

2011 ANNUAL REPORT



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Annual Report 2011

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

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Hua Nan Securities Co., Ltd.(HNSC)

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T E L: 886-2-2545-6888

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South China Insurance Co., Ltd.(SCIC)

ADD: 5F, No. 560, Sec. 4, Chung Hsiao E. Rd., Taipei
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T E L: 886-2-2758-8418

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

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

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

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

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Independent Auditor of the Financial Report Deloitte & Touche

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Credit Rating Agency Taiwan Ratings Corporation

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wan, R.O.C.

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<http://www.taiwanratings.com>

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

Financial Highlight

Unit: NT \$ thousand

As of December 31, 2011 and 2010	2011	2010
Consolidated Income Statement		
Net interest income	20,251,022	17,522,171
Net income (loss) excluding interest income	13,783,447	14,928,813
Net revenues	34,034,469	32,450,984
Provision for bad debts	(4,783,582)	(7,345,743)
Provisions for insurance reserves	(86,360)	(505,850)
Operating expenses	(18,760,335)	(17,827,875)
Consolidated income before income tax from continuing operations	10,404,192	6,771,516
Income Tax Expense	(1,859,935)	(690,171)
Consolidated net income	8,544,257	6,081,345
Consolidated Balance Sheet		
Total assets	1,975,025,894	1,880,637,813
Total liabilities	1,849,510,386	1,780,302,247
Total shareholders' equity	125,515,508	100,335,566
Ratio- Consolidated basis		
ROE(after tax)	7.57%	6.27%
ROA(after tax)	0.44%	0.33%
Capital Adequacy Ratio	140.21%	122.16%
Credit Ratings (long/short/outlook)		
Taiwan Ratings	twA+/twA-1/Stable (2011/05)	



HONESTY



EFFICIENCY



ACTIVENESS



RESPONSIBILITY

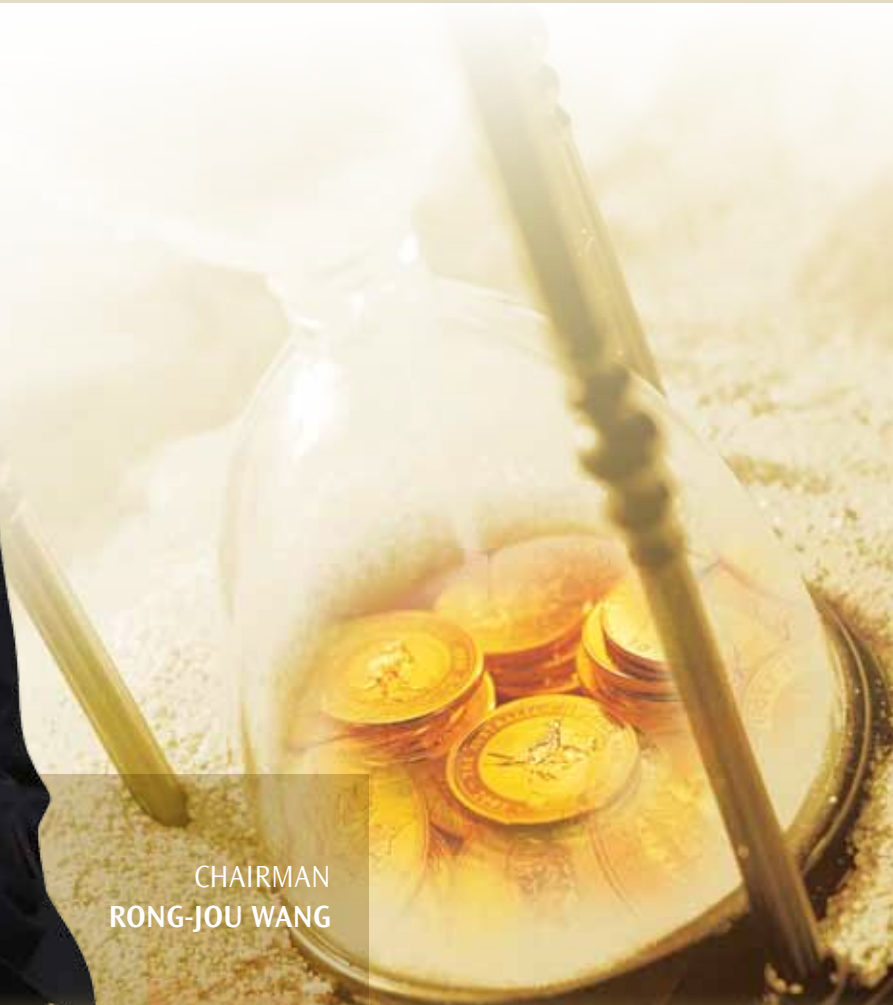


TEAMWORK

I LETTER TO THE SHAREHOLDERS



CHAIRMAN
RONG-JOU WANG



1. Operating Results

1. The Domestic and International Banking Environment in 2011

The financial environment remained largely volatile in 2011. At the beginning of the year, both the economy and stock market exhibited positive performances had strong outlooks due to the expected benefits from the presidential election and the impact of the cross-strait Economic Cooperation Framework Agreement (ECFA). However, the massive earthquake and tsunami struck Japan in March, as well as the subsequent nuclear crisis had disrupted the global supply chain. With the existence problem in Japan, the loose monetary policies also created inflationary pressure that caused the global economy to post only a moderate growth in the first half. A sudden downturn was experienced in the second half, triggered by fears associated with S&P downgrading the US credit rating in August and growing fears of a default in the Euro zone. A lack of

coordination among countries in addressing these issues impacted investor confidence, and this had a subsequent impact on emerging markets, which began to feel the effects of an economic slowdown. Taiwan's economy was also affected by the downturn, with the leading economic indicator flashing a blue light for a second consecutive month in December.



VICE CHAIRMAN
MING-CHENG LIN

2. Company Structure

Since its establishment on December 19, 2001, the operations of Hua Nan Financial Holdings Company (“the Company” or “HNFHC”) have spanned banking, securities, insurance, investment trust, asset management, venture capital investment, and management consulting. The Company had seven wholly owned subsidiaries as of the end of 2011.

