEB: <http://www.south-china.com.tw>

Hua Nan Securities Investment Trust Co., Ltd.(HNIT)

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

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

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

ADD: 3F, No. 143, Sec.2, Min Sheng E. Rd.,
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Hua Nan Management & Consulting Co., Ltd. (HNMC)

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

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

ADD: Room 405, 4F., No.18, Sec. 1, Chang-An E. Rd.,
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Equities Administration Center Stock-Related Services Dept., Hua Nan Securities Co., Ltd.

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Independent Auditor of the Financial Report Deloitte & Touche

ADD: 12F, No. 156, Min Sheng East Rd., Sec.3,
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Credit Rating Agency Taiwan Ratings Corporation

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Taipei 105, Taiwan, R.O.C.

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HUA NAN FINANCIAL HOLDINGS CO., LTD (HNFHC)

Financial Highlight

Unit: NT\$ thousand

As of December 31, 2010 and 2009

2010

2009

Income Statement

Net interest income	17,522,171	16,317,676
Net income (loss) excluding interest income	14,608,005	17,163,123
Net revenues	32,130,176	33,480,799
Provision for bad debts	(7,345,743)	(11,110,639)
Provision for insurance reserves	(185,042)	(338,955)
Operating expenses	(17,827,875)	(17,486,164)
Consolidated income before income tax from continuing operations	6,771,516	4,545,041
Income tax expenses	(690,171)	(96,037)
Consolidated net income	6,081,345	4,449,004

Balance Sheet

Total assets	1,880,424,106	1,816,498,748
Total liabilities	1,780,088,540	1,722,762,986
Total shareholders' equity	100,335,566	93,735,762

Financial Ratios- Consolidated basis

ROE(after tax)	6.27%	4.85%
ROA(after tax)	0.33%	0.23%
Capital adequacy ratio	122.16%	125.84%

Credit Ratings (long/short/outlook)

Taiwan Ratings

twA+/twA-1/Stable (2010/06)



LETTER TO THE SHAREHOLDERS



CHAIRMAN **RONG-JOU WANG**

I. Operating Results of 2010

A. The Domestic and International Banking Environment in 2010

A quick review of the global economy in 2010, the number disclosed the fact that under the financial expansion and monetary easing policies, in the first half of 2010, most countries had enjoyed the prosperity following the year of 2009 while the world economy had recovered from the financial tsunami. Meanwhile, in the rest of year 2010, the global economic growth tended to slow down due to European sovereign debt crisis, and the employment market of the major economic body being dragged down with the emerging markets experiencing worries of inflation.

In the domestic economy, the market had benefited from the global reconstructed inventory demands as well as the demand growth of the emerging market in Asia, the export business in

our country had experienced a strong rebound. With amplified private investments, the economic recovery brought a substantial increase to a double-digit growth in the first half, while the growth in the second half of the 2010 had become moderate worldwide. The inventory restocking of enterprises drawing to the end, and the comparative base period being raised. In spite of some drawbacks, with ECFA being signed, the economic policy across the Taiwan Straits diminished those disadvantageous and resulted in slight growth on the economic performance in the second half of the year.



VICE CHAIRMAN MING-CHENG LIN

B. Company Structure

Since its establishment on December 19, 2001, the operations of Hua Nan Financial Holdings Company ("the Company") spanned to banking, insurance, securities, investment trusts, asset management, venture capital investments, and management consulting. The total of seven subsidiaries are 100% owned by the Company as the end of 2010.

C. Results of the Implemented Business Plans and Strategies

With the critical moment of the financial crisis in 2009, the Company highlighted 5 major developmental goals on which were based the structural improvement as well as the operational breakthrough for the Company. In addition, in order to maintain our reputation, and also to meet the planned schedule to take over policy assets from Receiver on the PEM case, Hua Nan Commercial Bank and Hua Nan Investment Trust had increased their provision for loss up to NT\$3.161 billion altogether. Thanks

to the collective efforts of all employees, the operating performance of the Company was considerably improved in 2010. The following were the accomplished objectives on the five major developmental goals in 2010:

1. The creation of surplus profits

The profit earned by the Company in 2010 was NT\$6.081 billion, a substantial rise of 37% compared to last year, with a remarkably high overall performance.

2. The improvement in asset quality

Compared to the number at the end of 2009, the non-performance loan ratio fell to a 0.79% from 1.58%, while its coverage ratio rose to 108.57% from 70.00% by the end of 2010. In other words, the overall asset quality has been greatly improved.

3. The perfect preparation in overseas markets

The recent overseas plan of the Company has laid emphasis on the Great China market, for example, the launch of Shenzhen branch in January 2011. Meanwhile, strategic alliance



PRESIDENT MAO-SHYAN LIU

has been continually made with the Bank, Securities and with South China Insurance in Mainland China in order to fulfill the completed deployment in the Great China market.

4. The synergy of cross selling

The Company goal was to bring at least 20% of cross selling business into each subsidiary within three years. As of the end of 2010, the cross selling had already reached 15% and is continuing towards to the final goal.

5. Moving forward of the dual-branding strategy

In order to reinforce the business development in personal banking, an idea of creating dual-branding strategy was initiated in both corporate banking and personal banking. The result procured 44% of the interest proceeds coming from the personal banking in 2010.

D. Budget execution, financial balance and profitability analysis

The net profit after tax of the Company was NT\$6.081 billion in 2010, equivalent to the net earnings per share of NT\$0.92 with the return on assets was 0.33% and the return on equity 6.27%. On a standalone basis, the Company posted a return on assets of 5.79% and return on equity of 6.27%. The following were the summary results of each subsidiary:

1. Hua Nan Commercial Bank ("HNCB")

Net income in 2010 was NT\$5.95 billion with net earnings per share being NT\$1.38. Return on assets was 0.33% and return on equity was 6.87%.

2. Hua Nan Securities ("HNSC")

Net income in 2010 was NT\$771 million with net earning per share being NT\$0.95. Return on assets was 3.08% and return on equity was 6.68%.

3. South China Insurance ("SCIC")

Net income in 2010 was NT\$304 million with net earning per share being NT\$1.52. Return on assets was 2.67% and return on equity was 13.69%.

4. Hua Nan Investment Trust ("HNIT")

Net loss in 2010 was NT\$546 million with net loss per share being NT\$13.53. Return on assets was -42.84% and return on equity was -199.19%.

5. Hua Nan Venture Capital ("HNVC")

Net income in 2010 was NT\$5 million with net earnings per share being NT\$0.05. Return on assets was 0.47% and return on equity was 0.47%.

6. Hua Nan Management & Consulting Co. ("HNMC")

Net income in 2010 was NT\$3 million with net earnings per share being NT\$3.07. Return on assets was 13.16% and return on equity was 20.31%.

7. Hua Nan Assets Management ("HNAMC")

Net income in 2010 was NT\$74 million with net earnings per share being NT\$0.74. Return on assets was 2.53% and return on equity was 7.01%.

E. Research and Development

1. Hua Nan Financial Holdings Company ("HNFHC")

The "Analytical CRM System," "Operational CRM System," and "KPI System" were employed to achieve high performance in marketing analysis, sales applications and efficiency management. In addition, the result of using customer buying tendency model and developing "priority recommendation for purchasing" model helped bank servicers to determine 1 to 3 products that the customers would likely to purchase when request service in person or over the phone. Optimizing the resources in the Company helped to increase the sales activities, thereby boosting the number of products sold and maximizing the Company's overall profit.

2. Hua Nan Commercial Bank ("HNCB")

HNCB continued to encourage its employees to involve in research and development

activities. In 2010, a total of 1,183 research and development projects had been proposed, among which 259 cases had been adopted by the Bank with a reward of NT\$224,500 in total.

3. Hua Nan Securities ("HNSC")

a. Research and development have been conducted, pursuant to policies and regulatory, with regard to the trading of emerging stocks, the trading of convertible bond asset swap, the trading of interest rate swap, over sub-broker services, the issuance of domestic call and put warrants, index and individual stocks options, interest rate futures, gold futures, asset securitization, and other new areas of business or structured derivatives. HNSC strengthens on the training and recruitment of talents in investment banking, financial engineering, and risk management.

b. HNSC implemented on overseas sub-broker e-trading platform, Taiwan stock, bond, options and futures ordering e-trading platform, expanding its business management system, securities manager system, wealth management trust systems, and so on.

c. HNSC strengthened its operations risk management culture and working in conjunction with the parent company on the following initiatives to promote risk management: project to enable risk self assessment (RSA) for operational risk; operations risk appraisal procedures (ORAP) for new area of business; building up an operations risk loss database (CLD); formulating the operations key risk indicators (KRI); keeping on the development and improvement of a mechanism to monitor intra-day performance of products traded by dealing division; draft and enactment of risk management control regulations for new area of business; review and enactment of risk management framework and regulations for HNSC on a Company-wide basis and for each department; maintaining risk management systems, FIRMS.



- d. HNSC integrated 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 regard to new type of derivatives products. The Information Department developed software that focuses on program trading, hedging and arbitrage for all type of new derivatives. Coupled with technical analysis via charting, traders were able to accurately follow the direction of markets and select the best trading options, thereby maximizing profits.
- e. Underwriting Department, Bond Department, and the other related departments of Hua Nan Securities would actively seek strategic alliance with law firms and accounting firms to train and recruit related professionalism. The departments would also engage in cooperation with HNFHC's subsidiaries, such as Hua Nan Venture Capital, Hua Nan Management & Consulting and Hua Nan Commercial Bank to utilize related resources of clients and expand its businesses.
- f. To strengthen the business power of the securities and further sustain the operational growth under the framework of the Company, HNSC was actively seeking for potential opportunities to merge with other brokers.
- g. Company is always looking for possibility to integrate the existing research units from the Bank, the Securities, and the Investment Trust into a company-wide research center. The research center would engage in depth studies in terms of fundamental, technical, and capital basis of global banking environment, the overall domestic economics, industries and individual companies. This will help the Company to understand investment trends and avoid risky industries. The centre also provides valuable reference that engaging in investments and loans in addition to the regular issues of related investment publications and holding investment seminar from time to time.

4. South China Insurance Company("SCIC")

South China Insurance Company spared no effort in improving its research and development on new products and innovating the marketing proposal into new projects. In order to meet the changes in channels of distributions and diversified needs of consumers, a remarkable outcome of 23 new products and 54 combined product projects have been produced in 2010 for business development. As the result, the "insurance professionalism" and "product innovation" of SCIC have been recognized and award with "Faith, Hope and Love Award" for two consecutive years since 2009.

As for risk management, SCIC has established various risk management policies. In market risk, SCIC performed mark to market valuation on a daily basis to monitor the portfolio or traders positions, as well as the P&L and VaR with close supervision on the securities holding period and concentration limits. In insurance risk, SCIC effectively control of the new risks derived from new insurance products by establishing the early warning indicators and regular monitor methods. In operations risk, SCIC has introduced concrete action plan to promote internal controls. In credit risk, SCIC evaluates the rating of counterparty periodically and sets up concentration limits to monitor the risk.

With the high-quality and steady-going operation of all employees, A.M. Best has affirmed the financial strength rating of A- (Excellent) and issuer credit rating of "a-" to SCIC. The outlook for both ratings is stable. At the same time, SCIC also receives "twAA-" from Taiwan Rating Corp. with a stable outlook. The results showed SCIC has a exceptional operational performance with a good capital level and liquidity.

With the Year 2011's vision " Pursuing both quality and quantity to be the TOP 5 in the industry and going toward to the new era of globalization" being the developmental goals, SCIC has been devoting to the

improvements on financial income, customer services, self learning and growth, as well as the organizational development to committee the mission of "advocating the insurance professionalism, and fulfill the social responsibility in insurance industry."

5. Hua Nan Investment Trust("HNIT")

With the slow recovery prosperity in Europe & America and the gradual up-rise of global stock market, most countries have already returned to the level prior to the financial tsunami. With the investors' growing interest in risk assets, a domestic crave for fund raising and promoting sales in investment trust industry has started, especially in the high-yield bond fund, Asian stock market funds and emerging market stocks, and debt funds. In Taiwan stocks, benefited from the significantly improved of cross-strait relation and the implementing of ECFA, some competitors have launched the issuing and raising of new funds. With an optimistic outlook of Taiwan stock market, our company also started to raise the small and medium funds in Taiwan stock market with the asset size up to NT\$3 billion in 2010.

Till the end of last year, the asset value for the whole market was NT\$1,895.783 billion, a 4% decrease from the previous year mainly because the influence of European debt issues. On top of that, the quasi money funds were required to convert into money market funds by the end of 2010. Compounded by the economic recovery, the interest rate had consequently rebound, which caused the market funds to flow out in quasi money fund, and made the overall market fund size eventually dropping lower compared to the previous year. The observable changes in the size of funds in 2010 was the transnational bond portfolio increased NT\$49.6 billion more than the previous year, the most increased by size, mainly because this type of fund was basically sub-fund investments with diversified risk and the industry hoped to attract conservative investors who were willing

to undertakes some risks. Hua Nan Investment Trust has set a similar rule of investment-grade fund in the third quarter of 2010 and raised an amount of NT\$5.04 billion.

Hua Nan Investment Trust had successfully raised two tranches of funds in 2010, a relatively better performance compared to other companies in the same industry. By the end of 2010, Hua Nan Investment Trust had reached NT\$10.035 billion in fund size, NT\$1.7 billion more than the previous year, and made the HNIT being the number five in the most increased funds in 2010 in its industry.

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

HNMC had sent project managers to attend seminars or courses in Taiwan or overseas, to enhance the knowledge and expertise in appraising investment projects and engaging in investment management. To facilitate transfer investment undertakings and financial planning, as well as to establish strategic alliances and partnerships, HNMC was in the hope to have successful listings and bring feedbacks to the shareholders.

7. Hua Nan Venture Capital("HNVC")

The research in the business of Hua Nan Venture Capital has been appointed by Hua Nan Management & Consulting.

8. Hua Nan Assets Management("HNAMC")

In addition to reinforcing the recovery of NPL, stabilizing the development of direct investment business in real estate and the operation of property management system, Hua Nan Assets Management is devoted to break new ground on entrusted management of non-performing loans business. In view of the dramatic drop in the market of non-performing loans, the company participated in the bidding for unsecured debts. Although no substantial bid was acquired, it was helpful in improving the bidding on unsecured debt tenders and in the entity check of the efficiency and quality of the operation.



2. 2011 Business Plans and Future Development Strategies

With the harmony of the cross-strait political situation and the follow-up effect of ECFA in prospect, the cross-strait financial markets will likely work together to develop better environment. The Company shall grasp this opportunity and commit efforts to the deployment in the Great China market with the dual strategies of "remain steady and westward expansion" serving as the business direction and goals of Year 2011.

A. Remain Steady

The Company will continue developing the five major developmental goals, while consolidating and reinforcing the existing advantage and scale of the Company.

B. Westward Expansion

A three-year planning is made to lay out the three major key points in the five great areas in Mainland China (Bohai Sea District, Yangtze River Delta, Pearl River delta, Chengdu-Chongqing region, and Haixi Prefecture), which shall complete the Company's deployment in the Great China market.

Hua Nan Financial Holdings Company has been honored by the supervision and encouragement from every shareholder and board member as well as the unsparing contribution by the employees, and has grown successfully out of the overshadowed financial turmoil of 2010. With Year 2011 in view, Hua Nan Financial Holdings Company shall employ more progressive deployments and pragmatic steps to remain steady growth in Taiwan and plan deployments so as to expand the territory in the Great China market and toward to the vision of Quality Regional Financial Institution in the Asia-Pacific region.

3. Credit Ratings

Rated Institution	Rating Agency	Long-term	Short-term	Outlook
HNHFC	TRC (2010/06)	twA+	twA-1	Stable
HNCB	TRC (2010/06)	twAA-	twA-1+	Stable
	Moody's Ratings (2010/10)	A3	P1	Stable
HNSC	TRC (2010/06)	twA+	twA-1	Stable
SCIC	TRC (2010/11)	twAA-	-	Stable
	A.M. Best (2011/02)	A-	-	Stable

Chairman

Rong-Jou Wang

Rong-Jou Wang

Vice Chairman

Ming-Cheng Lin

Ming-Cheng Lin

President

Mao-Shyan Liu

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

1919

Hua Nan Bank was founded.

1998

Hua Nan Bank was privatized (government released 19% of the bank's shares).

2001

Hua Nan Bank and EnTrust Securities engaged in a share swap, leading to the establishment of Hua Nan Financial Holdings Co., Ltd.

2002

Hua Nan Bills Finance was included under the HNFHC umbrella.

2003

South China Insurance and Hua Nan Investment Trust were included under the HNFHC umbrella.