3. Results of Implemented Business Plans and Strategies

The U.S. and European financial industries continued to reduce their presence in emerging markets due to the previous financial tsunami and euro zone debt crisis. This presented the Company with opportunities to expand its foothold in mainland China and ASEAN. Banks here have difficulty in generating reasonable profits in light of the intense competition in the financial industry in Taiwan. Given the potential benefits of the ECFA, and in compliance with the regulatory environment, the Company has set forth five major developmental objectives (1) Expanding overseas markets; (2) Boosting revenue contribution

among the non-bank subsidiaries; (3) Initiating a dual brand strategy, (4) Enhancing cross-selling capabilities and (5) Strengthening capital structure. Together, these would enable the Company to obtain a competitive advantage and achieve business scale. The Company was able to chalk up the following achievements with regard to enhancing profitability, improving asset quality, strengthening capital structure and planning overseas expansion in 2011:

(1) Enhanced Profitability

The Company generated net profit of NT\$8.544 billion in 2011, a substantial increasing of 40% as of 2010. Company’s profit has gradually increased and returned to the pre-financial crisis levels of 2008.

(2) Improved Asset Quality

Hua Nan Commercial Bank (“HNCB”) has aggressively sought to improve its asset quality. As the end of 2011, the NPL ratio stood at 0.47%, while its coverage ratio stood at 211.12% and reserve to loan ratio was at 1.05%. All these numbers point to a strong



PRESIDENT
MAO-SHYAN LIU

improvement in asset quality, which has significantly reduced provisioning pressure. HNCB has met the 1% minimum requirement on reserve to loan ratio set forth by the Financial Supervisory Commission (FSC) to establish branches, sub-branches, and be eligible for taking ownership stakes in mainland China ahead of schedule.

(3) Strengthened Capital Structure

To strengthen the company structure, the Company launched rights issues in its subsidiaries, Hua Nan Investment Trust and Hua Nan Venture Capital, of NT\$430 million and NT\$1 billion respectively in 2011. At the same time, the Company raised NT\$20.004 billion in new capital and injected to HNCB in order to increase capital adequacy ratio, strengthen its ability to expand operations into the Greater China market, and comply with FSC requirements.

(4) Expanded Overseas Presence

In Great China market, Bank has established Shenzhen branch and would soon initiate RMB business. Meanwhile, the FSC has approved HNCB to establish Shanghai branch and Shenzhen Baoan sub-branch, along with leasing companies in Taiwan and Shenzhen. HNCB also employed financial consultants to evaluate the possibility of taking ownership stakes of city commercial banks in China. Hua Nan Securities Company (“HNSC”) has established a Shanghai representative office and is ready to set up a second representative office in Beijing to serve the role as the Company’s networking function key in mainland China. South China Insurance Company (“SCIC”) has established an office in Shenzhen and would strengthen cooperation with its strategic partner Ancheng Property & Casualty Insurance.

4. Budget Execution, Financial Balance, and Profitability Analysis

The net profit after tax of the Company was NT\$8.544 billion in 2011, equivalent to net earnings per share of NT\$1.22 with return on assets was 0.44% and return on equity was 7.57%. On a standalone basis, the Company posted a return on assets of 7.00% and return on equity of 7.57%. The following is the summary of results of each subsidiary:

(1) Hua Nan Commercial Bank (“HNCB”)

Net income in 2011 was NT\$8.385 Billion with net earnings per share being NT\$1.76. Return on assets was 0.44% and return on equity was 9.04%.

(2) Hua Nan Securities (“HNSC”)

Net income in 2011 was NT\$75 million with net earnings per share being NT\$0.09. Return on assets was 0.32% and return on equity was 0.66%.

(3) South China Insurance (“SCIC”)

Net income in 2011 was NT\$410 million with net earnings per share being NT\$2.05. Return on assets was 3.35% and return on equity was 16.55%.

(4) Hua Nan Investment Trust (“HNIT”)

Net income in 2011 was NT\$52 million with net earnings per share being NT\$2.18. Return on assets was 5.48% and return on equity was 21.42%.

(5) Hua Nan Venture Capital (“HNVC”)

Net income in 2011 was NT\$117,000 with net earnings per share being NT\$0.001. Return on assets was 0.01% and return on equity was 0.01%.

(6) Hua Nan Management & Consulting (“HNMC”)

Net income in 2011 was NT\$10 million with net earnings per share being NT\$9.85. Return on assets was 36.53% and return on equity was 53.04%.

(7) Hua Nan Assets Management (“HNAMC”)

Net income in 2011 was NT\$71 million with net earnings per share being NT\$0.71. Return on assets was 2.23% and return on equity was 6.57%.

5. Research and Development

(1) Hua Nan Financial Holdings Company (“the Company” or “HNFHC”)

The Analytical CRM System, Operational CRM System, and KPI System were employed to boost performance in marketing analysis, sales applications and efficiency management. In addition, the result of using customer buying tendency model aims to have better accuracy in pinpointing customers’ specific marketing activities. When assisting subsidiaries in related activities, the model would implement a completed product line on personal financial products for customers in each life stage in order to increase the number of top-notch customers and their value.

(2) Hua Nan Commercial Bank (“HNCB”)

HNCB continued to encourage its employees to involve in research and development activities. In 2011, employees proposed a total of 863 research and development projects, with 181 projects being adopted.

(3) Hua Nan Securities (“HNSC”)

A. HNSC has engaged in R&D with respect to policy and the regulatory in the trading of emerging stocks, convertible bond asset swaps, interest rate swaps, 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 its training and recruitment on talented people in the areas of investment banking, financial engineering, and risk management.

B. Information Systems Planning

(a) HNSC has implemented an overseas sub-broker e-trading platform allows customers using a single platform to place orders on variety products from many countries. An NT dollar-denominated sub-system has also been created to provide added convenience to customers.

(b) HNSC has expanded its operations management



Letter to the Shareholders

systems which cover customer relationship management, district supervision system, managers system planning, and decision-making support management.

- (c) HNSC has formulated a brokerage managerial system to provide comprehensive transaction descriptions to customer and assist branch managers in managing futures operations.
- (d) HNSC has planned the wealth management and trust operations systems that would complement to initiate wealth management and trust business in the future.
- C. HNSC has strengthened its operations risk management and worked in conjunction with HNFHC on the following initiatives to promote risk management:
- Enable risk self-assessment (RSA) for operational risk.
 - Implement Operations risk appraisal procedures (ORAP)
 - Establish of an operations risk loss database (CLD)
 - Formulate the operations key risk indicators (KRI)
 - Continue to develop a mechanism to monitor intra-day trading on proprietary trading products of the dealing division
 - Draft and enactment risk management control regulations for new area of business.
 - Review and amendment risk management framework and regulations for HNSC and each department.
- D. HNSC has integrated the specialized knowledge from its Overseas Products Department, Financial Products Department, and Futures Dealing Department in striving to carry out hedging research and transactions on derivatives products. HNSC also worked in conjunction on software developed by the Information Department that focuses on program trading for all types of new derivatives products, hedging and arbitrage. Coupled with technical analysis, traders are able to accurately monitor the

direction of markets and pick the best trading timing, thereby maximizing profits.

- E. The Underwriting Department, Fixed Income Department, and other related departments seek actively strategic alliances with law firms and accounting practices to train and recruit talented staff and introduce professional knowledge to the group. The departments also cooperate with HNFHC's subsidiaries, HNVC, HNMC and HNCB to source new clients and expand business.
- F. HNSC, under the framework of HNFHC, is actively looking for potential merger targets in order to boost the business scale and promote sustainable growth in operations.
- G. HNSC carries out in-depth research at appropriate times on global banking, domestic and overseas macro-economy, industry, and specific companies to determinate investment trends and avoid risky industries. In addition to publish investment publication and holding investment seminars regularly, HNSC also provides the Company with investment advice and loan information for reference.

(4) South China Insurance Company ("SCIC")

SCIC continues to emphasize in the research and development of new products and innovative marketing plans in order to meet the needs of customers. In 2011, SCIC developed 33 new products and 55 projects. In addition to meeting business development needs and providing customers with comprehensive services, SCIC has been recognized for three consecutive years of Faith, Hope and Love Award in light of its insurance professionalism and product innovation.

With regards to risk management, SCIC continues to cohere the risk management awareness within the company and establish a risk management culture, thereby strengthening its risk management mechanism. The board of directors and high-level managers have comprehensive understanding on company's organization and related risks, in order to establish risk management regulations

from top to down. Each business unit has created a risk management mechanism with close supervision to ensure every business objective and strategy is complied with company's risk management philosophies. Meanwhile, the risk management team compiles various risk-related data and discloses them regularly to ensure risk transparency. As a result, SCIC was specially singled out in the risk management category of the Faith, Hope and Love Award in 2011.

In light of stable operations, SCIC kept twAA- rating with a stable outlook in 2011 from Taiwan Ratings Corp. These ratings recognize the distinguished performance, strong capital levels and liquidity of SCIC. Meanwhile, A.M. Best also affirmed the financial strength rating of A- (Excellent) and issuer credit rating of A-, as well as a stable outlook in both instances.

In 2012, SCIC will continue its vision of pursuing both quality and quantity services and becoming the Top 5 in the industry, with increasingly internationalized. SCIC will devote to enhance its operations, provide comprehensive customer service, strengthen information management, and fulfill its social responsibility.

(5) Hua Nan Investment Trust ("HNIT")

Consumer confidence in stock market was impacted due to the euro zone debt crisis and earthquake and tsunami in Japan in March 2011, Consequently, the overall asset value in the market fell to NT\$1.74 trillion or 8.4%, YoY.

As far as category performance is concerned, the type of the fund size increased in 2011 included domestic money market fund, domestic ETF fund, high yield bond fund, domestic index fund and international ETF funds. Of these, domestic money market fund increased the most by NT\$73 billion in a year. This was mainly due to the fluctuations of stock market caused investors turned their saving into money market fund to avoid the volatility. On the other hand, domestic stock market funds decreased the most in fund size to NT\$64.9 billion in a year.

The size of equity fund was significantly less than the previous year in 2011 due to the down market and after lockup period ended for small- and medium-sized funds that were established in late 2010.

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

HNMC has sent project managers to attend seminars and training courses in both Taiwan and overseas to enhance their expertise to appraise investment projects and engage in investment management. In addition, the company provides assistance to its invested companies in operations and financial planning and establishes strategic alliances and partnerships in hope to have successful listing to these companies and bring benefit to the venture capital shareholders.

(7) Hua Nan Venture Capital ("HNVC")

HNVC has appointed HNMC to carry out research on its behalf.

(8) Hua Nan Assets Management ("HNAMC")

In addition to strengthening the recovery of NPL, stabilizing the development of direct investment in real estate and the operation of a property management mechanism, HNAMC is striving to develop operations as an entrusted manager of NPL. Even there was a shortage in NPL market, HNAMC still successfully bid secured NPL auctioned offered by Jih Sun Bank on August 4. The size of the NPL was NT\$1.495 Billion brought the total amount of acquired NPL to NT\$15.092 Billion.



2. 2012 Business Plans and Future Development Strategies

1. Continue to promote steady operations and strengthen its existing advantages, and
2. Expand westward and boost the profits proportion from overseas operations.

In tandem with the five major developmental objectives, the Company will take the advantage based on its existing strengths to further enhance its competitiveness and then expand its territory into greater China market. It intends to establish a presence in three focus areas from five major regions (Bohai Sea district, Yangtze River Delta, Pearl River Delta, Chengdu-Chongqing region, and Haixi area) within three years in order for HNFHC group to achieve its visions of being the quality regional financial institution in Asia-Pacific region.

3. Credit Ratings

Rated Institution	Rating Agency	Long-term	Short-term	Outlook
HNFHC	Taiwan Ratings Corp. (2011/05)	twA+	twA-1	Stable
HNCB	Taiwan Ratings Corp. (2011/12)	twAA	twA-1+	Stable
	Moody's (2012/03)	A3	P1	Stable
HNSC	Taiwan Ratings Corp. (2011/05)	twA+	twA-1	Stable
SCIC	Taiwan Ratings Corp. (2011/11)	twAA-	-	Stable
	A.M. Best (2012/03)	A-	a-	Stable