2004

Hua Nan Venture Capital and Hua Nan Management Consulting were founded.

2005

Hua Nan Assets Management was founded.

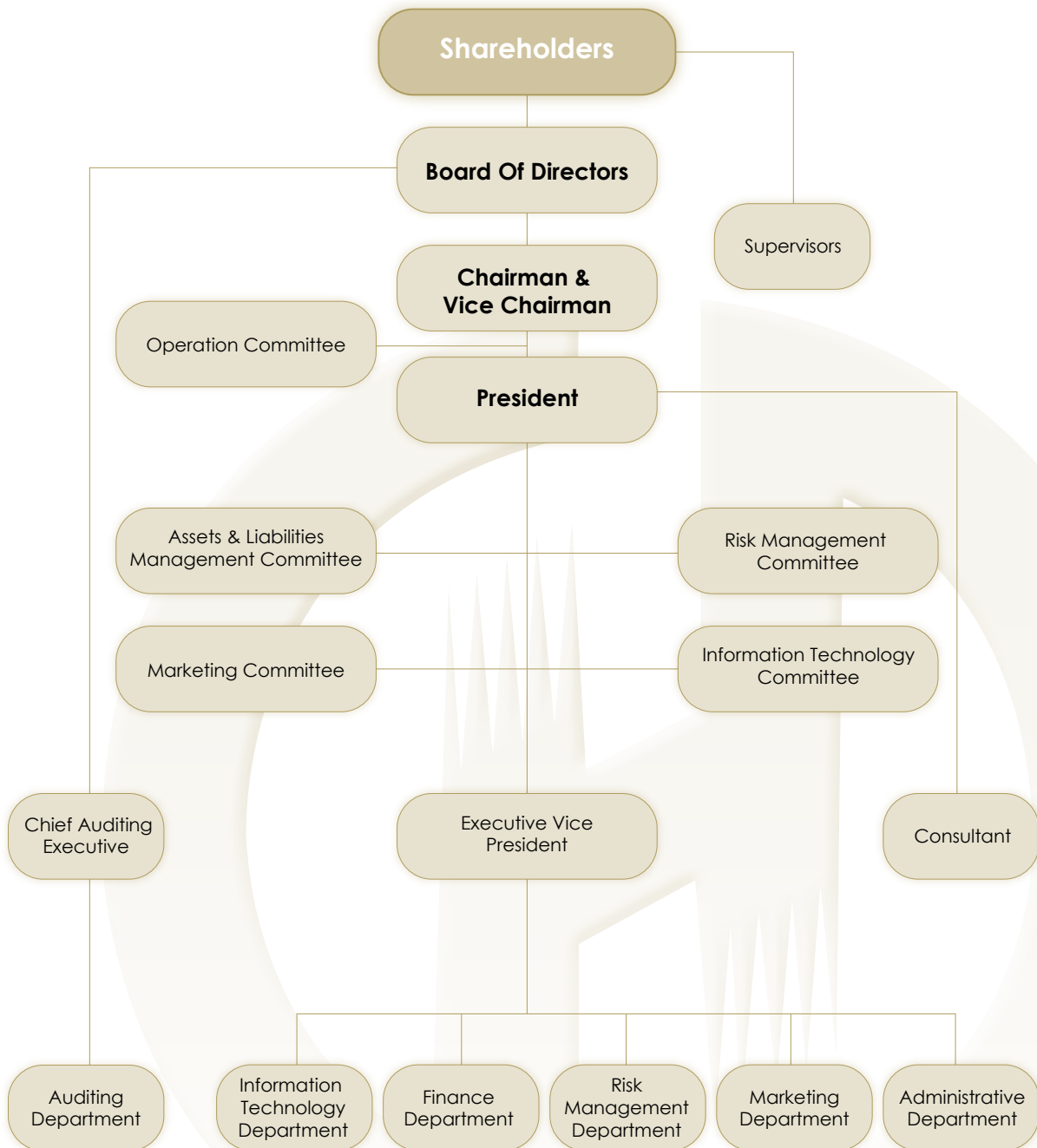
after
2008

Hua Nan Bank merged with Hua Nan Bills Finance.

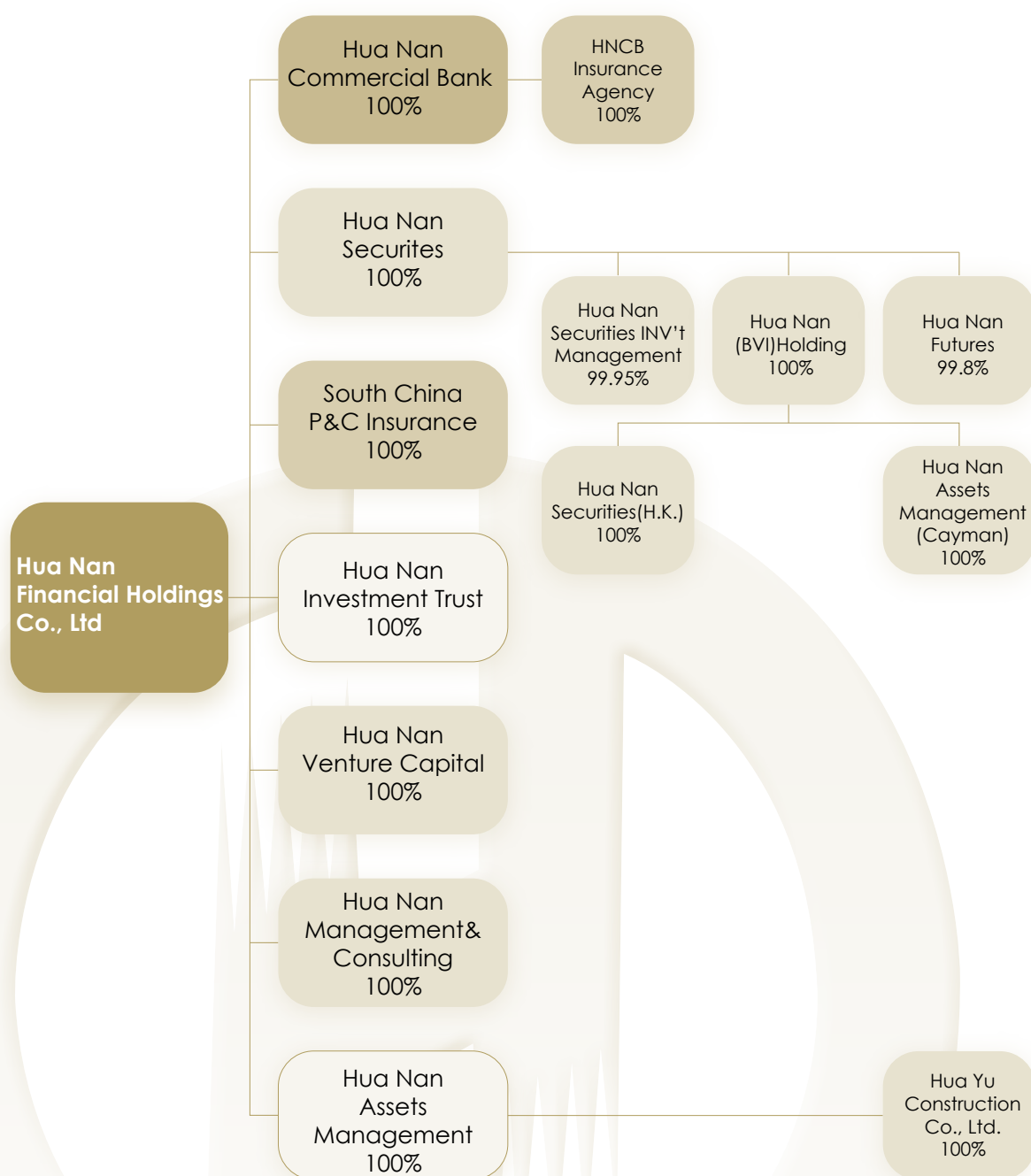


CORPORATE GOVERNANCE

1. The Organization Chart



2. Company Structure



Divided by Line of Business

- Commercial Banking
- Securities / Investment Banking
- Insurance
- Assets Management



3. Board of Directors and Supervisors

7/1/2010~6/30/2013

DIRECTORS			
NAME	CURRENT POSITION	EXPERIENCE	EDUCATION
Rong-Jou Wang	Chairman, Hua Nan Financial Holdings Co., Ltd. Chairman, National Credit Card Center of R.O.C. Chairman, Chung Hua Financial R&D Association Managing Director, The Bankers Association Of The R.O.C. Consultant, The Bankers Association Of Taipei Director, Taiwan Financial Services Roundtable Co., Ltd.	Chairman, Mega Financial Holding Company/Mega Bank Chairman, Taiwan Business Bank Chairman of The Board, Trust Association of R.O.C. Chairman of The Board, Central Trust of China Administrative Deputy Minister, Ministry of Finance Director-General, Bureau of Investigation, Ministry of Justice Director-General, Taipei National Tax Administration, Ministry of Finance Director-General, National Treasury Agency	Master of Laws, National Chung Hsing University
Ming-Cheng Lin	Vice Chairman, Hua Nan Financial Holdings Co., Ltd. Chairman, Hua Nan Commercial Bank, Ltd. Chairman, Memorial Scholarship Foundation to Mr. Lin Hsiung Chen	Chairman, Hua Nan Financial Holdings Co., Ltd. Vice Chairman, Hua Nan Commercial Bank, Ltd Director, The Central Bank of China.	Master of Laws, Keio University, Japan.
Mao-Shyan Liu	Director & President, Hua Nan Financial Holdings Co., Ltd Managing Director, Hua Nan Commercial Bank, Ltd.	Executive Vice President, Hua Nan Financial Holdings Co., Ltd.	M.A.in Department of Economics, Chinese Culture University.
En-Shiang Tai	Director, Hua Nan Financial Holdings Co., Ltd Chairman, South China Insurance Co., Ltd. Chairman, The Non-Life Insurance Association of the R.O.C. Chairman, The Non-Life Underwriters Society of the R.O.C.	Vice Chairman, South China Insurance Co., Ltd. Managing Director, The Non-Life Insurance Association of the R.O.C. Managing Director, the Non-Life Underwriters Society of the R.O.C.	Executive MBA degree in Finance, National Taiwan University
Min-Chang Chen	Director, Hua Nan Financial Holdings Co., Ltd Director, Hua Nan Commercial Bank, Ltd. 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
Li-Yen Yang	Director, Hua Nan Financial Holdings Co., Ltd Director, Hua Nan Commercial Bank, Ltd. S.V.P & General Manager, International Banking, Bank of Taiwan	Vice President & General Manager, Los Angeles Branch, Bank of Taiwan.	Business Administration Dept, National Taiwan University
Ai Wei	Director, Hua Nan Financial Holdings Co., Ltd Associate Professor, Graduate Institute of East Asian Studies, College of International Affairs, 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	Director, Hua Nan Financial Holdings Co., Ltd Professor, Dept. of Finance, National Taiwan University.	Chairman of Finance Dept., National Taiwan University.	Ph.D. Univ. of Illinois Urbana Champaign, U.S.A.
Ming-Jui Hsieh	Director, Hua Nan Financial Holdings Co., Ltd Associate Professor, Dept. of Business National Open University.	Chairman, Department of Business, National Open University General Director of General Affairs, National Open University Committee, Taiwan Stock Exchange Corporation (TSCE) Advisor, National Policy Foundation Visiting professor, Universidad de Cost Rica, Central America	Ph.D., National Chung Hsing University. Post-doctor, London University, UK

DIRECTORS			
NAME	CURRENT POSITION	EXPERIENCE	EDUCATION
Rung-Fu Hsieh	Director, Hua Nan Financial Holdings Co., Ltd Managing Director, Hua Nan Commercial Bank, Ltd. President, The Great Taipei Gas Corp.	General Manager, Shin Hai Gas Corp. Managing Director, Industrial Bank of Taiwan.	Business Dept., National Open University
James Hui-jan Yen	Director, Hua Nan Financial Holdings Co., Ltd Chairman, Asia Jewelry Co., Ltd.	Director, Memorial Scholarship Foundation to Mr. Lin Hsiung-Chen. Director, Chinese National Export Enterprises Association.	Tamkang University
Tommy Lin	Director, Hua Nan Financial Holdings Co., Ltd Director, Hua Nan Commercial Bank, Ltd.	Fund Manager, Mercury Asset Management Co., Ltd.	J.D., Univ. of California Los Angeles, U.S.A.
An-Lan Hsu Chen	Director, Hua Nan Financial Holdings Co., Ltd Director, Hua Nan Commercial Bank, Ltd. Chairman, 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	Director, Hua Nan Financial Holdings Co., Ltd Director, Hua Nan Commercial Bank, Ltd. Director, Hua Nan Securities Co., Ltd. VP of 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, U.S.A.
Chih-Yang Lin	Director, Hua Nan Financial Holdings Co., Ltd General Manager, Ta-Yung Hsing Yeh Co., Ltd. Yung-Da Real Estate & Construction Co., Ltd.	Delegate of Yung-Da Real Estate & construction Co., Ltd. General Manager, Ta-Yung Hsing Yeh Co., Ltd.	Master of Accounting, National Taiwan University
Jia-Dong Shea	Independent Director, Hua Nan Financial Holdings Co., Ltd Independent Director, Hua Nan Commercial Bank, Ltd. Chairman, Taiwan Academy of Banking and Finance. Chairman, Taiwan Financial Services Roundtable Co., Ltd..	Minister, Ministry of Finance Vice president of the Central Bank Professor of economics at National Taiwan University Director of the Academia Sinica Institute Chairman of the Central Trust of China	Doctor of Economics, Stanford University, U.S.A.
Ching-Hsiou Chen	Independent Director, Hua Nan Financial Holdings Co., Ltd Professor of Soochow University.	Lawyer. Chairperson, Law and Regulation Commission, Taipei City Government Minister, Central Personnel Administration, Executive Yuan, R.O.C.	Doctor of Laws, National Taiwan University
Chung-Yuan Hsu	Independent Director, Hua Nan Financial Holdings Co., Ltd Independent Director, Hua Nan Commercial Bank, Ltd Professor of Accounting, National Chengchi University.	CPA, Professor in Accounting	Doctor of Accounting, The University of Memphis, U.S.A.
Chun-Pin Chen	Independent Director, Hua Nan Financial Holdings Co., Ltd Independent Director, Hua Nan Commercial Bank, Ltd. Attorney of Law of Lexpert Law Firm.	Attorney at Law, Lecturer of University	Master of Law, National Taiwan University



SUPERVISORS			
NAME	CURRENT POSITION	EXPERIENCE	EDUCATION
Sou-Shan Wu	Supervisor, Hua Nan Financial Holdings Co., Ltd Supervisor, Hua Nan Commercial Bank, Ltd. Chairman, Securities & Futures Institute	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.
Tzu-Hsin Wu	Supervisor, Hua Nan Financial Holdings Co., Ltd Director-general, National Tax Administration of Northern Taiwan Province, M.O.F.	Deputy Director, Taxation Agency, M.O.F. Departmental secretary, M.O.F.	MA of Public Finance, National Chengchi University
Chin-Chien Chen	Supervisor, Hua Nan Financial Holdings Co., Ltd Director-general, Taipei National Tax Administration, M.O.F.	Deputy Director, Taxation Agency, M.O.F. Director-general, Kaohsiung National Tax Administration, M.O.F.	Dept. of Business Administration, National Taiwan University
Hsu-Hsueh Chang	Supervisor, Hua Nan Financial Holdings Co., Ltd Supervisor, Fu Chuan Enterprises Co., Ltd.	Director, Hua Nan Financial Holdings Co., Ltd Supervisor, Fu Chuan Enterprises Co., Ltd.	Taipei First Girl High School. Tokyo Kyalite College, Japan.
Vivien Chia-Ying Shen	Supervisor, Hua Nan Financial Holdings Co., Ltd.	Vice President, The Hong Kong & Shanghai Banking Corp.	M.B.A. University of Birmingham, U.K.

4. Management Team

Position	Name	Date of Employment	Education & Experience
President	Mao-Shyan, Liu	2009.07.01	Significant Experience: Senior V.P. and G.M., Banking Dept./Treasury Dept., Hua Nan Commercial Bank Education: Economic Dept., Chinese Culture University
Executive Vice President & G.M. of Administrative Department	David Y.C. Cheng	2009.07.29	Senior Vice President & General Manager of Corporate Banking Dept. Education: Graduate Institute of Finance, Fu Jen University
Executive Vice President & G.M. of Risk Management Department	James H. J. Liu	2002.03.18	Executive Vice President & G.M. of Risk Management Department Significant Experience: V.P., Global Market Group, Union Bank of California Education: Economics & Finance, UCLA
Executive Vice President & Chief Auditor Executive	Chin-Nan Ku	2009.07.24	Senior Vice President & General Manager of Corporate Credit Dept. Education: Economics Dept., National Taiwan University
G.M. of Marketing Department	Tony Jang	2005.03.22	Significant Experience: Senior V.P./Chief Secretary of Hua Nan Commercial Bank Education: 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. Education: Business Depts., National Open University
G.M. of Information Technology	Michael Duh	2008.03.01	Significant Experience: Senior V.P. & G.M. of IT of Hua Nan Commercial Bank Electrical Engineering Dept., National Taiwan University

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

A. Remunerations to Directors

Name		Remuneration to Directors							
		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
Bank of Taiwan									
Chairman	Rong-Jou Wang(2010.7.1 on board)								
	Mao-Shyan Liu								
	Li-Yen Yang								
	En-Shiang Tai								
	Min-Chang Chen								
	Yun Lin								
	Ai Wei								
	Ming-Jui Hsien								
	Wei-Chi Chen (2010.6.30 Retire)								
	Shiang-Jeh Chen (2010.6.30 Retire)								
	Liang Wang (2010.10.12 Retire)								
	Memorial Scholarship Foundation to Mr. Lin Hsiung Chen								
Vice Chairman	Ming-Cheng Lin								
Director	Tommy Lin								
	Chih-Yang Lin								
Shin Kong Life Foundation									
Director	Rung-Fu Hsieh								
Entrust Foundation									
Director	An-Lan Chen Hsu								
	Michael Hsu								
Fu Chuan Enterprises Co., Ltd.									
Director	Hsu-Hsueh Chang (2010.6.30 Retire)								
Hsiang-Yu Co., Ltd.									
Director	Hui-Jan Yen (2010.7.1 on board)								
independent Director	Jia-Dong Hsu								
	Chung-Yuan Hsu								
	Chin-Pin Chen								
	Ching-hsiu Chen (2010.7.1 on board)								
	An-Chyr Chen (2010.6.30 Retire)								
Total		6,953	20,845	54	605	42,566	42,566	5,651	8,118

[illegible]



B. Range of Remuneration of Directors

Breakdown of remuneration to director(NT\$)	Name of 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	Mao-Shyan Liu、Li-Yen Yang、En-Shiang Tai、Min-Chang Chen、Yun Lin、Ai Wei、Ming-Jui Hsien、Wei-Chi Chen、Shiang-Jeh Chen、Liang Wang、Tommy Lin、Chih-Yang Lin、Rung-Fu Hsieh、An-Lan Chen Hsu、Michael Hsu、Hsu-Hsueh Chang、Hui-Jan Yen、Jia-Dong Hsu、Chung-Yuan Hsu、Chin-Pin Chen、Ching-hsiu Chen、An-Chyr Chen、Fu Chuan Enterprises Co., Ltd.、Hsiang-Yu Co., Ltd.	Mao-Shyan Liu、Li-Yen Yang、En-Shiang Tai、Min-Chang Chen、Yun Lin、Ai Wei、Ming-Jui Hsien、Wei-Chi Chen、Shiang-Jeh Chen、Liang Wang、Tommy Lin、Chih-Yang Lin、Rung-Fu Hsieh、Michael Hsu、Hsu-Hsueh Chang、Hui-Jan Yen、Jia-Dong Hsu、Chung-Yuan Hsu、Chin-Pin Chen、Ching-hsiu Chen、An-Chyr Chen、Fu Chuan Enterprises Co., Ltd.、Hsiang-Yu Co., Ltd.	Li-Yen Yang、En-Shiang Tai、Min-Chang Chen、Yun Lin、Ai Wei、Ming-Jui Hsien、Wei-Chi Chen、Shiang-Jeh Chen、Liang Wang、Tommy Lin、Chih-Yang Lin、Rung-Fu Hsieh、An-Lan Chen Hsu、Michael Hsu、Hsu-Hsueh Chang、Hui-Jan Yen、Jia-Dong Hsu、Chung-Yuan Hsu、Chin-Pin Chen、Ching-hsiu Chen、An-Chyr Chen、Fu Chuan Enterprises Co., Ltd.、Hsiang-Yu Co., Ltd.	Li-Yen Yang、En-Shiang Tai、Min-Chang Chen、Yun Lin、Ai Wei、Ming-Jui Hsien、Wei-Chi Chen、Shiang-Jeh Chen、Liang Wang、Tommy Lin、Chih-Yang Lin、Rung-Fu Hsieh、Michael Hsu、Hsu-Hsueh Chang、Hui-Jan Yen、Jia-Dong Hsu、Chung-Yuan Hsu、Chin-Pin Chen、Ching-hsiu Chen、An-Chyr Chen、Fu Chuan Enterprises Co., Ltd.、Hsiang-Yu Co., Ltd.
2,000,000 (inclusive) ~5,000,000	Rong-Jou Wang Ming-Cheng Lin Shin Kong Life Foundation Entrust Foundation	Rong-Jou Wang Shin Kong Life Foundation Entrust Foundation	Rong-Jou Wang Ming-Cheng Lin Shin Kong Life Foundation Entrust Foundation	Rong-Jou Wang Michael Hsu Shin Kong Life Foundation Entrust Foundation
5,000,000 (inclusive) ~10,000,000		An-Lan Chen Hsu	Mao-Shyan Liu	Mao-Shyan Liu An-Lan Chen Hsu
10,000,000 (inclusive) ~15,000,000	Memorial Scholarship Foundation to Mr.Lin Hsiung Chen	Ming-Cheng Lin Memorial Scholarship Foundation to Mr.Lin Hsiung Chen	Memorial Scholarship Foundation to Mr.Lin Hsiung Chen	Ming-Cheng Lin Memorial Scholarship Foundation to Mr.Lin Hsiung Chen
15,000,000 (inclusive) ~30,000,000	Bank of Taiwan	Bank of Taiwan	Bank of Taiwan	Bank of Taiwan
30,000,000 (inclusive) ~50,000,000				
50,000,000 (inclusive) ~100,000,000				
Over 100,000,000				
Total Number of Directors	30	30	30	30

C. Remuneration of Supervisors

Name	Remunerations to Supervisors								Sum of A, B, C and D as percentage of net income after tax		Remuneration 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	
Ministry of Finance Sou-Shan Wu Tzu-Hsin Wu (2010.8.31on board) Chin-Chien Chen (2010.7.1on board) Li-Yen Yang (2010.6.30 Retire) Cheng -Mao Chiu (2010..8.10 Retire)											
Hong-Ji Investment Co., Ltd. Hui-Jan Yen (2010.6.30 Retire)											
Fu Chuan Enterprises Co., Ltd. Hsu-Hsueh Chang (2010.7.1 on board)											
China Main-Made Fiber Co., Ltd. Chia-Ying Shen											
Total	0	0	0	0	12,170	12,170	1,139	1,617	0.22%	0.23%	0

SHARE & DIVIDEND

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
12. 2001	\$10	10 billion	100 billion	4,146,799,357	41,467,993,570	Share swap 41,467,993,570
08. 2002	\$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
08. 2003	\$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)
08. 2004	\$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
08. 2005	\$10	10 billion	100 billion	5,970,208,636	59,702,086,360	Capital increase of 390,574,396 shares out of earnings
08. 2008	\$10	10 billion	100 billion	6,089,612,808	60,896,128,080	Capital increase of 119,404,172 shares out of earnings
09. 2009	\$10	10 billion	100 billion	6,272,301,192	62,723,011,920	Capital increase of 182,688,384 shares out of earnings
08. 2010	\$10	10 billion	100 billion	6,617,277,757	66,172,777,570	Capital increase of 344,976,565 shares out of earnings

2. Type of Shares

Type of Shares	Authorized capital stock			Notes
	Outstanding shares	Unissued shares	Total	
Common stock	6,617,277,757	3,382,722,243	10 billion	Listed stocks

3. Shareholder Structure

Date: 4/26/2011

Shareholder structure Quantity	Government agencies	Financial institutions	Other institution	Individuals	Foreign institution and Individuals	Total
No. of Shareholders	17	39	450	161,291	338	162,135
Shares held (shares)	171,868,999	2,681,390,092	1,365,561,997	1,744,283,406	654,173,263	6,617,277,757
Shareholding ratio	2.60%	40.52%	20.63%	26.36%	9.89%	100

4. Distribution of Equity

Par value : NT \$10 Date: 4/26/2011

Shareholding category	Number of shareholders	Shares held(shares)	Shareholding ratio(%)
1 ~ 999	52,828	15,340,736	0.23%
1,000 ~ 5,000	62,927	147,759,754	2.23%
5,001 ~ 10,000	18,175	130,888,141	1.98%
10,001 ~ 15,000	8,528	102,961,730	1.56%
15,001 ~ 20,000	4,392	77,281,100	1.17%
20,001 ~ 30,000	4,926	119,661,967	1.81%
30,001 ~ 50,000	4,087	159,203,758	2.41%
50,001 ~ 100,000	3,406	237,698,122	3.59%
100,001 ~ 200,000	1,619	217,828,813	3.29%
200,001 ~ 400,000	581	161,175,311	2.43%
400,001 ~ 600,000	214	105,286,762	1.59%
600,001 ~ 800,000	119	82,095,948	1.24%
800,001 ~ 1,000,000	62	55,733,923	0.84%
above 1,000,001	271	5,004,361,692	75.63%
Total	162,135	6,617,277,757	100

5. List of Major Shareholders (Top 10 Shareholders)

Date: 2011/4/26

Major shareholders	Shares	Shares held(shares)	Shareholding ratio(%)
Bank of Taiwan		1,645,284,650	24.86
Shin Kong Life Insurance Co. Ltd		433,517,066	6.55
Bank Taiwan Life Insurance Co. Ltd		297,777,067	4.50
Ta-Yung Hsing Yeh Co. Ltd		258,052,676	3.90
First Commercial Bank		167,697,629	2.53
Yuan Ding Investment Co. Ltd		149,300,656	2.26
Memorial Scholarship foundation to Mr. Lin Hsiung Chen		132,330,941	2.00
Ministry of Finance		131,728,290	1.99
Yoong Cai Investment Corporation		83,887,967	1.27
Yung-Zei Investment Co. Ltd		77,371,783	1.17
Yung-Cheng Investment Co. Ltd		67,719,362	1.02

6. Values Per Share During The Most Recent Two Years

Item		Year	2010	2009	Ending 2011/3/31
Market value per share(NT\$)	Highest		24.65	24.40	24.65
	Lowest		17.10	15.25	20.25
	Average		19.65	19.08	22.05
Book value per share(NT\$)	Before distribution		15.16	14.94	15.43
	After distribution			13.98	-
EPS(NT\$)	Weighted average number of shares		6,617,278	6,272,301	6,617,278
	EPS		0.87	0.67	0.29
Dividends per share(NT\$)	Cash dividend		0.30	0.20	-
	Stock dividend	Out of earnings	0.60	0.55	-
		Out of additional paid-in capital	NA	NA	-
	Cumulative Undistributed Dividends		NA	NA	-
ROI analysis	P/E ratio		21.36	26.87	17.78
	P/D ratio		65.5	95.40	-
	Cash dividend yield		1.53%	1.05%	-

7. Dividend Policy and Implementation

1. Hua Nan Financial Holdings has adopted a residual dividend policy. This is aimed at 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:



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

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

2. Shareholders' meeting resolution concerning the distribution of dividends: A cash dividend of NT\$0.3 per share, and Stock dividend NT\$0.6 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\$ thousand		66,172,778
Stock and cash dividends distribution	Cash dividend per share-NT\$	0.3
	Stock dividend per share from capitalization of retained earnings - shares	0.06
	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 from capitalization 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 2011. According to the stipulation of 2000/2/1 Ministry of Finance(1) No.00371, no disclosure of such information is required.



9. Corporate Bonds

Bond type		2006 First Unsecured Bond
Date issue		6/29/2006
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: 06/29/2013
Priority of repayment		Subordinated
Guaranteeing institution		None
Trustee		Mega International Commercial Bank
Underwriting institution		N/A
Certifying attorney		Due Law ToReason Attorney Office Shui-Shan Hou
Independent auditing firm		Deloitte Touche Tohmatsu Limited Hung-Hsiang Tsai . San-Chien Tu
Repayment method		Interests pays annually at coupon rate. 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 2006/5/25
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

2010

Honesty

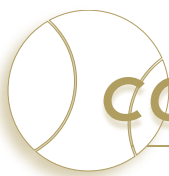
Efficiency

Teamwork

Activeness

Responsibility

Corporate Social Responsibility



CORPORATE SOCIAL RESPONSIBILITY

1. Company Performing Social Responsibilities

Item	Implementation Status	Reasons for the discrepancy from "Codes of Corporate Social Responsibilities Practice for Listed Companies"
A. Properly Implementing the Corporate Governance		
1. The company should stipulate the corporate social responsibilities or the related system in order to review the implementation efficiency.	1. Our Company is devoted to various public welfare campaigns and holds critical reviews of the activities at the end of the year, and lists it as annual performance appraisals.	Our Company hasn't instituted the corporate social responsibility system yet, but has been committed to perform corporate social responsibilities with critical reviews of the performance efficiency.
2. The company should set up a full-time (part-time) unit in charge of the functioning of corporate social responsibilities.	2. The General Administration Management of our Company takes charge of the coordination and planning affairs related to corporate social responsibilities.	none
3. The company should hold regular educational trainings or public declarations on corporate ethics, and combined with the employee performance appraisal system in order to set up an unequivocal and effective reward and discipline systems.	3. a. The Company holds social public welfare events on regular basis to promote corporate ethics and social responsibilities, and publicize the ideas to the boards of directors, supervisors and employees with series of training courses. The courses related to corporate ethics are held external and internal in the Company in demand for participation from the directors, supervisors, and employees. b. The Company has set up rules governing reward and discipline system to enhance employee performance	none
B. Developing Sustainable Environments		
1. The company should devote all resources more efficiency and uses renewable materials which have a low impact on environment.	1. a. Our Company complies with the government's energy saving policy by adjusting the proper temperature and using the energy-saving illumination equipment so as to lower the use of electricity. b. To install electronic file systems in order to extend the paperless operation by reducing the use of paper. c. To install a succession of water-saving equipment in order to save the usage of water.	none
2. The company should establish a proper environmental management system according to the nature of the industry.	2. Being a financial services business, our company operating environment and sites committed to energy saving and carbon reducing measures. Therefore, the operation activity is free of environmental pollution and without negative impact or effect on the natural environment.	Though our Company hasn't instituted the environment management system yet, devotion has been made to managing an operation-friendly environment.
3. The company should establish dedicated units or assign dedicated personnel to maintain the environments.	3. The Administrative Department takes specific responsibility of the environment management and maintenance.	none
4. The company should monitor the impact of climate change on its operation and should set up strategies to lower carbon and greenhouse gases.	4. Our Company implements strict control of budget, sets up goals of water saving for each company, and holds policy promotion and teaching from time to time through the use of various energy-saving facilities in order to reduce the effects of climate change on the business operation.	none
C. Preserving Public Welfare		
1. The company should abide with related labor laws, assure the employee's rights and benefits, and establish the proper management methods and procedures.	1. Our Company has compiled "Employee Work Rules" in accordance with the Labor Standards Law and the other related laws to clarify the employee's rights and benefits as well as management procedures. Besides that, the "Staff and Workers Welfare Committee" is organized to conduct various welfare measures and contribute to the pension in compliance with the law to ensure the employee's retired life.	none
2. The company should provide the employees a safe and healthy working environment and conduct safety and health education for its employees on a regular basis.	2. Our Company conducts the employee's health checks and fire safety inspections on regular basis in conformity to the related laws and regulations in order to ensure the safety and health of the employees.	none



Item	Implementation Status	Reasons for the discrepancy from "Codes of Corporate Social Responsibilities Practice for Listed Companies"
C. Preserving Public Welfare		
3. The company should establish and disclose policies in consumer rights and interests and provide a clear and effective procedure for accepting consumer complaints	3. In order to protect the consumer's rights and benefits, our Company has drawn up rules of firewall policy and, cross-selling and published in the Company's website, in accordance with the regulations made by the executive authorities, the rules of the client's confidentiality and website privacy statement. Email contacts information is also included in the Company websites and the subsidiaries in order to offer channels for the customer's complaint and to provide timely response and processing accordingly.	none
4. The company should collaborate with the suppliers to work together on promoting the corporate social responsibilities.	4. In choosing the souvenir item for the 2010 Shareholders Assembly, our Company took environmental protection into consideration and decided on the portable environmental protection dining wares. Meanwhile, green materials were also chosen for the office interior renovation projects in order to save energy for environment protection and upgrade the corporate social responsibility.	none
5. The company should participate in the events related to community development, charity, and public welfare, in-kind donations, corporate volunteer worker services, or other charge-free professional services.	5. Please refer to the detailed information in "Charitable Event Held in 2010" of this Annual Report, p. 26.	none
D. Reinforcing Information Disclosure		
1. The way the company disclosure the significant and reliable information related to corporate social responsibilities.	1. Our Company holds various events of social public welfare in order to perform our corporate social responsibilities with publication and message in news media.	none
2. The company produces statement of corporate social responsibilities and disclosure its performance of the corporate social responsibilities.	2. Our Company hasn't compiled any statement of corporate social responsibilities.	The public welfare events that our Company has held over years are disclosure in our Annual Report.
E. If the Company has established its own corporate social responsibilities principles based on "Codes of Corporate Social Responsibilities Practice for Listed Companies," please explain any discrepancy between the actual practice and its implementation.		
The Codes are the reference designed by Taiwan Stock Exchange to help enlisted companies performing their corporate social responsibilities. It's not mandatory for each enlisted company to make its principles. Although our Company has not yet drawn up such codes, we still carry out our corporate social responsibilities according to the principles.		
F. Other important information to facilitate better understanding the Company's corporate social responsibilities (such as the systems, measures and practices that the company adopts with report to environmental protection, communication participation, social contribution, social services, social public welfare, consumer's rights and benefits, human rights, safety and health, and so forth):		
Please refer to the detailed information in "Charitable Event Held in 2010" of this Annual Report, p. 26.		
G. If the products or corporate social responsibility statement have received assurance from external institutions, they should state below:		
Our Company hasn't compiled any statement of corporate social responsibilities.		