Chairman

Rong-Jou Wang

Vice Chairman

Ming-Cheng Lin

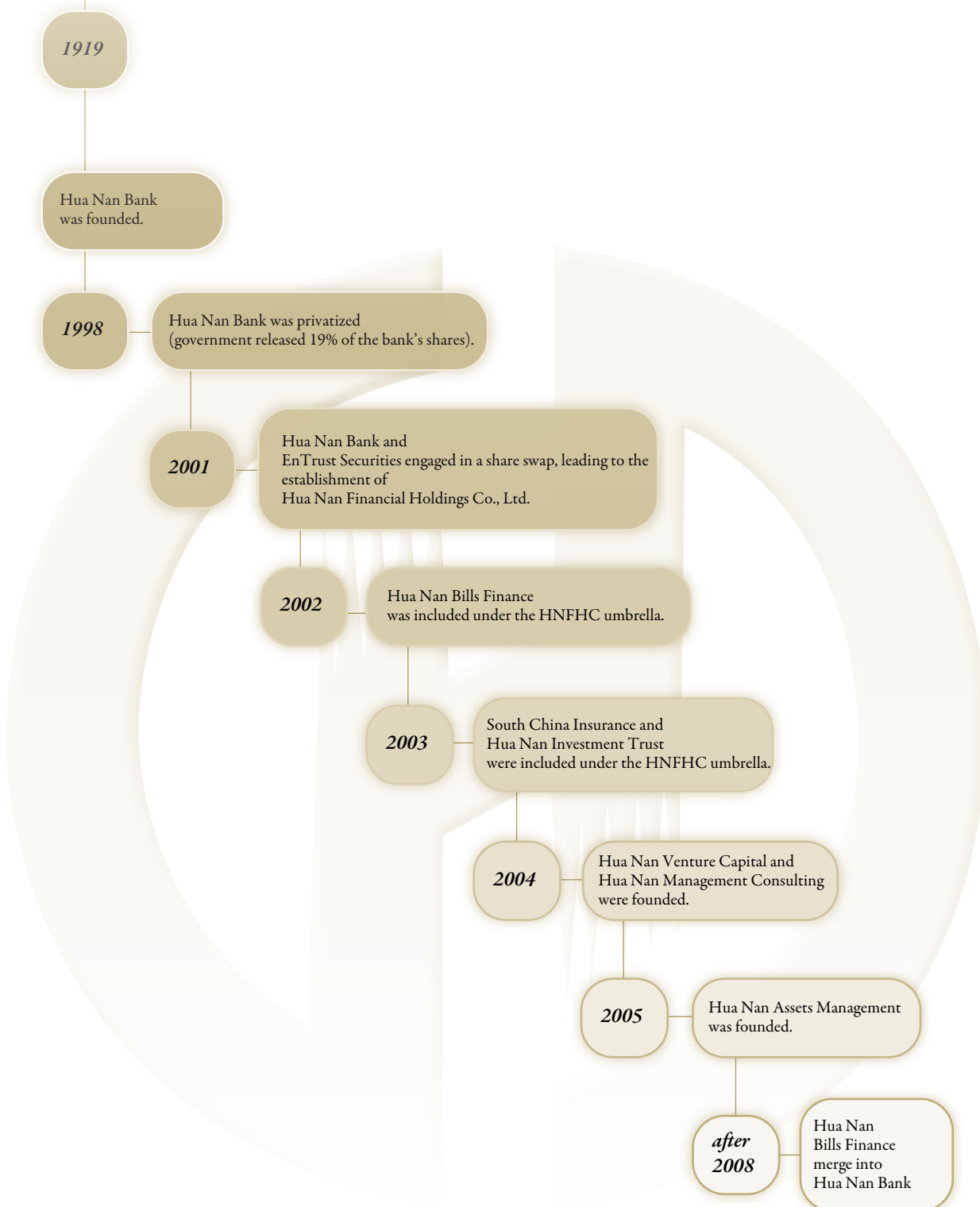
President

Mao-Shyan Liu

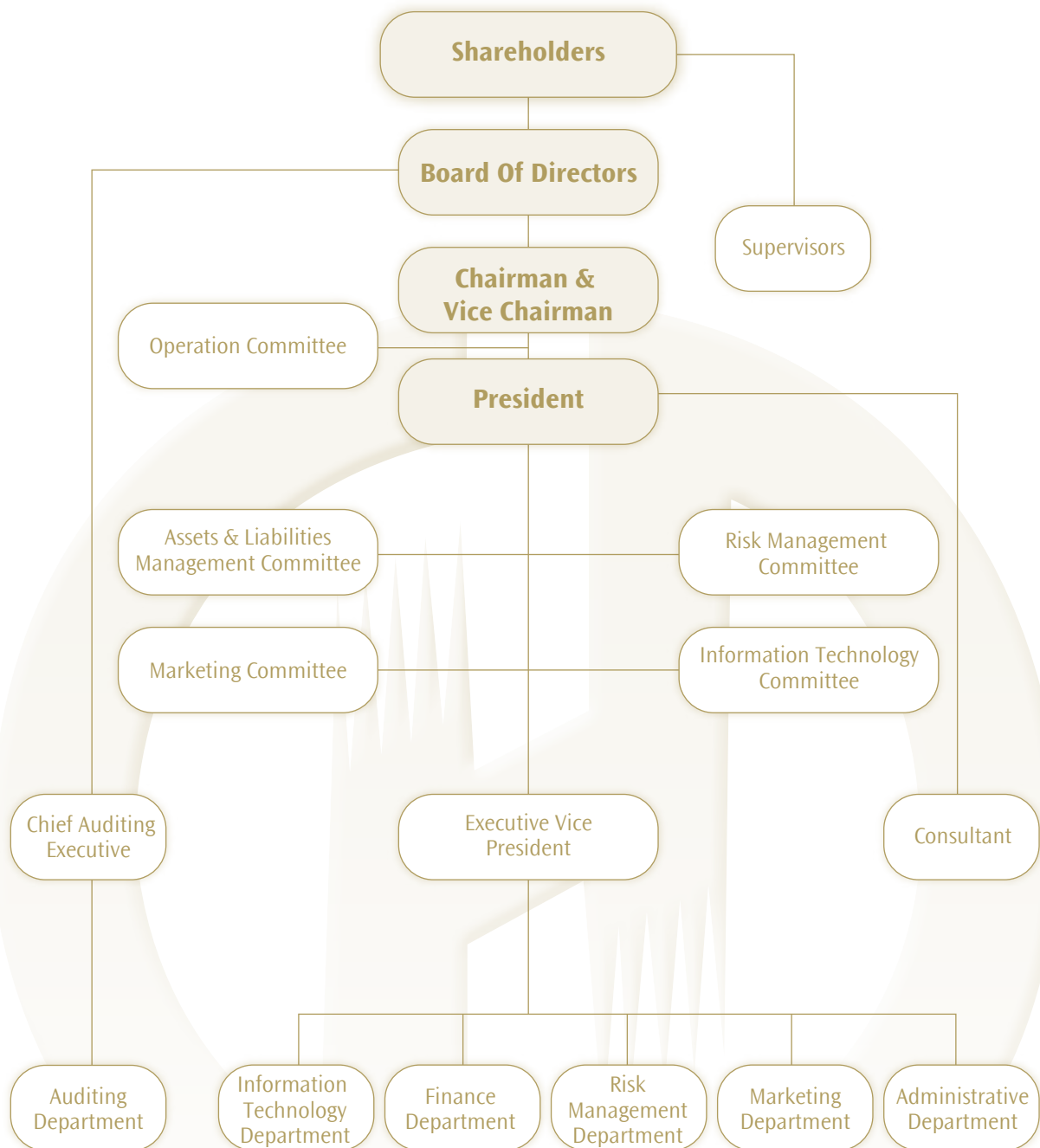
1. Date of Establishment

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” or “HNSC”) on December 19, 2001.

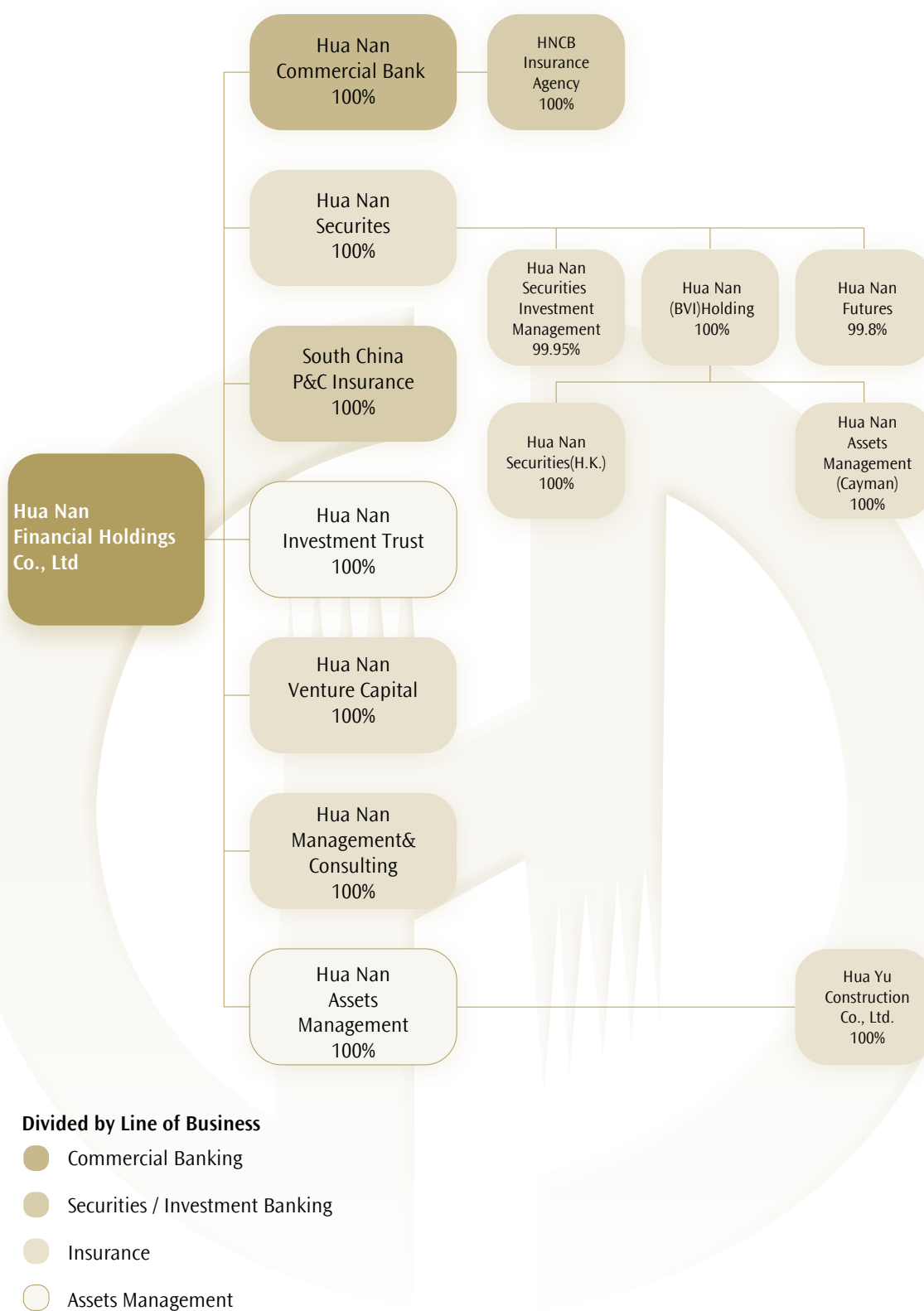
2. Corporate Milestones



1. The Organization Chart



2. Company Structure



3. Board of Directors and Supervisors

2010/7/1~2013/6/30

DIRECTORS			
NAME	CURRENT POSITION	EXPERIENCE	EDUCATION
Rong-Jou Wang	<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> 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 	<ul style="list-style-type: none"> Master of Laws, National Chung Hsing University
Ming-cheng Lin	<ul style="list-style-type: none"> Vice Chairman, Hua Nan Financial Holdings Co., Ltd. Chairman, Hua Nan Commercial Bank, Ltd. 	<ul style="list-style-type: none"> Vice Chairman, Hua Nan Commercial Bank, Ltd Chairman, Hua Nan Financial Holdings Co., Ltd. Director, The Central Bank of China. 	<ul style="list-style-type: none"> Master of Laws, Keio University, Japan.
Mao-Shyan Liu	<ul style="list-style-type: none"> Director & President, Hua Nan Financial Holdings Co., Ltd Managing Director, Hua Nan Commercial Bank, Ltd. 	<ul style="list-style-type: none"> Executive Vice President, Hua Nan Financial Holdings Co., Ltd. 	<ul style="list-style-type: none"> M.A. in Department of Economics, Chinese Culture University.
En-Shiang Tai	<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> Executive MBA degree in Finance, National Taiwan University
Min-Chang Chen (2011.7.19. Retire)	<ul style="list-style-type: none"> Director, Hua Nan Financial Holdings Co., Ltd Director, Hua Nan Commercial Bank, Ltd. Executive Vice President, Bank of Taiwan. 	<ul style="list-style-type: none"> Director, Taiwan Stock Exchange Corporation. Supervisor, Taiwan business bank. Director, Taiwan Life Insurance Co., Ltd. 	<ul style="list-style-type: none"> Dept. of Banking and Insurance, Feng Chia University.
Teng-Lung Hsieh (2011.7.19. on board)	<ul style="list-style-type: none"> Director, Hua Nan Financial Holdings Co., Ltd. Director, Hua Nan Commercial Bank, Ltd. Executive Vice President, Bank of Taiwan. 	<ul style="list-style-type: none"> Managing Director, Hua Nan Commercial Bank, Ltd. General Auditor of Bank of Taiwan. Department of Credit Management SVP and General Manager of Bank of Taiwan. 	<ul style="list-style-type: none"> Dept. of Banking and Insurance, National Taichung Institute of Commerce
Li -Yen Yang	<ul style="list-style-type: none"> Director, Hua Nan Financial Holdings Co., Ltd Director, Hua Nan Commercial Bank, Ltd. S.V.P& General Manager, International Banking, Bank of Taiwan 	<ul style="list-style-type: none"> Vice President & General Manager, Los Angeles Branch, Bank of Taiwan. 	<ul style="list-style-type: none"> Business Administration Dept, National Taiwan University.
Ai Wei	<ul style="list-style-type: none"> Director, Hua Nan Financial Holdings Co., Ltd Associate Professor, Graduate Institute of East Asian Studies, College of International Affair, National Chengchi University 	<ul style="list-style-type: none"> Director, Secretariat, National Cheng Chi University. Chairman, Graduate Institute of East Asian Studies, National Chengchi University. 	<ul style="list-style-type: none"> Ph.D., Graduate Institute of East Asian Studies, National Cheng Chi University.
Yun Lin	<ul style="list-style-type: none"> Director, Hua Nan Financial Holdings Co., Ltd Professor, Dept. of Business Administration, Shih-Hsin University. 	<ul style="list-style-type: none"> Chairman of Finance Dept., National Taiwan University. 	<ul style="list-style-type: none"> Ph.D. Univ. of Illinois Urbana Champaign, U.S.A.
Ming-Jui Hsieh	<ul style="list-style-type: none"> Director, Hua Nan Financial Holdings Co., Ltd Associate Professor, Dept. of Business National Open University. 	<ul style="list-style-type: none"> Chairman, Department of Business, National Open University General Director of General Affairs, National Open University Committee, Taiwan Stock Exchange Corporation (TSEC) Advisor, National Policy Foundation Visiting professor, Universidad de Cost Rica, Central America 	<ul style="list-style-type: none"> Ph.D., National Chung Hsing University. Post-doctor, London University, UK