2. Charitable Events Held in 2010

1. Sponsoring "2010 Taipei Lantern Festival" from February 26 through March 7, 2010: In order to get actively involved with the social and cultural activities and be close to the general public, the Company sponsored the "Student Lanterns" part of the event in Sun Yat-sen Memorial Hall, with 23 large-scale lanterns produced and exhibited by students.
2. Title-sponsoring "Reminiscence of the Past: Concert of Lau Ka-cheong": Mr. Lau was a famous composer of the 1970s and 1980s, and also produced innumerable Golden Melody songs which is still popular now, and he has been favored by white-collar class as well as nostalgic crowds. In order to support indigenous cultural workers, the Company honored Mr. Lau
3. Holding the 2010 HNFHC hiking event, "Let's Walk! For Environmental Protection" (Taipei site) on April 25, 2010: In order to set a good example of cooperation between the government and the enterprise, increase the chances of the company's internal interactions and to promote the brand image, the Company held the 2010 HNFHC hiking event, "Let's Walk! For Environmental Protection," at Tienmu Sports Park with an estimated 5,000 attendees. The Company also donated NT\$ 1 million to the Sunshine Foundation at the event.



Under the witness of Minister of Finance, Sush-Der Lee (middle), Hua Nan Financial Holdings Company chairman, Ming-Cheng Lin (right) presented a donation of NT\$ 1 million to the Sunshine Foundation for the fund of public benefits



Minister of Finance, Sush-Der Lee (middle), and the Chairman of Hua Nan Financial Holdings Company, Ming-Cheng Lin (right) participated in the hiking event.



Minister of Finance and the event ambassador Janet joined with the other distinguished guests in the group picture.



4. Sponsoring the Tibetan artifacts exhibition, "The Holy Land of Tibet: Treasures Closest to the Sky" (Taipei site), from July 1 through September 19, 2010 together with the sub-events of the VIP Night, Enterprise Day, Charitable Day. The

event was the largest and most complete exhibition of Tibetan culture ever, which intended to introduce people to have a better understanding of the Tibetan precious artifacts, religious philosophy, and culture.



The VIP Night of the "Holy Land of Tibet: Treasures closest to the Sky" exhibition gathered together a huge crowd of quests of honor as shown in the picture from the left to the right: Chairman Ming-Cheng Lin of Hua Nan Commercial Bank, Director Chou Kung-Shin of the National Palace Museum, Minister Sush-Der Lee of the Ministry of Finance, Chairman Wang Rong-Jou of Hua Nan Financial Holdings Company, and Yang Ren-Feng, CEO of Gold Media Group.



Chairman Rong-Jou Wang of Hua Nan Financial Holdings Company (middle) joined with all the staff.



5. Sponsoring the research project for Times Foundation's 20th anniversary and the Forum of Shanghai, Tokyo, and Taipei from July of 2010 through April of 2011.
6. Launching the event of "A Ball for A Dream Comes True: Ten Thousand People in Support of Taiwan" from October to December of 2010: the event was held to call the baseball fans to cheer for Taiwan at the 2010 Intercontinental Baseball Tournament. A NT\$ 1 million fund was donated for the reconstruction and training of the young baseball teams in the Caused by Typhoon Morakot in August, 2009.
7. Sponsoring the 27th ABA General Meeting and Conference at Far Eastern Plaza Hotel Taipei on November 1 and 2, 2010: the event was discussing the development of financial industry.
8. Giving financial support to the "2010 Taipei International Flora Expo," held by the City Government from November of 2010 to April of 2011: donation was made on the tour brochures and the Flora Expo Passports in order to promote the international visibility and city internationalization.
9. Sponsoring the "16th Cross-strait Financial Seminar" in Beijing: the seminar was devoted to the discussion of the cross-strait cooperation in banking, securities, and insurance industries with the presence of the industry members and executive authorities on both sides for Taiwan Strait--a positive push force for the cross-strait financial development.



President Mao-Shyan Liu of Hua Nan Financial Holdings Company unveiled the first gigantic jigsaw puzzle wall, the Cheering Wall, at Taipei City Tienmu Baseball Field.



President Mao-Shyan Liu of Hua Nan Financial Holdings Company (right) donated NT\$ 1 million to the aboriginal community for the fund of the junior baseball training. On the left was the Secretary-General of Chinese Taipei Baseball Association, Lin Chung-Cheng.



Hua Nan Financial Holdings Company invited the Kaohsiung County Taoyuan Elementary School baseball team from the Caused by Typhoon Morakot in August, 2009, area to watch the Intercontinental Baseball Games in Taichung and cheer for the Chinese team.



Executive Vice President Yung-Chun Cheng of Hua Nan Financial Holdings Company (right) visited Taoyuan Elementary School in Kaohsiung to present the donated baseball equipment.

2010

Honesty

Efficiency

Teamwork

Activeness

Responsibility

Operating Results



OPERATING RESULTS OF HNFHC

1. Composition of Income from Main Areas of Business

Unit: NT\$ thousand

Item \ Year	2010		2009	
	Amount	%	Amount	%
Operating Income				
Long-term Equity Investment Income	6,561,024	100	4,876,791	100
Hua Nan Commercial Bank	5,949,838	91	3,978,796	83
Hua Nan Securities	771,120	12	1,002,241	20
South China Insurance	304,202	4	104,012	1
Hua Nan Investment Trust	(546,256)	(8)	(255,031)	(5)
Hua Nan Venture Capital	4,674	-	12,534	-
Hua Nan Management & Consulting	3,068	-	3,717	-
Hua Nan Assets Management	74,378	1	30,522	1

2. Future Plans to Develop New Products and Services

In order to provide comprehensive financial services which meet the client's needs, the Company will by means of commanding the information of the domestic and international financial markets and product trends, as well as the platform of product planning, evaluation and management mechanism, supported by CRM system to analyze clients' attributes and work on integrating the product resources into packages from subsidiaries.

3. Business Plan for 2011

The overall status of our business this year were based on the fact that with the ease-off of the cross-strait political situation and the follow-up effects of ECFA, the cross-strait financial markets would work together to develop better environments. Our Company should grasp this opportunity and commit efforts to the deployment in the Great China market, with the dual strategies of "to remain strong locally and head west to China" serving as the business direction and goals of Year 2011.

Solidify the Fundamentals

A. To Reinforce the Operation Capacity of the Company

1. Cross- Selling Strategy

- Using sales channels and customer bases of the Company to develop the cross-industry integrated market on various financial products.
- The cross-selling business should take account for at least 20% of the total business in each subsidiary.

2. Balanced Business Strategy

In order to ensure the balanced development within the company and minimize the Company's earnings fluctuation, the profit coming from non-banking subsidiaries should take up to 20% or more.

3. Resource Integration Strategy

- Optimizing the Resources: Integrate the Company's resources and optimize its utilization.
- Minimizing Expenditure: Retrench costs through the integration platform of resources.

4. Product Development Strategy

- To conduct research and development on niche products for the future potentials of the Company.
- To form a strategic alliance with domestic and international financial institutions and provide the clients with diversified financial products.

B. To Lay Out Complete Plans for Risk Management and Personnel Training

1. Risk Management Strategy

To strike an ideal balance between risks and profits by helping the business unit to achieve the goals of enhancing the operational structure and stabilizing the profit formation.

2. Personnel Training Strategy

- To elevate the Company's personnel quality in avoidance of forming a gap in senior management.
- To set up a database to improve Company's personnel exchange programs so as to



maintain our personnel superiority and capability.

C. A Sound Capital Adequacy Structure

To maintain capital adequacy ratio for the Company and the subsidiaries by increasing capital from retained earnings, issuing non-cumulative subordinated bonds (Perpetual) and rights issue.

Head West to China

A. In Banking

1. The Shenzhen branch would meet the profit goal in the first year so as to obtain the RMB license.
2. In the future, the Shenzhen branch, Hong Kong branch and the Macau branch, which in the process of applying, should work together as an Iron Triangle in the Pearl River Delta to service more Taiwanese business clients in Southern China region.
3. The cross-strait e-payment and e-financing system are to be constructed in order to provide both sides an instant on-line cash flow assistant to service more customers.
4. Active assessments on second branch location through the green channel and explore the possibilities of forming a strategic alliance or taking ownership stakes in Chinese banks so as to expand the Company's deployment in the Greater China market.

B. In Securities

Due to the current regulations limit, Securities industry is still unable to operate business formally in Mainland China, the securities business will be deployed in the Greater China market as soon as the related regulations are waived. At the present stage, our representative office in Shanghai is working on gathering information about the securities market in China, while striving to invite Mainland investors to issue TDR in Taiwan.

C. Insurance

As the ECFA agreement has taken effects, the representative office of South China Insurance in Shenzhen is qualified for upgrading its status

to a subsidiary. However, due to the restrictions of domestic regulations, the official application is not yet being submitted. The Company has been actively planning for the related operation of upgrading so that once it's done, it will pair up with Hua Nan Commercial Bank's Shenzhen branch and make joint efforts to develop our business in Southern China region.

4. Industry Overview

Spurred by the government's diversified economy and taxation efforts, the initial estimate of Taiwan's economic growth in 2010 was 10.82%, 3.4% higher than the global average. In Year 2011, driven by the influences of the uncertain situation of global economics and the high base period in 2010, the economic prosperity of Taiwan trends to be slow down. Still, under the circumstances in demand increase internally and externally, an estimated economic growth of 4.92% is in prospect. Meanwhile, other uncertainties such as the European debts crisis, the robust monetary policy in China, the QE by the U.S. Federal Reserve, inflows of hot money, and the NTD recent appreciation against USD were going to affect in the future prosperity tendencies of our country. For this, the issues of economy restructuring and industry upgrade and development, as well as the bilateral capital investments on both sides of the strait would become the focal points of future development for not just the financial industry but also the whole economic system of Taiwan.

Looking ahead in 2011, the domestic economy is picking up from the bottom in 2010, the manufacturers' financial needs would bring positive and beneficial effects. The global monetary easing and over-competitive environments in financial market are dragging down the spreads, which makes the overall operating environment hard to return to the level prior to the financial crisis. Stock market should benefit from stable growth in trading volume, TDR listing and QDII investment in Taiwan. Besides that, Signing ECFA with supplementary agreements in succession has won favorable conditions for Taiwanese financial industry to take for future

development in China. On the other hand, under the premise benefits on both China & Taiwan, the domestic market would be more competitive with investors from China. To summarize, 2011 will become a year with new opportunities as well as challenges in the financial industry in Taiwan.

5. Research and Development

A. Marketing

The Company has recently focused the development of customer relationship management on two major points: To increase the average number of products to customer, and to expand high-value customer base. Each subsidiary should review its strategy by focusing on high contribution customers by using the propensity on purchasing model to predict client's purchase behavior and analyze results from analyze the database to provide recommendation and services in time so that the clients would increase their products adhesive force and deepen the usage behavior in which would enhance the overall customer value.

In the future, analysis would be made on the transforms of each client's purchased products in numbers and types over time, coupled with the information on his/her corresponding assets and changes in transaction activities. In order to understand the behavior of the client's as well as the effects on the contribution to the Company, we can define each "life stage" of the client and predict his/her "Next Best Product" (NBP). By studying the client's usage of our product, we can understand the overall value of the client and the tendency of the relation change for the purpose of keeping stabilized long-term relationship with the client.

B. Risk Management

From 2006 to 2008, with the assistance of an outside consultancy, the Company 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 these objectives, along with maximizing the value of equity.

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

6. Short to Long-term Development Plans

A. Financial Management

1. Short-term Business Development

- a. With strong and adequate capital to promote business of the subsidiaries.
- b. To enhance the Company's capital allocation efficiency and improve the subsidiaries' capital efficiency.
- c. To maintain the existing superiority of the Company and elevate the subsidiaries' profit contribution.
- d. To develop new market in China and speed up the deployment in Great China area.

2. Long-term Business Development

In the long term, the Company is not only pursuing the spontaneous growth, but also targeting on accelerated growth through the merger or acquisition of excellent-quality financial institutions in the domestic market. In the overseas markets, depending on the cross-strait open-door policies, opportunities are sought to merge and acquire suitable financial institutions in China so that the Company's competitiveness in China market can be sharpened in a diversified approach to fulfill the Company's vision and goal of becoming "quality regional financial institution".



B. Marketing

I. The Short-term Business Development

- a. Personnel Integration: To actively guide and assist the subsidiaries in staff training, helping acquiring the related licenses and certificates in cross-selling service. In addition, the company would conduct education and training for better product knowledge and marketing expertise through activities of integrating marketing products. To utilize HNFHC's website, we have a "Cross-Selling Business Management Platform" for staff to learn legal regulations and related business information, and to elevate the staff's professional capacity in cross-selling and achieve the goal of all employee marketing.
- b. Product Integration: To provide subsidiaries with the analytical information on the client's attributes and usage behaviors for the building and examination of the cross-selling tendency matrix in order to assist each subsidiary to promote the client's product purchases. Company would launch large-scaled marketing events for integrating the subsidiary's products, and improve the compatibility of matching each subsidiary's operation to satisfy the clients' different needs.
- c. Channel Integration: HNFHC will utilize the its 246 cross-selling counters as a mean to share resources and provide cross-selling services through the cross-subsidiary group called "Integrated Marketing Team", composed of the professional managers of each subsidiary from north, central and south districts. The channel operation departments of each subsidiary will record and administer all cross-selling recommended cases, and help each subsidiary to expand business and thus achieving cross-selling synergies.
- d. Customer Segmentation: HNFHC will categorize clients into different segments according to the significance and worthiness of the clients with reference to their product purchase behaviors and viable trajectory.

HNFHC will further draw up detailed operation priority according to probability of the client's promoted worthiness so as to distribute the marketing resources in an effective way and create the maximal business results.

2. The Long-term Business Development

Company will continue to coordinate use of its network, products, clients, and personnel to promote cross-selling operations, helping to achieve its target of having over 20% of its business derived from cross-selling initiations

The Company is looking for new customers with good quality by the appeals of the Company's stable and honest image, clear product designs and marketing advertisements. HNFHC will strengthen the overall structure and profit quality of clients in order to provide clients with the most suitable products and services in each stage according to the attributes and behaviors so as to build a relationship in the long run.

As for the channels, the client information and integrated marketing channels will be developed to form the physical and virtual channels and provide timely response to each client and acquire the complete information about the client. By integrating the channel fluency and referral mechanisms, we can ensure to have an accurate communication with the client with the overall marketing capability enhanced.