DIRECTORS			
NAME	CURRENT POSITION	EXPERIENCE	EDUCATION
Rung-Fu Hsieh	<ul style="list-style-type: none"> • Director, Hua Nan Financial Holdings Co., Ltd. • Managing Director, Hua Nan Commercial Bank, Ltd. • President, The Great Taipei Gas Corp. 	<ul style="list-style-type: none"> • General Manager, Shin Hai Gas Corp. • Managing Director, Industrial Bank of Taiwan. 	<ul style="list-style-type: none"> • Business Dept., National Open University.
James Hui-jan Yen	<ul style="list-style-type: none"> • Director, Hua Nan Financial Holdings Co., Ltd. • Chairman, Asia Jewelry Co., Ltd. 	<ul style="list-style-type: none"> • Director, Chinese National Export Enterprises Association. 	<ul style="list-style-type: none"> • Tamkang University
Tom Lin	<ul style="list-style-type: none"> • Director, Hua Nan Financial Holdings Co., Ltd. • Director, Hua Nan Commercial Bank, Ltd. 	<ul style="list-style-type: none"> • Fund Manager, Mercury Asset Management Co., Ltd. 	<ul style="list-style-type: none"> • J.D., University of California Los Angeles, U.S.A.
An-Lan, Hsu Chen	<ul style="list-style-type: none"> • Director, Hua Nan Financial Holdings Co., Ltd. • Director, Hua Nan Commercial Bank, Ltd. • Chairman, Hua Nan Securities Co., Ltd. 	<ul style="list-style-type: none"> • Chairman, Yuan Ding Investment Co., Ltd. • Chairman, En Trust Securities Co., Ltd. 	<ul style="list-style-type: none"> • Western Culture & Literature, Tung Hai University
Michael Yuan Jen Hsu	<ul style="list-style-type: none"> • 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. 	<ul style="list-style-type: none"> • AVP. of Chairman's Office ,Hua Nan Securities Co., Ltd. 	<ul style="list-style-type: none"> • MBA The Wharton school of the University of Pennsylvania.
Chih-Yang Lin	<ul style="list-style-type: none"> • Director, Hua Nan Financial Holdings Co., Ltd. • General Manager, Ta-Yung Hsing Yeh Co., Ltd. • Yung-Da Real Estate & Construction Co., Ltd. 	<ul style="list-style-type: none"> • Delegate of Yung-Da Real Estate & construction Co., Ltd. • General Manager, Ta-Yung Hsing Yeh Co., Ltd. 	<ul style="list-style-type: none"> • Master of Accounting, National Taiwan University.
Jia-Dong Shea	<ul style="list-style-type: none"> • 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. 	<ul style="list-style-type: none"> • 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 	<ul style="list-style-type: none"> • Doctor of Economics, Stanford University,U.S.A.
Ching-Hsiou Chen	<ul style="list-style-type: none"> • Independent Director, Hua Nan Financial Holdings Co., Ltd. • Professor of Soochow University. 	<ul style="list-style-type: none"> • Lawyer. • Chairperson, Law and Regulation Commission, Taipei City Government • Minister, Central Personnel Administration, Executive Yuan, R.O.C. 	<ul style="list-style-type: none"> • Doctor of Laws, National Taiwan University
Chung-Yuan Hsu	<ul style="list-style-type: none"> • Independent Director, Hua Nan Financial Holdings Co., Ltd. • Independent Director, Hua Nan Commercial Bank, Ltd. • Professor of Accounting,National Chengchi University. 	<ul style="list-style-type: none"> • CPA, Professor in Accounting 	<ul style="list-style-type: none"> • Doctor of Accounting, The University of Memphis, U.S.A.
Chun-Pin Chen	<ul style="list-style-type: none"> • Independent Director, Hua Nan Financial Holdings Co., Ltd. • Independent Director, Hua Nan Commercial Bank, Ltd. • Attorney of Law of Lexpert Law Firm. 	<ul style="list-style-type: none"> • Attorney of Law, Lecturer of SooChou University 	<ul style="list-style-type: none"> • Master of Law, National Taiwan University.