HUA NAN COMMERCIAL BANK (HNCB)

Financial Highlight

Unit: NT\$ thousand

As of December 31, 2010 and 2009

2010

2009

Income Statement

Net interest income	16,880,076	15,897,798
Net income excluding interest income	10,611,579	12,539,376
Gross income	27,491,655	28,437,174
Provision for bad debts	(6,559,251)	(10,644,117)
Operating expenses	(14,399,439)	(14,164,407)
Income before tax	6,532,965	3,628,650
Net income	5,949,838	3,978,796

Balance Sheet

Total assets	1,837,357,044	1,776,296,497
Total liabilities	1,747,347,495	1,693,001,599
Total shareholders' equity	90,009,549	83,294,898

Ratio

ROE	6.87%	4.93%
ROA	0.33%	0.23%
Tier I ratio	7.54%	7.40%
Capital adequacy ratio	11.51%	11.69%
NPL ratio	0.79%	1.58%
Coverage ratio	108.57%	70.00%

Credit Ratings (long/short/outlook)

Taiwan Ratings	twAA-/twA-1+/Stable (2010/06)
Moody's Ratings	A3/P1/Stable (2010/10)

OPERATING RESULTS OF HNCB

1. Business Composition

Revenue Chart of Main Business

Unit: NT\$ million

Business	2010		2009		Changes	
	Amount	%	Amount	%	Amount	%
Corporate Banking	11,592	31%	12,372	30%	(780)	(6%)
Consumer Banking	9,789	26%	8,352	20%	1,437	17%
Financial Tradings	5,509	14%	6,194	15%	(685)	(11%)
Foreign Exchange & International Operations	7,210	19%	8,270	20%	(1,060)	(13%)
Trust & Wealth Management	2,539	7%	1,786	4%	753	42%
Others	1,243	3%	4,411	11%	(3,168)	(72%)
Total Revenue	37,882	100%	41,385	100%	(3,503)	(8%)

Note: 1. The revenues listed above were audited by the accountant, and item includes interests, service charges, financial assets or liabilities, exchange, bad debts recovery, and rental income from operating assets.

2. The consumer banking includes the credit card and cash card; the foreign exchange includes the overseas branches and offshore banking branches.

3. The decreased revenue from the "Other" item in 2010 was due to the injection of NT\$3.474 billion in the 2009 revenue, made from the collateral sold as well as the action on some of the non-self use real estates in 2009.

2. Research and Development

The efforts on research and development during the past two years had 634 projects with total award NT\$546,700, which had delivered remarkable results in the improved business operation, enhanced operating performance and promoted service quality in the Bank. In the future, the Bank would continue to encourage all employees to involve in the research and development so as to create excellent business performance and sustainable business initiatives.

3. Business Plan for 2011

Development of New Financial Products

1. To launch the "Home Equity Line of Credit", "the Second-Generation 3A Home Equity Line of Credit" and various government policy-based mortgage, with the flexible options of fixed-date payments or biweekly-interest payments so as to build a complete product line of mortgage.
2. To offer customized or packaged products based on the client's personal life stages to integrate mortgage, credit, fund, insurance, exchange/remittance, credit card and stores for exclusive discount, so the customers can increase the commitment to our Bank because of the completed service and referral system.
3. To launch "Employee Benefits Program," based on the different company conditions to come up with different contents in accordance with the seasonal and various capital requirements.
4. To offer a structured investment product in which links the foreign currency time deposits with foreign currency equity options (including stock prices and indices).
5. To offer a structured investment product in which links the foreign currency time deposits with foreign currency equity swaps (including stock prices and indices).
6. In order to respond to the Ministry of the Interior and the Consumer Protection Commission of the Executive Yuan with regard to standardized agreements for pre-sale housing transactions, it's forced to incorporate performance bond mechanisms into the recorded articles in the standard contract and offers five optional models to carry out the performance bond mechanism. Among the "Purchase Fund Trust" and "Real Estate Development Trust" are to be improved on the trusted product in compliance with regulations to attract those construction developers in engaging in pre-sale operation and creating the handling fee income.

7. Planning a "Second-Generation Mobile Bank" to provide better financial services.
8. Planning an internet banking for "Shenzhen branch" to expand the operation scope and increase the returns on demand of the funds and boost handling fee income.

Enhancing Competitiveness

1. To keep Hua Nan Commercial Bank's status as the local bank with the lowest capital costs through the quality management of NT deposits.
2. Introduced new saving deposit product with higher interest rates to potential customers or high net worth customers.
3. Introduced foreign currency-denominated gold passbook in order to provide the clients with the flexible tool in trading gold and expanding the Bank's customer base in this area.
4. To increase the revenue of risk-free service charge, the client's average number of product ownership by running the customer segmentation, and to carry on the marketing campaign to have customers authorize various payments deducted directly from their deposit accounts."
5. To strengthen the interior management mechanism, expressing care to customers over-counter and monitor irregular account so as to lower the Bank's operational risks.
6. The Bank is in its best utilizing of the two China Bills Finance licenses of Taipei and Kaohsiung and participating in government land planning policies into account. It continues to analyze poor performance division in order to strengthen the business network of the Bank.
7. The Bank is taking the advantages of economic recovery with the progressive development between the cross-strait financial cooperation. It will continue to stress the principles of stable operation and look for innovation in order to actively expand the business in corporate finance operations.
8. Hua Nan is reinforcing its business directed at small and medium-sized enterprises with continual supports, which will expand the scale of corporate financial loans with strengthening loan structure.
9. Hua Nan is to involve in the great public construction of the country by responding to the government's "i-Taiwan 12 projects" which launch some significant investment policies and actively assist businesses in acquiring the related financial resources.
10. The Bank is actively seeking to be the lead manager in domestic and overseas syndicated lending business.
11. The Banking is corresponding with the government's promotion of international trading policy and taking positive actions in conducting the foreign exchange lending business related to the import and export.
12. Hua Nan has joined FCI in order to increase the chances in factoring and expand business so as to enhance the diversified financial services provided for enterprises.
13. The Bank continues to explore the center vendors and reinforce the cooperative relations, while trying to acquire list of suppliers, which provides benefit in generating factoring business and on-line e-financing business.
14. The Bank is engaging in joint marketing with other subsidiaries. The joint use of resources helps to provide the best services for the corporate clients and secure more businesses.
15. Hua Nan closely monitors the state of the market and enhance its product innovation and services, while working with government's advisory system and utilizing the media to publicize its business visibility and promote the positive image of the Bank.
16. The Bank is strengthening the business expansion of Shenzhen branch in order to achieve its goal of generating profit in the first year of operation and launching the RMB business to Taiwanese-owned enterprises in the following year.





17. The Bank is working to elaborate the blueprint in Mainland China. Besides Shenzhen branch, Hua Nan is careful planning a second branch in an area pinpointed for economic development by local authorities. Hua Nan is also working in completing a presence through out the Asia Pacific(including the in-process applications of Macau and Sydney branch).
18. In view of the successful experience in extending the mortgage to government employees and teachers, the Bank launched its "Comprehensive Mortgage Finance Platform". This calls for the integrated marketing of other products, such as credit loans, credit card, mortgage insurance and fund, when handling mortgage business. This will help to boost the volume of business engages in each customer.
19. With an eye to asset quality and profitability, new mortgage will be extended mainly to government employees, teachers, and other groups of outstanding customers.
20. The Bank will continue to promote guaranteed mortgages with a goal of increasing the number of products that are packaged with mortgages. This will increase non-risk handling fee income.
21. The Bank will enhance the functionality of each loan production such as providing the client with the flexible options on specific-date payments or biweekly-interest payments in order to increase product competitiveness and enrich product profitability.
22. To sustain the increased numbers on credit card usage by new customers and promote the credit card holder's consumption activities by reactivating the stagnant card and giving the first-time using gifts, while working closely with the four consumption channels- department stores, travel agencies, hypermarkets, and internet vendors- in order to increase the card usage as well as their preference to Hua Nan Commercial Bank credit cards.
23. Under an appropriate balance between risks and profits, the Bank has introduced cash advance business, and to target at current credit card customer groups to offer exclusively personal small amount loans in order to increase the Bank's profits.
24. The Bank continues to promote treasury marketing business, upgrade the professional services and explore new client of sources, while competing for corporate client seeking to hedge risks or fiscal operation in hoping to expand the Bank's derivative financial products to clients.
25. The Bank is combining the commercial and investment banking operations in order to reinforce the branch cross-selling incentives as well as the operation of the primary market securities, while helping its lending client in underwriting and subscription of outstanding securities in the primary market, and gain high yield profit in the secondary market.
26. The Bank will invest in 10-year US government bonds and earn the interest margin or capital gains through yielding while keep on purchasing overseas corporate bonds or debetures of excellent quality so as to raise the foreign currency returns.
27. The Bank will seek commercial paper certification and underwriting business, and expand the secondary market outright buying and selling off, and to promote the service charge revenue and trading gains.
28. Hua Nan will raise the settlement rate and split of management fee in subscription to funds from fund companies. It will also select strategic cooperative partners in investment trusts and overseas funds agents with stable performance and good brand image according to the Wealth Management Department's marketing strategies of 2011, and choosing key marketing funds on a regular basis and focusing on the volume of the sales so as to raise the overall revenue of service charges.



29. The Bank will select well-performing funds from reputable investment trusts when engaging in asset allocation of its wealth management clients. It will monitor the investment trend in the market and the investment trust marketing projects to raise Hua Nan's funds and offer to customers. To secure strategic cooperation with investment trust and consulting companies and securities brokerages, based on Hua Nan broad network and price advantage, and work together to seek opportunities for the custodian business of discretionary authority, overseas investments, and Mainland China investments.
30. Hua Nan will keep innovating account investment models and strategies. It will work to make asset allocation strategies more effective with hope to generate stable and excellent performance and leading to client through the changeable market safely. To focus the accounting system update on the conversion function among collective accounts so that the system can be completed soon and provide the client with flexible conversion in different risk environments.
31. To continue to promote and improve standardized trust products and expand the scale of the operation. The Bank is looking for the business of real estate trust in correspondence with the urban redevelopment, making use of the Ministry of the Interior's promotion of pre-sale housing mechanism of price value performance bonds to developers.
32. Hua Nan is expanding the e-banking services in overseas branches in keeping with the trend of globalization operation so as to elevate Hua Nan Commercial Bank's competitiveness.
33. Hua Nan will continue to promote the e-trading so as to lower the operating costs.
34. The Bank wishes to enhance the "Enterprise Financial Management System" function and provide the enterprise with integrated financial transaction and fund management through the connection with the Bank's electronic channels so as to solidify the relation with the client.
35. Hua Nan is promoting integrated services in which will act as an agent for enterprises in payment and collections, thereby meeting the payable, receivables, and fund adjustment need of enterprises in Taiwan and overseas. The Bank also provides services in management of individual accounts so as to increase the market share of the Bank's electronic business.
36. Centralizing "batch deposit accounts" operations in order to promote the efficiency of the operation.
37. To focus the wealth management business in 2011 on the strengthening of product strategy, channel strategy, expansion strategy, and price management strategy in order to elaborate wealth management business not only achieving the annual goal but also winning over the market share in wealth management business.



HUA NAN SECURITIES CO., LTD (HNSC)

Financial Highlight

Unit: NT\$ thousand

As of December 31, 2010 and 2009

2010

2009

Income Statement

Revenue	3,174,626	3,447,221
Expense	(2,242,227)	(2,249,991)
Income before tax	932,399	1,197,230
Net income	771,120	1,002,219

Balance Sheet

Total assets	26,630,663	23,431,901
Total liabilities	15,040,813	11,947,216
Total shareholders' equity	11,589,850	11,484,685

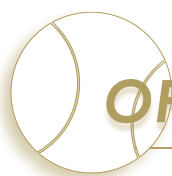
Ratio

ROE	6.68	9.29
ROA	3.08	5.13
Capital adequacy ratio	378%	377%

Credit Ratings (long/short/outlook)

Taiwan Ratings

twA+/twA-1/Stable (2010/6)



OPERATING RESULTS OF HNSC

1. Composition of Income from Main Areas of Business

Unit: NT\$ thousand

Year \ Business	2008		2009		2010	
	Amount	%	Amount	%	Amount	%
Brokerage	2,282,229	89.47%	2,482,174	75.16%	2,650,048	88.40%
Underwriting	73,349	2.88%	175,032	5.30%	117,916	3.93%
Dealing	195,193	7.65%	645,119	19.54%	229,789	7.67%
Total	2,550,771	100.00%	3,302,325	100.00%	2,997,753	100.00%

2. Plans for the New Financial Products and Services

As the related regulations of securities and banking being gradually lifted and the cross-strait MOU being signed with introducing of new financial product, the major securities brokerages are all ready to take the initiative by conducting researches, planning and related training. Looking forward to this coming year, Hua Nan Securities shall work in correspondence with the regulations by the responsible authorities and focus on performing the following evaluation and planning concerning each new products and related business:

- A. To apply for the cash management accounts business and wealth management business via trust.
- B. To actively develop comprehensive investment banking business: in response to the government's policy of encouraging securities brokers to change into investment banking business, and develop financial advisory services based on corporate restructuring, merger and acquisition, as well as the other related business of booking and underwriting so as to move towards becoming an investment bank.

C. Hua Nan Securities currently has the sub-broker operations of overseas funds. This year, further sub-broker business will be extended to Hong Kong to provide greater services to the public.

D. To promote underwriting business for subordinated debentures and asset securitization products.

E. To design and advertise the derivative financial products such as the call and put warrants, asset swaps, and structured products.

F. To actively participate to be the market maker in futures, TAIEX and individual stock options market, and ETF: the 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. To integrate the specialized knowledge from its Overseas Product Department, International Affairs Department, Financial Product Department, and Futures Dealing Department in devotion to the arbitrage research and trading of financial products, and in keeping with research and development of the Information Department's software designing, develop the computer trading programs on spreads, arbitrage, and hedging, supported by the technical analysis via charting, for the purpose of commanding the long and short operation directions and the best trading points to secure the maximum profits.

H. To form project teams with the Product Design Department to implement an integrated platform through internet technology which assembles such products as securities, futures (on goods), local and overseas funds, Hong Kong sub-brokered products and so on, classified by their risk levels. This will provide investors with latest product information and related e-trading system, and integrate product platform for customers to search for the most appropriate products according to their various needs so as to promote the sale and provide customers with rapid and convenient services.



- I. In order to encourage overseas based Taiwanese - owned enterprises to be listed in Taiwan, the Underwriting Department is working actively to contact overseas Taiwanese enterprises through channels like Hong Kong law firms and accounting firms and invite them to come back to list in Taiwan.
- J. Hua Nan Securities established a representative office in Shanghai in November 2009. The office will provide instant cross-strait information concerning investment securities, and evaluating the strategic alliance or share participation with excellent-quality Mainland China brokerages.
- K. To integrate research units of Hua Nan Financial Holdings Company, including bank, securities, and investment trust into the research center of investment consulting under the Company so that it can conduct in-depth studies on the fundamental aspect, technical aspect, and capital aspect of global finance, local and international overall economy, and industrial and individual companies so as to control the investment trends and evade risk industries; to provide the Company's related units with background information for investment advice as well as credit references.

3. Business Plan for 2011

Since last year, we expected a slower global economic growth. Due to a series of "Jasmine Revolutions" in Middle East and North Africa, the downgrade of European credit rating, and especially the Japanese 311 earthquake incident, the general prospect for the global economic growth this year seems to be pessimistic. The active fiscal policy and the stable monetary policy scheduled to be implemented in China this year. Such a "loose-tight" policy reveals the fact that even if the government trying to tighten monetary policy to inhibit inflation, it still has to maintain active fiscal policy in order to consolidate the economic growth and continue the adjustment of the economic structure. Meanwhile, the "12th Five-year Plan" launched this year has significant influences on Taiwan with expected opportunities.

In summary, the global economy is still anticipating to grow, despite the fact that each country is enjoying different strength in growth and facing its own challenges. The emerging markets in Asia are going to spur the gradual expansion of global economy. However, the mature economies in Europe, America, and Japan have been printing more money and implementing loose monetary policies for the past two years, bringing the whole world under the shadow of inflation, while causing Asian countries to be alert in such risks as hot money flows, asset bubbles, inflation warming, and sharp rise in the exchange rates. Both Japan and Australia have their own problems like debts and resource taxes need to be solved, especially Japan's post-disaster reconstruction is bound to influence the pace of the global economic recovery.

In 2012, both Taiwan and the United States of America are having presidential elections. Seeing the strong momentum of funds, recovery in business activities, open policy of the cross-strait ECFA and the profit luring business opportunities generated by China's "12th Five-year Plan", the Taiwan stock market cannot be neglected. Nevertheless, Taiwan has the export-oriented economy and is highly susceptible to the ups and downs of international economy. There are still a lot of variables in this year's global economic situations, which require cautious reactions and cannot be treated lightly.

4. Industry Overview

The current situation and development of the securities industry can be briefly explicated as follows:

The securities industry has undergone the phases of purchase and merger with a small number of brokers, and most medium and large brokers being successively integrated into the financial holding companies.