SUPERVISORS			
NAME	CURRENT POSITION	EXPERIENCE	EDUCATION
Sou-Shan Wu	<ul style="list-style-type: none"> Supervisor, Hua Nan Financial Holdings Co., Ltd. Standing Supervisor, Hua Nan Commercial Bank, Ltd. Chairman, Securities & Futures Institute 	<ul style="list-style-type: none"> Chairman of management Science Dept., Director of management science Institute, National Chiao-Tung University. Academic Advisor to Ministry of Education. 	<ul style="list-style-type: none"> Ph.D. in Finance, Insurance & Real Estate, University of Florida, U.S.A.
Tzu-Hsin Wu	<ul style="list-style-type: none"> Supervisor, Hua Nan Financial Holdings Co., Ltd. Standing Director-general, National Tax Administration of Northern Taiwan Province, M.O.F. 	<ul style="list-style-type: none"> Deputy Director, Taxation Agency, M.O.F. Departmental secretary, M.O.F. 	<ul style="list-style-type: none"> MA of Public Finance, National Chengchi University
Chin-Chien Chen	<ul style="list-style-type: none"> Supervisor, Hua Nan Financial Holdings Co., Ltd. Standing Director-general, Taipei National Tax Administration, M.O.F. 	<ul style="list-style-type: none"> Deputy Director, Taxation Agency, M.O.F. Director-general, Kaohsiung National Tax Administration, M.O.F. 	<ul style="list-style-type: none"> Dept. of Business Administration, National Taiwan University
Hsu-Hsueh Chang	<ul style="list-style-type: none"> Supervisor, Hua Nan Financial Holdings Co., Ltd. Standing Supervisor, Fu Chuan Enterprises Co., Ltd. 	<ul style="list-style-type: none"> Director, Hua Nan Financial Holdings Co., Ltd. Supervisor, Fu Chuan Enterprises Co., Ltd. 	<ul style="list-style-type: none"> Taipei First Girl High School. Tokyo Kyalite College, Japan.
Vivien, Chia-Ying Shen	<ul style="list-style-type: none"> Supervisor, Hua Nan Financial Holdings Co., Ltd. 	<ul style="list-style-type: none"> Vice President, The Hong Kong & Shanghai Banking Corp. 	<ul style="list-style-type: none"> M.B.A. University of Birmingham, U.K.

4. Management Team

Position	Name	Date of Employment	Education & Career
President	Mao-Shyan Liu	2009.07.01	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> 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 Secretary of the Board	Tai-Yung Hsiung	2012.01.16	<ul style="list-style-type: none"> Chief Secretary of the Board, Mega Financial Holding Company Vice President & General Manager, Taiwan Business Bank Education: Cooperative Economics Dept., National Chung-Hsing University
E.V.P. & Chief Auditor Executive	Chin-Nan Ku	2009.7.24	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> Significant Experience: Senior V.P. & G.M. of IT of Hua Nan Commercial Bank Electrical Engineering Dept., National Taiwan University

5. Remunerations to Directors and Supervisors

1. 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									
Director	Rong-Jou Wang								
	Mao-Shyan Liu								
	Li-Yen Yang								
	En-Shiang Tai								
	Min-Chang Chen								
	Yun Lin								
	Ai Wei								
	Ming-Jui Hsien								
	Teng-Lung Hsieh(2011.07.16 on board)								
Memorial Scholarship Foundation to Mr.Lin Hsiung Chen									
Director	Ming-Cheng Lin								
	Tom Lin								
	Chih-Yang Lin								
Shin Kong Life Foundation									
Director	Rung-Fu Hsieh								
Entrust Foundation									
Director	An-Lan, Hsu Chen								
	Michael Hsu								
Hsiang-Yu Co., Ltd.									
Director	Hui-Jan Yen								
Indenpent Dorector	Jia-Dong Hsu								
	Chung-Yuan Hsu								
	Chin-Pin Chen								
	Ching-hsiu Chen								
Total		8,514	24,315	370	1,561	60,176	60,176	6,176	9,424

2. Range of Remuneration to 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	Hua Nan Financial Holdings	Consolidated subsidiaries
Below 2,000,000	Ming-Cheng Lin、Mao-Shyan Liu、Li-Yen Yang、En-Shiang Tai、Min-Chang Chen、Teng-Lung Hsieh、Yun Lin、Ai Wei、Ming-Jui Hsien、Tom Lin、Chih-Yang Lin、Rung-Fu Hsieh、Hui-Jan Yen、Michael Hsu、An-Lan Chen Hsu、Jia-Dong Hsu、Ching-hsiu Chen、Chung-Yuan Hsu、Chin-Pin Chen	Mao-Shyan Liu、Li-Yen Yang、Min-Chang Chen、Teng-Lung Hsieh、Yun Lin、Ai Wei、Ming-Jui Hsien、Tom Lin、Chih-Yang Lin、Rung-Fu Hsieh、Hui-Jan Yen、Michael Hsu、Jia-Dong Hsu、Ching-hsiu Chen、Chung-Yuan Hsu、Chin-Pin Chen	Ming-Cheng Lin、Li-Yen Yang、En-Shiang Tai、Min-Chang Chen、Teng-Lung Hsieh、Yun Lin、Ai Wei、Ming-Jui Hsien、Tom Lin、Chih-Yang Lin、Rung-Fu Hsieh、Hui-Jan Yen、Michael Hsu、An-Lan Chen Hsu、Jia-Dong Hsu、Ching-hsiu Chen、Chung-Yuan Hsu、Chin-Pin Chen	Li-Yen Yang、Min-Chang Chen、Teng-Lung Hsieh、Yun Lin、Ai Wei、Ming-Jui Hsien、Tom Lin、Chih-Yang Lin、Rung-Fu Hsieh、Hui-Jan Yen、Jia-Dong Hsu、Ching-hsiu Chen、Chung-Yuan Hsu、Chin-Pin Chen
2,000,000 (inclusive) ~ 5,000,000	Shin Kong Life Foundation	An-Lan Chen Hsu、Shin Kong Life Foundation	Shin Kong Life Foundation	An-Lan Chen Hsu、Michael Hsu、Shin Kong Life Foundation
5,000,000 (inclusive) ~ 10,000,000	Rong-Jou Wang、Entrust Foundation	Rong-Jou Wang、Ming-Cheng Lin、En-Shiang Tai、Entrust Foundation	Rong-Jou Wang、Mao-Shyan Liu、Entrust Foundation	Rong-Jou Wang、Ming-Cheng Lin、Mao-Shyan Liu、En-Shiang Tai、Entrust Foundation
10,000,000 (inclusive) ~ 15,000,000	Memorial Scholarship Foundation to Mr.Lin Hsiung Chen	Memorial Scholarship Foundation to Mr.Lin Hsiung Chen	Memorial Scholarship Foundation to Mr.Lin Hsiung Chen	Memorial Scholarship Foundation to Mr.Lin Hsiung Chen
15,000,000 (inclusive) ~ 30,000,000				
30,000,000 (inclusive) ~ 50,000,000	Bank of Taiwan	Bank of Taiwan	Bank of Taiwan	Bank of Taiwan
50,000,000 (inclusive) ~ 100,000,000				
Over 100,000,000				
Total Number of Directors	24	24	24	24