Changes in Number of Securities Brokerages in Recent Years

Year	Total Number 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
2010	151	1,032	1,183

Source: FSCS Securities and Futures Bureau Website

The decrease in the number of the securities companies has indicated the development of the industry becomes large scale organization. With the invariable conviction of "the bigger the better, large scale development towards globalization through acquisition or merger has become so necessary to compete against foreign brokerages. At the same time, large-scale brokerages still actively engage in adjusting their branches in order to generate growth in market share among each branch." Medium and large-size brokerages are gradually integrated into financial holdings companies. With the financial holdings companies becoming more and more powerful, those small and medium sized brokerages are forced to either transform or exit the market.

Growth in Scale of Capital Market Stagnates

According to the stock exchange statistics, the number of listed firms by the end of 2010 was 758, with 12 new TDR listed firms, 2 more than last year. Other than Taiwanese enterprises, listed companies from Singapore and Elpida from Japan came to Taiwan and issued TDR. Beyond that, the overseas primary listing was also initiated this year with six new companies like KY Comestibles Master (2723) and TPK Holding Company (3673), driving further the expansion of the Taiwan stock market scale, bringing positive promises on the contribution of underwriting income.

The Intense Competition of the E-trading

By the end of 2010, a total of 63 Taiwan brokerages offered e-trading platforms. The volume of e-trades this year(including internet and voice services) rose to NT\$15.163 trillion, accounted for 26.3% of the total market in contrast to 24.5% in 2009, a growth of 7%. The market share in e-trading has grown by 19% from previous year.

Since e-trading can substantially reduce costs and eliminate the restrictions in time and space for the investor to place the order, each brokerage has recently not only been working on promoting the use of computers and voice-prompted devices for placing orders, but also using wireless devices, such as cellphones and stock market consoles. The e-trading market is expected to see growth, and Hua Nan Securities will continue to expand the e-trading in an effort to further boost its market share.



5. Research and Development

Research and development have been conducted, pursuant to policies and ordinances, on such new businesses and structured financial derivatives products as emerging stock trading, convertible bond asset swap, interest rate swap, sub-brokers of foreign business, issuance of domestic call (put) warrants, futures options for index and individual stocks, interest rate futures, gold futures, and asset securitization, with particular stress on the training and recruitment of talents on investment banking, financial engineering, and risk management.

To conduct the planning for the following related information systems:

1. Planning for the installment of the overseas sub-brokers web trading platform: to install the multi-national ordering platform where the client can trade multiple product, and create the sub-system of NTD pricing for the convenience of the transaction.
2. To install the Taiwan stock futures & options ordering platform: to install a 3-in-1 transaction platform and displace the current securities futures web ordering so as to increase the convenience for the client.
3. To conduct the expansion planning for business management systems: including customer relationship management, district supervision system, manager system, decision support management system, and so on.
4. To install the securities manager system: to conduct thorough approach to client's transactions and to help the branch manager operating futures.
5. To conduct the planning for the wealth management trust business system: to install the system in accordance with the application of the wealth management trust.

To strengthen the operational risk management culture of Hua Nan Securities and carry out the following risk management operations in accordance with the related risk management consultant plans of the parent company:

1. Planning the risk self-assessment (RSA) tools for operational risks.
2. To carry out the operational risk assessment procedure (ORAP) for the implementation of new business.
3. To install corporate loss database (CLD).
4. To draw up the key operational risk indicators (KRI).
5. To continue the development and improvement of the product intraday risk control for the stock exchange market proprietary trading in coordination with the front desk operation.
6. To formulate risk management guidelines for new business in coordination with each department.
7. To examine and revise the risk management structures and guidelines for the company and each department.
8. The maintenance operation of the risk management system (FIRMS).

To combine the professionalism of Overseas Product Department, International Business Department, Financial Product Department, and Futures Dealing Department in devotion to the arbitrage research and transaction of financial products, and in keeping with research and development of the Information Department's software designing, so HNSC would develop the computer transaction programs on spreads, arbitrage, and hedging, supported by the technical judgment by artificial intelligence charts, for the purpose of commanding the long and short operation directions and securing the maximum profits.

The Underwriting Department, Bond Department, and the other related departments will actively seek strategic alliance with law firms and accounting firms for talent training and recruiting as well as the introduction of related professionalism, in cooperation with the brother companies such as Hua Nan Venture Capital, Hua Nan Management Consulting, and Hua Nan Commercial Bank to vie related resources of clients and expand related businesses.

To actively seek potential brokerages for merger under the structure of the parent company so as



to empower the business related to securities and to perpetuate the operational growth.

To study and plan for incorporating research units with HNCB, Hua Nan Securities, and Hua Nan Investment Trust into the research center of investment consulting under the Company so that it can conduct in-depth studies on the fundamental, technical, and capital aspect of global finance, domestic and international economy, and industrial and individual companies so as to control the investment trends and evade risk industries; to provide the Company's related units with background information for investment advice as well as credit references.

6. Short to Long-term Business Development Plans

A. Short-term Strategy

To operate balanced development among the businesses of brokerage, underwriting, proprietary trading, new financial products, and at the same time to develop business related to wealth management, in order to make profit to be the Top 10 domestic brokerages in capital size.

B. Mid and Long-term Strategy

1. Brokerage: to complete the channel installment and expand new businesses.
2. Investment Banking Business: to enhance underwriting business and extend the capital size.
3. Asset Management: to expand the scale of the capital management and promote the performance of the operation management.
4. Financial Innovation: to strengthen the financial engineering capability and adopt domestic and international financial products.
5. E-enterprise: to integrate the enterprise resources and elevate the operational efficiency.
6. Risk Control: to monitor risk assets and lower the operational risks.



SOUTH CHINA INSURANCE CO., LTD (SCIC)

Financial Highlight

Unit: NT\$ thousand

As of December 31, 2010 and 2009

2010

2009

Income Statement

Operating income	10,555,611	9,873,789
Operating cost	(9,324,188)	(8,587,401)
Gross income from operations	1,231,423	1,286,388
Operating expense	(938,252)	(894,595)
Net operating income	293,171	391,793
Non-operating revenue	54,168	21,567
Non-operating expense	(3,528)	(2,189)
Income before tax	343,811	411,171
Income tax	(39,609)	(307,159)
Net income	304,202	104,012

Balance Sheet

Total assets	11,865,815	10,960,661
Total liabilities	9,512,636	8,870,353
Total shareholders' equity	2,353,179	2,090,308

Ratio

ROE	13.69%	5.24%
ROA	2.67%	0.99%
Capital adequacy ratio	514.67%	555.61%

Credit Ratings (long/outlook)

Taiwan Ratings	twAA-/Stable (2010/11/24)
A.M. Best Ratings	A- /Stable (2011/02/16)



OPERATING RESULTS OF SCIC

1. Composition of Income from Main Areas of Business

Unit: NT\$ thousand

Business	2009		2010	
	Amount	%	Amount	%
Fire Insurance	1,067,273	19.12	1,027,327	17.53
Marine Insurance	431,704	7.73	537,544	9.17
Motor Insurance	2,865,247	51.33	3,081,629	52.60
Casualty Insurance	562,412	10.08	583,379	9.96
Health and Personal Accident Insurance	301,829	5.41	270,689	4.62
Written Premium Income	5,228,465	93.67	5,500,568	93.88
Reinsurance Income	353,387	6.33	358,783	6.12
Total	5,581,852	100.00	5,859,351	100.00

2. Future Development for New Products and Services

New products development for 2011 are going to conduct with different market demands so as to satisfy the customer's needs. The new products are planned as follows:

Product Names
Auto insurance in addition to amended usage
Auto body damage insurance due to typhoons, earthquakes, tsunamis, hail, flood or water damage (limited coverage)
Auto insurance for theft loss limited coverage
Auto insurance for roadside assistance charge
Home owner insurance
Home owner insurance in addition to medical treatment compensation for casualty
First-time diagnosed cancer health insurance
Cancer hospitalization insurance (daily indemnity)
Personal accident insurance in addition to condolence compensation for food poison
Personal accident insurance in addition to compensation for facial disability
Personal accident insurance in addition to double compensation for death occurred overseas

Note: The listed products above are rather the research and development results by South China Insurance Company's incumbent underwriting, indemnity, actuarial, legal, investment, risk control, and business personnel than outsourced consignment jobs. The related research and development fees are included in the item of business fees of the year.

3. Business Plan for 2011

On increasing the market share: maintain and explore new channels, reinforce renewal management, and deepen the cross-selling business.

On lowering operating costs: to utilize the cost management system & substantiate the planned expenditure, elevate information development and management, and lower the costs of time and manpower.

On promoting investment efficiency: to make flexible adjustments on investment portfolio according to the Company's strategy and to generate the maximum profit.

On raising the company's competitive capability: to enhance the ability on expansion and managing new products in keeping with the demands of each business channel, to carry out each customer service and upgrade exquisite service competitively; to actively plan and deploy operating base in Mainland China so as to enhance the operational capability in overseas markets.

On carrying out the interior control mechanism: to implement risk management mechanism in close observance of related regulations and ordinances so as to stabilize the operational results.

On training plans: to retain the superior employees and plan for the talent rotation mechanism, to establish systemized training plans for the basic-level, mid-level, and high-level, to make the most out of the resources of Web-based instruction, physical instruction, and foreign trainings so as to advance the company's talent database.

4. Industry Overview

The overall written premium of the property and casualty insurance market was NT\$ 105,144 million in 2010. Due to the economic recovery, the market grew 3.47% higher than 2009, an increase of NT\$ 3.7 billion. SCIC posted a total written premium of NT\$5.556 million in 2010, representing an overall growth of 5.20% higher than previous year as well as increasing the market share to 5.23%.



5. Research and Development

A. The Expenses and Results of the Research and Development on New Insurance Products for the Past Two Years

The new insurance products of South China Insurance Company were all developed by the Company's product development teams. The newly developed major insurance products for the past two years are as follows:

Product Names
Third party motor liability insurance in addition to increased protection on holidays
Third party motor liability insurance in addition to increased protection for passengers on holidays
Third party motor liability insurance in addition to increased protection for the additional driver's injury on holidays
Third party motor liability insurance in addition to increased protection of medical treatment compensation for the additional driver's injury on holidays
Auto body damage insurance in addition to assigned repair shop
Third party motor liability insurance in addition to excessive liability
Store insurance in addition to the parking lot liability for the public accident liability
Business place insurance in addition to the food poison liability for the public accident liability
Bailee's customers insurance
Personal type building usage rights insurance ("Taipei Main Station Transportation No. 9 Specialized Areas Development Projects")
Employers liability insurance in addition to overseas liability
Condolence payments additional terms (applicable to general liability insurances)
Critical illness insurance
Critical illness and specific injury and disease insurance
Travel insurance in addition to travel accident insurance for sudden illness abroad
Liability insurance for individuals and their family members in addition to additional accident insurance for specific disability life-support compensation
Group business travel insurance
Motor transportation industry passenger liability insurance
Auto insurance additional terms of scooter
Motor transportation industry passenger liability insurance additional terms of medical treatment liability for body injury

Automobile third party liability insurance (applicable to motor transportation industry)
Automobile third party liability insurance (applicable to motor transportation industry) additional terms for excessive liability
Automobile third party liability insurance (limited liability for both body injury and property damage--applicable to good drivers)
Store comprehensive insurance additional terms of the sign board liability for the public accident liability (Class A)
Art exhibition insurance
Construction and maintenance contractor accident liability insurance additional terms of natural disaster liability
Employees honesty guarantee insurance additional terms of special agreement for the securities industry
Employers liability insurance additional terms of employer's liability for the construction site
Mini group accident insurance
Overseas emergency relief additional terms

B. Future Plans of Research and Development

In order to satisfy the consumer's demands and needs, the development of new products in different market demands continued to be carried out. The newly planned product items include: auto insurance additional terms of amended usage, auto body damage insurance due to typhoons, earthquakes, tsunamis, hail, flood or water damage insurance (limited coverage), auto insurance for theft loss limited coverage, auto insurance for roadside assistance charge, home owner comprehensive insurance, household insurance in addition to medical treatment compensation for casualty, first-time diagnosed cancer health insurance, cancer hospitalization expenses health insurance (daily indemnity), personal accident insurance in addition to condolence compensation for food poison, personal accident insurance in addition to compensation for facial disability, and personal accident insurance in addition to double compensation for death occurred overseas. Meanwhile, both information system and risk management will be reinforced.

6. Short to Long-term Business Development Plans

A. Operation Targets

1. To innovate new products and new style management, as well as create the distinguished brand image.
2. To establish multiple selling modes and provide diversified services.
3. To strengthen risk management and interior control mechanism.
4. To lower operational expenses and create profit niche.
5. To fully utilize information applications and elevate the integrated performances.
6. To adjust the deployment of financial products so as to increase profit.

B. Business Goals

SCIC's operating revenue was in total of NT\$5.859 billion in 2010, with NT\$5.5 billion for the written premium and NT\$0.359 billion for the reinsurance. The average compensation rate for each insurance item was 58.42%.

The operating income of South China Insurance Company in 2010 was NT\$10.555 billion with NT\$5.859 billion premium revenue, NT\$2.529 billion withdrawn preparation, and NT\$2.167 billion in other operating incomes. The operating cost was NT\$9.324 billion in total, which included NT\$3.389 billion insurance claims and compensations, NT\$2.714 billion withdrawn preparations, and NT\$3.221 billion for the other operating costs. The operating expenses was NT\$938 million, the operating profit was NT\$293 million, the net operating income was NT\$51 million, the income before tax was NT\$344 million, and the net profit after tax was NT\$304 million; the net income per share after tax was NT\$1.52, with 2.6% ROA and 13.69% ROE. The budget achieving rate is 100.73%.

C. Significant Operation Strategies

1. Business Development

- a. To expand the marketing channel and conduct business collaboration with banks in order to increase the income sources; to hold strategic alliance with life insurance companies in order to gain access to the vast operating systems and resources of life insurances so as to upgrade personal insurance business.
- b. To strengthen renewal management and provide the clients with damage prevention services in order to establish long-term relations while enlisting the renewal rate of Company's performance indicators.
- c. To organize a brain trust, which serving to collect information of new products in the market, hold monthly product conferences, evaluate product development efficiency and marketing modes, and classify client segments based on the client attributes, risk factors like usage frequency and safety equipment, and actual loss in order to regulate differentiated premium rates.
- d. SCIC joined the event of "Faith, Hope and Love Insurance Award" and compete for the four best awards including "Best Insurance Professionalism Award," "Best Product Creativity Award," "Best Communication Award," and "Best Professional Advisor Award," among which South China Insurance Company won the "Best Insurance Professionalism Award" and the "Best Product Creativity Award" for two consecutive years, which showed SCIS's commitment to its professionalism and quality as well as its pursuit for brand spirit of "Creativity and Vitality."



2. Risk Management

- a. In order to control potential risks in the operation, the company sets up a highest level administrator to command the related risk management policies, which coordinate each department to ensure the effective operation of each risk preventive measurement and to monitor and integrate the risks management of the whole company so as to fulfill the function of timely risk controls.
- b. To carry out limit control and establish KRI indicators while maintaining the accuracy of the loss database, the Company holds regular risk management committee meetings in order to control risk situations and implement scheduled measures.

3. Cost Control and Management

- a. To promote the Company's interior electronic signature procedure so as to reduce paper waste.
- b. To encourage compulsory retired personnel or age close to retired age personnel to transfer to sales representatives so as to reduce costs.
- c. To strictly implement the yearly budget for effective control on costs. The cost-sharing mechanism has been launched since 2007, serving to provide the auxiliary information for cost control and management strategies to keep track of the situations of expenses. The cost ratios from 2008 to 2010 were 35.54%, 31.91%, and 31.51%, representing the downgrading tendency as well as the fruition of cost control and management.

4. Capital Management

- a. South China Insurance Company has had all the investments measured against the principles of asset risks. SCIC has participated in the Company's integrated risk control mechanism in keeping with the parent company's overall planning, and has conducted the evaluation and adjustment on the current risk assets by means of the estimated risk value indicators, while paying attention to both the promoted stability of capital gains as well as the risk changes to ensure the close control of the potential fluctuation risks of financial assets.
- b. Since the fund of insurance industry is different in nature from other financial institutions, South China Insurance Company's strategy is based on the principles of mobility and safety with consideration of profitability so as to have sound solvency position and protect the insured's rights.

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

Financial Highlight

Unit: NT\$ thousand

As of December 31, 2010 and 2009

2010

2009

Income Statement

Operating income	263,769	297,540
Operating expense	(190,638)	(189,617)
Net operating income(loss)	73,131	107,923
Non-operating revenue	1,307	9,382
Non-operating expense	(771,292)	(464,494)
Income before tax	(696,854)	(347,189)
Net income	(546,256)	(255,031)

Balance Sheet

Total assets	952,734	1,597,486
Total liabilities	951,623	1,050,119
Total shareholders' equity	1,111	547,367

Ratio

ROE	(199.19%)	(42.87%)
ROA	(42.84%)	(22.41%)



OPERATING RESULTS OF HNIT

1. Business Composition

Asset Types		Percentage (%)
Mutual Funds	Equity	50.16
	Fixed-income	46.06
Private Equity		0.00
Discretionary Investment		2.97
Fee Income		0.81
Total		100.00

2. Business Plan for 2011

- To seek technical cooperation and strategic partnerships with mainland Chinese fund management companies.
- To enhance the asset management capability in order to secure stable performances.
- To actively promote e-commerce to enhance customer services.
- To enhance customer services and relations, as well as promoting brand name marketing
- To emphasize the employee education and training to create a foundation for company's long-term development and to best service quality.

3. Industry Overview

In contrast to the preceding year, the financial market in 2010 witnessed a relatively higher fluctuation because of the frequent European credit crisis and the emerging countries' cash outflow under the growing pressure of inflation. Under these circumstances, investors' confidence has shaken in the overall market. Funds in 2010 reached only NT\$1,895.783 billion, a decrease of NT\$79.253 billion or 4% compared with last year.

In view of changes of all types of funds, the multinational mutual portfolio funds have scored the highest growth in 2010, representing an increase of NT\$49.6 billion more than the preceding year. It reflected the upsurge of raising bond funds in the market. The next biggest growth was the multi-national equity fund with an increase of approximately NT\$13.9 billion, a 4% growth mainly due to the raise of investors confidence in risk assets. The increase in equity funds was focused on emerging markets, such as China, Asia and area where strong momentum of economic growth was seen. The third one with highest growth was the high-yield bond fund with an increase of NT\$31.9 billion.

Year 2010 has seen a great leap in the cross-strait relations. As far as the investment trust industry is concerned, there have been several members of the industry having their QFII quota applications approved, while some others are still working on increasing capitals in order to comply to the Chinese laws and regulations in the hope of forming joint ventured companies. It is expected that following the tendency of open policies in the future Strait relations, the investment trust industry of Taiwan will be offered more space for development and expansion.



4. Research and Development

The research and development of new financial products by securities investment trust companies is largely steered by liberalization and approval made by supervisory agencies. In keeping with the policy of the authorities with consideration of the market pulse, HNIT newly launched financial products during past two years are:

- A. "Hua Nan Investment Grade Fund of Bond Funds," the investment-grade bond funds, issued on July 19, 2010.
- B. "Hua Nan Small Mid Cap Fund," the investments based on small- and medium-size Taiwan stocks, issued on December 27, 2010.

5. Short to Long-term Business Development Plans

A. Short and Medium-term Business Development Plans

- To gradually build a comprehensive product line that is customer driven.
- To strengthen the long-term performance of funds and create flagship funds.
- To establish an image for HNIT and to promote media exposure.
- To enhance customer services and elevate customer satisfaction.
- To strengthen risk management, promote rationalization of operational procedures, and upgrade the overall service efficiency.

B. Long-term Business Development Plans

- To become the Top Ten securities investment trust company in Taiwan in terms of asset under management.
- To become a brand name in Greater China whose products customers specifically seek to buy.



HUA NAN VENTURE CAPITAL CO., LTD (HNVC)

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

Financial Highlight (HNVC)

Unit: NT\$ thousand

As of December 31, 2010 and 2009

	2010	2009
Income Statement		
Operating Income	64,768	104,538
Operating expenses	(26,590)	(27,986)
Net operating income (loss)	38,178	76,552
Non-operating revenue	882	2,450
Non-operating expense	(34,089)	(64,308)
Income(loss) before tax	4,971	14,694
Net income (loss)	4,674	12,534
Balance Sheet		
Total assets	974,915	1,016,187
Total liabilities	619	3,551
Total shareholders' equity	974,296	1,012,636
Ratio		
ROE	0.47%	1.25%
ROA	0.47%	1.25%

Financial Highlight (HNMC)

Unit: NT\$ thousand

As of December 31, 2010 and 2009

	2010	2009
Income Statement		
Operating Income	23,810	25,247
Operating expenses	(20,182)	(20,389)
Net operating income	3,628	4,858
Non-operating revenue	174	374
Income before tax	3,802	5,232
Net income	3,068	3,717
Balance Sheet		
Total assets	22,903	23,715
Total liabilities	7,936	8,471
Total shareholders' equity	14,967	15,244
Ratio		
ROE	20.31%	24.62%
ROA	13.16%	16.52%



OPERATING RESULTS OF HNVC & HNMC

HUA NAN VENTURE CAPITAL

1. Business Scope

- A. To provide direct capital to invested companies.
- B. To provide corporate operations, management and consultation services to invested companies.

2. Business Plan for 2011

- A. In order to elevate the economic scale, competitive capability, profitability, and comply with the regulations at the same time, HNVC draws up a rights issue of NT\$1 billion in the near future.
- B. To use the industry networking and connection to strengthen the exploration of new quality projects. HNVC elevates management performances and continues the search for long-term development with potential profitability in order to prolong the fund operation period.
- C. To look for the proper time to realize the profitability of existing portfolios so as to maximize the profit for the shareholders. HNVC would also promote the plan of listing investment projects with good performances, and try to find alternatives for other investment projects.

3. Industry Overview

- A. State of Fundraising: 8 new venture capital funds were created in 2009, increasing paid-in capital in this regard to NT\$4.25 billion. Increase in capital for the year stood at NT\$5,608 billion, while the decrease in capital at NT\$6.878 billion. The total increased with new capital funds surpassed the total decreased in capital for the first time in 5 years, which showed a slight reover of the venture capital industry.
- B. State of Investment: The total number of venture capital investment projects in 2009 was 533, with the investment amount reaching NT\$12.154 billion. This was a slightly lower from 620 investment projects in 2008 with total investment of NT\$13.64 billion.
- C. Invested Industries: The major investment industry in 2009 were the opto- electronics,

semiconductor, and the biotechnology, among which the opto- electronics industry was the highest investment amount for three years in a row, apparently highly favored by most investors, while the biotechnology industry became more attracting to investors so its investment amount growing year after year.

- D. Investment Stages: The investment amount for the major investment stages in the venture capital industry of 2009 was 63.64% in the expansion stage and 26.68% in the mature stage, accounted for 90.32% all together. The overall ratio in the NWS stage of the domestic venture capital industry dropped sharply, which was unfavorable to the fund-raising of emerging industries.
- E. Investment Areas: The major investment of the venture capital industry in 2009 was 91.38% in the domestic areas with the total investment standing at NT\$ 11.107 billion, while the ratio of the overseas investment reduced significantly, different from the previous year in which 70% in the domestic and 30% in the overseas.
- F. Investment Performance: The average listed venture capital investment companies in 2009 were 19, comprising 38% of the total listed companies of the year. The average EPS of the Taiwan venture capital industry in 2009 was NT\$ 0.88 dollars, with the investment performance turning from the negative to the positive.

4. Research and Development

Related industrial research is provided by Hua Nan Management & Consulting Company.

5. Short to Long-term Business Development Plans

- A. To consider the proper time to realize profits from existng portfolios with close attention paid to those poor invested companies in order to offer assistances or timely provisions to reduce the loss incurred so as to make reasonable expression of investment value.
- B. The reinvestment business was currently targeting in the expansion stage and mature



stage which could realize profit within three years. Meanwhile, proper industry and area investment portfolios were being installed in accordance with investment policies so that adjustment would be scheduled after assets increased.

HUA NAN MANAGEMENT & CONSULTING

1. Business Scope

- A. Manage Hua Nan Venture Capital
- B. Corporate operations management and consulting
- C. Investment consulting.

2. Business Plan for 2011

- A. In order to elevate the economic scale and competitive capability, enhance profitability, and comply with the regulations at the same time, an increased capital of NT\$ 1 billion for Hua Nan Venture Capital is planned. If everything goes as plan, the scale of managed fund shall increase from NT\$ 1 billion to NT\$ 2 billion, and the income from fund management shall increase too.
- B. To maximum investment reward for shareholders of the Venture Capital fund.
- C. To upgrade the professional and operational performance of the investment management group and plan to expand the scale of the fund so as to maintain the sustainable development of HNMC.

3. Industry Overview

By the end of 2009, Taiwan had 92 fund management teams (included self-managed) managed 183 venture capital companies in total (not include 94 companies changed names and 11 companies yet-to-be-established the or establishment delayed). The total capital under management was NT\$163.981 billion.

4. Research and Development

Assign project managers to attend local and foreign seminars and trainings actively in order to enhance the knowledge on investment cases assessment and post-investment management. HNMC also provides assistant on investment management and financial map out, and to establish strategic alliances and partnerships in the hope of successful listing to bring returns to the shareholders.

5. Short to Long-term Business Development Plans

- A. The objective is to create both long-term and short-term profitability for the venture capital funds having in-depth industry trend analysis, active search for project sources, and professional investment evaluation.
- B. Our prospect for the future is to continue its investment portfolios in cautious manners, to enhance the scale of the fund management with better returns, and recruit talented personnel in order to expand the Company's asset management gradually.

HUA NAN ASSETS MANAGEMENT CO., LTD (HNAMEC)

Financial Highlight

Unit: NT\$ thousand

As of December 31, 2010 and 2009

2010

2009

Income Statement

Operating Income	205,197	159,984
Operating Expense	(122,609)	(104,276)
Net Operating Income	82,588	55,708
Non-operating revenue	19,988	2,254
Non-operating expense	(28,198)	(27,630)
Income before tax	74,378	30,332
Net income	74,378	30,522

Balance Sheet

Total assets	2,945,842	2,926,803
Total liabilities	1,861,541	1,889,411
Total shareholders' equity	1,084,301	1,037,392

Ratio

ROE	7.01%	2.92%
ROA	2.53%	0.96%



OPERATING RESULTS OF HNAME

1. Business Composition

Area of Business	Share
Disposal of NPLs	55.97%
Managing NPLs	10.93%
Direct Investment in Court-Auctioned Real Estate	31.96%
Other	1.14%

2. Business Plan for 2010

A. Non-performing Loans and Disposals

1. Non-performing Loans

- To continue the purchase of the non-performing loans. In response to the change of the NPL market, the source is no longer limited in purchasing the entire batches of NPLs released by financial institutions, but also expand to individual lots and NPLs put up for sale by fellow AMCs.
- The NPL investment should be extended from enterprise corporate banking and collateral non-performing loans to non-collateral loans.
- Plan on selling the NPLs to speed up the disposal of the process and increase profits.

2. Collateral Take Over and Disposition

- To sell or rent through the existing channels or through the intermediary in order to raise the returns of the real estate.
- To entrust a third party to sell the property at marked price and to increase the REO disposal rate.

3. Real Estate Direct Investment and Disposals

- Aiming at the commercial real estate like business district or factories in which have potential of short-term capital gains in Greater Taipei and other metropolitan areas as the main targets of investment.

b. To scrutinize the evaluation of those targeted real estate released by RTC or AMC in order to amplify the purchase sources.

c. To reinforce the asset management efficiency, speed up the disposal of the assets held, and increase the asset turnover ratio. While disposing the real estate, company will screen for proper buyers and recommend them to Hua Nan Bank's branches for more business opportunities.

B. Entrusted Collection Operation

1. Debt collection for Hua Nan Bank

To demand more amount of debt collection of non-performing loans from Han Nan Commercial Bank in the hope to help the branches reducing the amount on long time collection debts. HNAME also hopes to increase the amount of entrusted cases so that it can reach the economic scale and elevate the collection performance.

2. Collection for Corporate

- To expand the collection business to corporate through the Company's cross-selling channels and increase the amount of entrusted collection cases.
- To re-consign collection business to professional collection companies and watching closely mechanisms to promote the collecting performance and mitigate HNAME's operating costs.
- To initiate the re-consignment companies in this collection business in HNAME's other marketing channels.
- To acquire the re-consignment from the other companies in the industry and to promote their loans and collaterals through the marketing platform of this business so as to enrich the contents of the assets held for sale, attract the client's attention, and increase the Company's profits.



3. Industry Overview

As far as the market of non-performing loans is concerned, the improved overall economy lead to have a lower NPL ratio, the sale scale of the domestic NPL market reached peaked in 2007 at NT\$236.8 billion followed by a fall in 2008 and 2009 to around NT\$60 billion due to the reduced NPL release from financial institutions. In 2010, the sales scale went further lower to NT\$58.4 billion, reflecting the shrinking of the NPL market.

Faced with the recent disadvantageous environment of sharply reduced release of NPL from financial institutions, each AMC in the industry has to meet the drastic challenges in business growth and operational profit, re-adapting their original operational strategies based on original sale of NPL. Some of the companies have crossed the line and entered into the market of foreclosed real estate in response to the drop of NPL amounts to increase revenue sources and maintain the business operation. As a result, it is expected that the competition in AMC market next year will be intensified with great difficulties to cope with.

4. Research and Development

Aside from the efforts to strengthen the recovery of non-performing loans and stabilize the operation of direct investment business in real estate and property management mechanism, Hua Nan Assets Management Company is devoted to expanding the entrusted non-performing loans management business. In view of the dramatic drop in the market of non-performing loans, HNAMEC has tried to participate in the tenders for unsecured debts. Although no substantial tender was acquired, it is helpful to improve the bidding on unsecured debt tenders and in the entity check of the efficiency and quality of the operation.

5. Short to Long-term Business Development Plans

A. Short-term Plan

1. To reinforce staff trainings by conducting education programs and simulation exercises related to NPL case evaluation so as to upgrade the evaluation quality in the auction business and the efficiency of business study.
2. To continue to enhance the recovery of the existing assets in order to lower the debts, raise the turnover rate, and accumulate the investment momentum.
3. To continue the development of diversified operations in an effort to avoid overconcentration of income derived from the disposal of NPLs.

B. Long-term Plan

1. To make plans for those assets value creating managements by the rezoning or amendment of those non-performing land or building assets acquired from financial institutions through collaterals or public tendering.
2. To evaluate and prepare to expand into corporate restructuring and corporate M & A business.



2010

Honesty

Efficiency

Teamwork

Activeness

Responsibility

Risk Management Summary



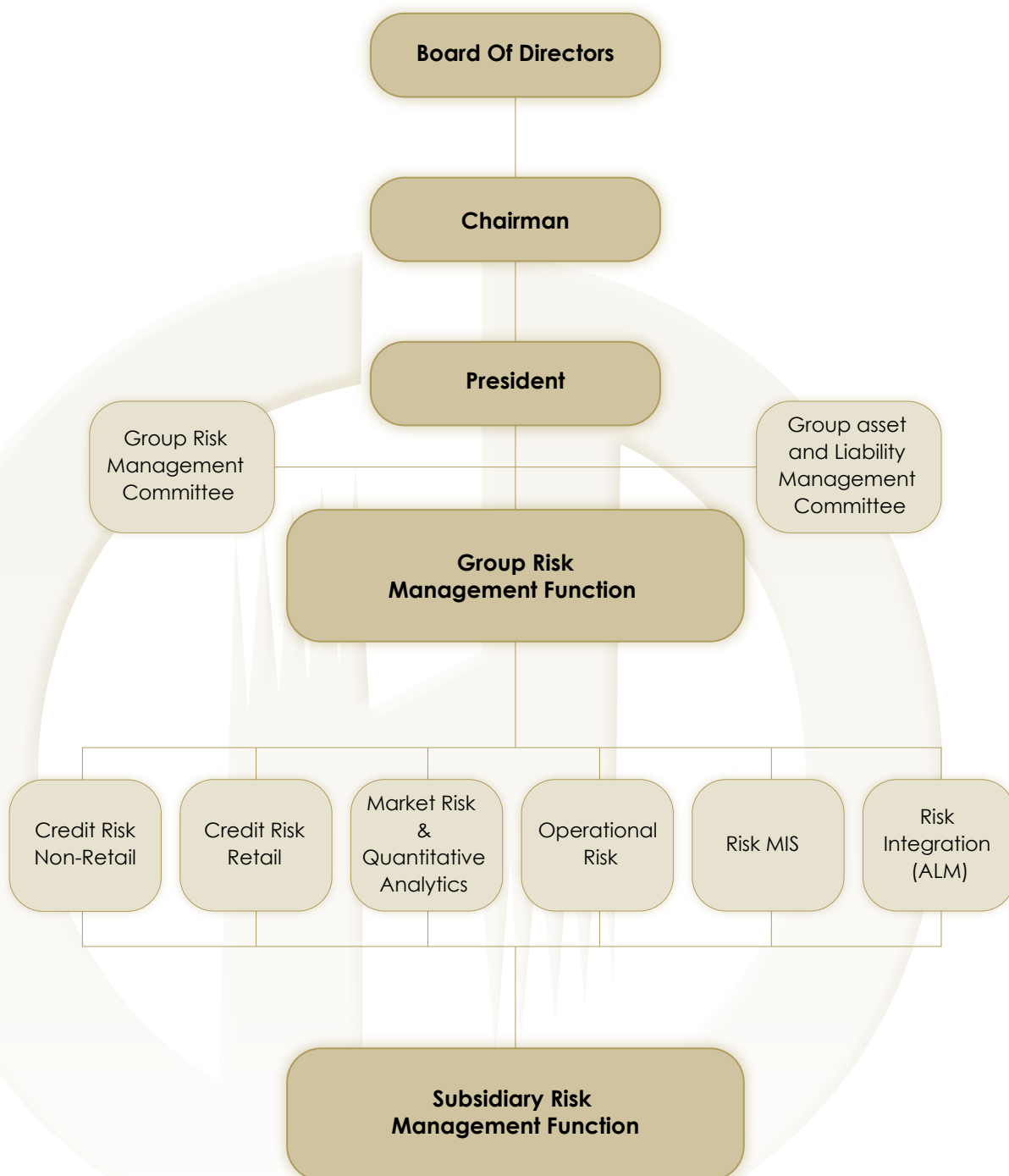
RISK MANAGEMENT SUMMARY

1. Introduction

The objective of Risk Management in Hua Nan Financial Holdings (HNFHC) is to reach the balance between return and risk, maintain a

high-quality risk profile, and obtain the target credit rating set by the board while maximizing shareholders' value.

2. Group Risk Management Organizational Structure





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

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

- Integrating Group risks.
- Developing, approving and implementing risk management policies for the Group.
- Setting, approving and monitoring risk limits for the Group.
- 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 Group to identify, measure, control, monitor and manage risks. This ensures that all risks are controlled at an acceptable level, while reflecting the Group's business targets and corporate value.

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

A. Non-Retail Credit Risk

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

HNFHC has assisted its subsidiary Hua Nan Commercial Bank to develop its internal 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.

B. Retail Credit Risk

All subsidiaries engaging retail lending activities should set up their own retail credit policies and procedures 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 Hua Nan Commercial Bank in implementing the Product Planning, in which the product and target customer characteristics should be thoroughly analyzed, and strategic actions in different stages of the "Credit Cycle" should be planned in advance. A well documented Product Program before product launch will help achieve the balance of risk and return.

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

C. Market Risk

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

Process of Approval of New Products

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

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.

HNFHC measures risk using value-at-risk (VaR) on a daily basis. To calculate VaR, HNFHC 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, HNFHC conducts back-testing periodically.

D. 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.

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.



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.

Corporate Loss Database, CLD

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

Key Operational Risk Control, KORC

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

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.

E. Insurance Risk Management

HNFHC has assisted its subsidiary, South China P&C Insurance completing its Insurance Risk Management Policy to establish a framework for insurance risk management. This framework establishes a complete managerial procedure and an early warning mechanism for South China P&C Insurance to identify, monitor and manage the underwriting, reserve and reinsurance risks arising from its insurance underwriting operations.

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

5. Risk Integration

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

HNFHC and its subsidiary Hua Nan Commercial Bank have purchased Fund Transfer Pricing / Performance Analyzer / Risk Manager system from an outside vendor. With the implementation of the Bank's FTP system, HNFHC will be able to calculate funding costs of each business. An external consultant is providing assistance in introducing economic capital, risk-adjusted return on capital and economic profit concepts and methodology. Upon the completion of the

internal rating models, VaR system, loss database and data collecting, HNFHC can start calculating the economic capital it needs, which will enable HNFHC to balance the risk and return, and implement a robust risk management mechanism. 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:

A. Interest Rate Risk measurement tools:

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

B. Liquidity Risk Measurement tools:

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

C. Currency Risk Measurement tools:

The tool used to measure currency risk is Value at Risk (VaR).

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:

A. 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 and investment portfolios across all subsidiaries, and to produce risk analysis reports for group daily market risk limits monitoring.

B. Group Corporate Loss Database, CLD

The purposes of CLD are to gather internal 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.

C. 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.



D. 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.

E. Credit Risk Early Warning System

HNFHC has built a credit risk early warning system using internal and external credit ratings, stock & bond prices, and CDS Spreads that are sensitive to the capital market changes, combined with historical observations and current market situation, to capture a variety of early warning signals.

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.

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Consolidated Financial Statements



2010 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, 2010 and 2009, 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, 2010 and 2009, 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 15, 2011

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.

HUA NAN FINANCIAL HOLDINGS CO., LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2010 AND 2009
(In Thousands of New Taiwan Dollars)

ASSETS	2010	2009	Percentage of Variation %
	Amount	Amount	
Cash and cash equivalents	\$ 22,929,111	\$ 22,612,227	1
Due from the Central Bank and other banks	105,415,812	158,603,970	(34)
Financial assets at fair value through profit or loss, net	29,418,560	30,564,528	(4)
Bonds and bills purchased under resale agreements	1,983,813	4,207,728	(53)
Receivables, net	47,283,485	47,782,437	(1)
Discounts and loans, net	1,245,912,652	1,104,845,657	13
Available-for-sale financial assets, net	66,878,184	74,026,832	(10)
Held-to-maturity financial assets, net	304,567,500	323,514,101	(6)
Investments accounted for by the equity method	88,598	90,152	(2)
Other financial assets, net	12,822,345	10,236,107	25
Investments in real estate ,net	621,556	444,626	40
Property and equipment, net	28,499,000	25,685,218	11
Intangible assets, net	623,310	532,693	17
Other assets, net	13,380,180	13,352,472	-
TOTAL	\$ 1,880,424,106	\$ 1,816,498,748	4

LIABILITIES AND STOCKHOLDERS' EQUITY	2010	2009	Percentage of Variation %
	Amount	Amount	
Due to the Central Bank and other banks	\$ 43,638,222	\$ 48,621,314	(10)
Commercial paper issued, net	5,904,667	4,211,898	40
Financial liabilities at fair value through profit or loss	37,767,034	42,265,550	(11)
Bonds and bills sold under repurchase agreements	23,686,422	22,946,876	3
Payables	40,611,765	42,178,480	(4)
Deposits and remittances	1,568,039,349	1,510,245,575	4
Bonds and bank debentures payable	36,000,000	31,000,000	16
Other borrowings	5,761,000	3,300,000	75
Accrued pension liability	1,845,365	1,622,286	14
Other financial liabilities	691,523	690,156	-
Reserves for operations	8,980,551	8,338,173	8
Other liabilities	7,162,642	7,342,678	(2)
Total liabilities	1,780,088,540	1,722,762,986	3
STOCKHOLDERS' EQUITY			
Common stock	66,172,778	62,723,012	6
Capital surplus	12,408,843	12,408,844	-
Legal reserve	6,173,895	5,728,999	8
Special reserve	-	2,152,563	(100)
Unappropriated earnings	12,156,774	9,072,017	34
Unrealized revaluation increments	3,927,660	3,931,740	-
Cumulative translation adjustments	(214,522)	(121,708)	-
Unrealized losses on financial instruments	(291,196)	(2,161,043)	-
Total parent stockholders' equity	100,334,232	93,734,424	7
MINORITY INTEREST	1,334	1,338	-
Total stockholders' equity	100,335,566	93,735,762	7
TOTAL	\$ 1,880,424,106	\$ 1,816,498,748	4



HUA NAN FINANCIAL HOLDINGS CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME YEARS ENDED DECEMBER 31, 2010 AND 2009

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

	2010	2009	Percentage of Variation %
	Amount	Amount	
INTEREST INCOME	\$ 27,435,269	\$ 28,825,138	(5)
INTEREST EXPENSE	(9,913,098)	(12,507,462)	(21)
INTEREST INCOME, NET	17,522,171	16,317,676	7
NET INCOME (LOSS) EXCLUDING INTEREST INCOME			
Service fee and commission income, net	7,176,429	6,210,562	16
Income from insurance premiums, net	1,538,334	1,581,829	(3)
Gains (losses) on financial assets and liabilities at fair value through profit or loss	(2,137,483)	2,183,620	(198)
Realized gains of available-for-sale financial assets	1,022,742	582,878	75
Realized losses of held-to-maturity financial assets	-	(683)	-
Investment income (loss) recognized under equity method	(1,554)	2,607	(160)
Income from investments in real estate	66,873	54,965	22
Foreign exchange gains, net	3,794,529	1,095,782	246
Impairment losses	(68,015)	(101,496)	-
Recovered bad debts and overdue accounts, net	2,033,815	1,272,979	60
Gains on disposal of collaterals assumed, net	-	2,112,062	(100)
Gains on disposal of assets, net	10,748	1,360,646	(99)
Other non-interest income, net	1,171,587	807,372	45
NET REVENUES	32,130,176	33,480,799	(4)
BAD-DEBT EXPENSES	(7,345,743)	(11,110,639)	(34)
PROVISIONS FOR INSURANCE RESERVES	(185,042)	(338,955)	(45)
OPERATING EXPENSES			
Personnel	(11,639,464)	(11,313,371)	3
Depreciation and amortization	(1,131,543)	(1,209,877)	(6)
Other general and administrative expenses	(5,056,868)	(4,962,916)	2
CONSOLIDATED INCOME BEFORE INCOME TAX FROM CONTINUING OPERATIONS	6,771,516	4,545,041	49
INCOME TAX EXPENSE	(690,171)	(96,037)	619
CONSOLIDATED NET INCOME	\$ 6,081,345	\$ 4,449,004	37
ATTRIBUTABLE TO			
Parent company	\$ 6,081,316	\$ 4,448,958	37
Minority interest	29	46	(37)
	\$ 6,081,345	\$ 4,449,004	37

	2010		2009	
	Pretax	After-tax	Pretax	After-tax
BASIC EARNINGS PER SHARE	\$ 1.02	\$ 0.92	\$ 0.69	\$ 0.67

HUA NAN FINANCIAL HOLDINGS CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2010 AND 2009
(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, 2009	\$ 60,896,128	\$ 12,352,244	\$ 52,361	\$ 2,936	\$ 1,325
Appropriation of 2008 earnings (Note)					
Legal reserve	-	-	-	-	-
Special reserve	-	-	-	-	-
Cash dividends	-	-	-	-	-
Stock dividends	1,826,884	-	-	-	-
Net income for the year ended December 31, 2009	-	-	-	-	-
Equity adjustments on investments accounted for by the equity method	-	-	-	-	-
Treasury stock transaction - subsidiary's sale of the Company's stock	-	-	(22)	-	-
BALANCE, DECEMBER 31, 2009	62,723,012	12,352,244	52,339	2,936	1,325
Appropriation of 2009 earnings (Note)					
Legal reserve	-	-	-	-	-
Special reserve transferred to unappropriated earnings	-	-	-	-	-
Cash dividends	-	-	-	-	-
Stock dividends	3,449,766	-	-	-	-
Net income for the year ended December 31, 2010	-	-	-	-	-
Equity adjustments on investments accounted for by the equity method	-	-	-	-	-
Treasury stock transaction - subsidiary's sale of the Company's stock	-	-	(1)	-	-
BALANCE, DECEMBER 31, 2010	<u>\$ 66,172,778</u>	<u>\$ 12,352,244</u>	<u>\$ 52,338</u>	<u>\$ 2,936</u>	<u>\$ 1,325</u>

Note: For the years ended December 31, 2009 and 2008, the remuneration to directors and supervisors amounting to \$61,566 thousand and \$61,841 thousand and employees bonus amounting to \$6,157 thousand and \$6,184 thousand are deducted from consolidated statements of income.



2010 Consolidated Financial Statements



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		
\$ 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)	-	-	-	-	-
-	-	4,448,958	-	-	-	46	4,449,004
-	-	-	(223,004)	(38,346)	4,062,902	-	3,801,552
-	-	-	-	-	-	-	(22)
5,728,999	2,152,563	9,072,017	3,931,740	(121,708)	(2,161,043)	1,338	93,735,762
444,896	-	(444,896)	-	-	-	-	-
-	(2,152,563)	2,152,563	-	-	-	-	-
-	-	(1,254,460)	-	-	-	(33)	(1,254,493)
-	-	(3,449,766)	-	-	-	-	-
-	-	6,081,316	-	-	-	29	6,081,345
-	-	-	(4,080)	(92,814)	1,869,847	-	1,772,953
-	-	-	-	-	-	-	(1)
<u>\$ 6,173,895</u>	<u>\$ -</u>	<u>\$ 12,156,774</u>	<u>\$ 3,927,660</u>	<u>(\$ 214,522)</u>	<u>(\$ 291,196)</u>	<u>\$ 1,334</u>	<u>\$ 100,335,566</u>



HUA NAN FINANCIAL HOLDINGS CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2010 AND 2009
(In Thousands of New Taiwan Dollars)

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Consolidated net income	\$ 6,081,345	\$ 4,449,004
Adjustments to reconcile consolidated net income to net cash provided by operating activities		
Depreciation and amortization	1,156,122	1,235,470
Investment loss (income) recognized under equity method	1,554	(2,607)
Bad-debt expenses	7,345,743	11,110,639
Provisions for insurance reserves	185,042	338,955
Provisions for other reserves	33,319	37,424
Gains on disposal of investment in real estate	(57,414)	(48,842)
Gains on disposal of other assets	(14,436)	(2,249,886)
Losses (gains) on disposal of property and equipment	2,718	(1,223,357)
Gains from cash returned on cancellation of available-for-sale financial assets	(1,501)	-
Losses on disposal of intangible assets	-	670
Impairment losses	68,015	101,496
Deferred income tax	116,108	(337,922)
Realized deferred credits	(845)	(6,557)
Unrealized deferred credits	97	1,340
Net changes in operating assets and liabilities		
Financial assets at fair value through profit or loss	1,907,315	13,328,141
Receivables	(3,092,155)	(13,169,986)
Other financial assets	399,359	172,659
Other assets	3,755,010	(12,771)
Financial liabilities at fair value through profit or loss	(5,445,051)	(5,792,867)
Payables	(1,577,599)	(5,543,312)
Accrued pension liability	223,079	239,274
Other financial liabilities	1,367	(59,760)
Other liabilities	(3,576,715)	240,972
Net cash provided by operating activities	<u>7,510,477</u>	<u>2,808,177</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Decrease in bonds and bills purchased under resale agreements	2,223,916	3,142,702
Decrease (increase) in due from the Central Bank and other banks	53,188,158	(31,265,227)
(Increase) decrease in discounts and loans	(144,691,972)	8,505,085
Decrease in available-for-sale financial assets	8,978,773	31,677,617
Decrease (increase) in held-to-maturity financial assets	18,942,397	(136,013,879)
Increase in other financial assets	(3,116,235)	(516,590)
Increase in investment in real estate	(491,002)	(292,514)
Proceeds from disposal of investment in real estate	338,603	507,861
Proceeds from disposal of property and equipment	394	1,384,165
Proceeds from disposal of other assets	60,327	3,115,093
Acquisition of property and equipment	(638,741)	(615,000)
Acquisition of other assets	(1,897)	(7,105)
Increase in intangible assets	(184,167)	(104,119)
Increase in other assets	(2,765,911)	(554,339)
Net cash used in investing activities	<u>(68,157,357)</u>	<u>(121,036,250)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Decrease in due to the Central Bank and other banks	(4,983,092)	(3,115,424)
Increase in commercial paper payable	1,692,769	3,797,328
Increase (decrease) in bonds and bills sold under repurchase agreements	739,546	(13,832,647)
Increase in deposits and remittances	57,793,774	127,783,306
Increase (decrease) in bonds and bank debentures payable	5,000,000	(3,500,000)
Increase in other borrowings	2,461,000	1,475,000
(Decrease) increase in other liabilities	(227,481)	374,716
Cash dividends	(1,249,853)	(4,248,368)
Net cash provided by financing activities	<u>61,226,663</u>	<u>108,733,911</u>
EFFECT OF EXCHANGE RATE CHANGES	<u>(262,899)</u>	<u>(72,800)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	316,884	(9,566,962)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	22,612,227	32,179,189
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 22,929,111</u>	<u>\$ 22,612,227</u>
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid	<u>\$ 10,024,501</u>	<u>\$ 15,319,102</u>
Income tax paid	<u>\$ 517,406</u>	<u>\$ 3,159,727</u>

HONEST. EFFICIENCY. ACTIVENESS. RESPONSIBILITY. TEAMWORK

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