3. Remunerations to 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											
Chin-Chien Chen											
Fu Chuan Enterprises Co., Ltd.											
Hsu-Hsueh Chang											
China Main-Made Fiber Co., Ltd.											
Chia-Ying Shen											
Total	0	0	0	0	16,715	16,715	1,200	1,698	0.21%	0.22%	0

IV

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
2001.12	\$10	10 billion	100 billion	4,146,799,357	41,467,993,570	Share swap \$41,467,993,570
2002.08	\$10	10 billion	100 billion	4,478,543,305	44,785,433,050	Capital increase of 3,317,439,480 shares out of additional paid-in capital
2003.08	\$10	10 billion	100 billion	4,728,503,594	47,285,035,940	Share swap \$1,696,952,890 (South China Insurance) \$802,650,000 (Hua Nan Investment)
2004.08	\$10	10 billion	100 billion	5,579,634,240	55,796,342,400	Capital increase out of earnings or capital reserves Capital increase of 8,511,306,460 shares out of earnings & additional paid-in capital
2005.08	\$10	10 billion	100 billion	5,970,208,636	59,702,086,360	Capital increase of 390,574,396 shares out of earnings
2008.08	\$10	10 billion	100 billion	6,089,612,808	60,896,128,080	Capital increase of 119,404,172 shares out of earnings
2009.09	\$10	10 billion	100 billion	6,272,301,192	62,723,011,920	Capital increase of 182,688,384 shares out of earnings
2010.08	\$10	10 billion	100 billion	6,617,277,757	66,172,777,570	Capital increase of 344,976,565 shares out of earnings
2011.08	\$10	10 billion	100 billion	7,014,314,422	70,143,144,220	Capital increase of 3,970,366,650 shares out of earnings
2011.12	\$10	10 billion	100 billion	82,143,144,220	82,143,144,220	\$12,000,000,000

2. Type of Shares

Type of Shares	Authorized capital stock			Notes
	Outstanding shares	Unissued shares	Total	
Common stock	82,143,144,422	1,785,685,578	10,000,000,000	Listed stocks

3. Shareholder Structure

Data baseline date: 2012/4/24

Shareholder structure Quantity	Government agencies	Financial institutions	Other institution	Individuals	Foreign institution and Individuals	Total
Persons	17	35	582	174,575	473	175,682
Shares held (shares)	207,127,440	2,958,762,344	1,895,527,500	2,235,277,327	937,619,811	8,214,314,422
Shareholding ratio(%)	2.52	36.02	22.83	27.21	11.41	100.00

4. Distribution of Equity

Par value : NT\$ 10Data / baseline date: 2012/4/24

Shareholding category	Number of shareholders	Shares held(shares)	Shareholding ratio(%)
1 ~ 999	52,039	14,411,546	0.1754
1,000 ~ 5,000	66,932	161,062,940	1.9608
5,001 ~ 10,000	20,294	147,054,656	1.7902
10,001 ~ 15,000	10,868	131,768,682	1.6041
15,001 ~ 20,000	5,223	92,449,931	1.1255
20,001 ~ 30,000	6,426	157,017,424	1.9115
30,000 ~ 40,000	3,102	107,764,177	1.3119
40,001 ~ 50,000	2,334	106,746,049	1.2995
50,001 ~ 100,000	4,552	323,210,607	3.9347
100,001 ~ 200,000	2,289	313,090,626	3.8115
200,001 ~ 400,000	794	220,927,667	2.6895
400,001 ~ 600,000	253	125,342,399	1.5259
600,001 ~ 800,000	149	102,751,106	1.2509
800,001 ~ 1,000,000	78	71,197,157	0.8667
above 1,000,001	349	6,139,519,455	74.7417
Total	175,682	8,214,314,422	100.00

5. List of Major Shareholders (More than 1%)

Data baseline date: 2012/4/24

Major shareholders	Shares	Shares held(shares)	Shareholding ratio(%)
Bank of Taiwan		1,744,001,729	21.23%
Shin Kong Life Insurance Co. Ltd		384,242,649	4.68%
Bank Taiwan Life Insurance Co. Ltd		315,643,691	3.84%
Ta-Yung Hsing Yeh Co. Ltd		273,535,836	3.33%
First Commercial Bank		200,567,636	2.44%
Taiwan Tobacco & Liquor Co. Ltd		179,966,060	2.19%
Yuan Ding Investment Co. Ltd		178,564,717	2.17%
Yoong Cai Investment Corporation		158,165,299	1.93%
Memorial Scholarship foundation to Mr. Lin Hsiung Chen		145,070,797	1.77%
Ministry of Finance		139,631,987	1.70%
Yung-Zei Investment Co. Ltd		101,535,438	1.24%
Standard Chartered managed Vatican Garde Emerging Markets Stock Index Fund Account		89,531,445	1.09%
Fubon Life Insurance Co., Ltd.		85,938,315	1.05%

6. Market Value, Book Value, EPS, and Dividends Per Share For The Most Recent Two Years

Item		Year	2011	2010	Ending 2012/3/31
Market value per share (NT \$)	Highest		24.80	24.80	17.80
	Lowest		16.00	16.90	15.95
	Average		20.61	19.65	17.04
Book value per share (NT \$))	Before distribution		15.28	15.16	15.84
	After distribution		-	14.30	-
EPS (NT \$)	Weighted average number of shares		7,030,753	6,617,278	8,214,314
	EPS		0.99	0.87	0.31
Dividends per share (NT \$))	Cash dividend		0.50	0.30	-
	Stock dividend	Out of earning	0.50	0.60	-
		Out of additional paid-in capital	NA	NA	-
	Cumulative Undistributed Dividends		NA	NA	-
ROI analysis	P/E ratio		16.89	21.36	12.91
	P/D ratio		41.22	65.50	-
	Cash dividend yield		2.43%	1.53%	-

7. Dividend Policy and Implementation

1. HNFHC has adopted a residual dividend policy. This is aimed at continuing to expand the scale of the Company 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\$0.5 per share, and stock dividend NT\$0.5 per share.

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

		2012 (estimated)
Paid-in capital, beginning of the year		NT\$ 82,143,144,000
Stock and cash dividends distribution	Cash dividend per share	NT\$ 0.5
	Stock dividend per share from capitalization of retained earnings - shares	0.05 Shares
	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: The Company did not publish 2012 financial forecast. According to the stipulation of 89.2.1(89) Tai Tsai Cheng(1) No.00371, no disclosure of such information is required.

9. Corporate Bonds

Bond type	2006 First Unsecured Bond	
Date issue	2006/6/29	
Face value	NT\$ 1,000,000	
Place of issuance and exchange	Taiwan	
Issue price	The bond is issued at full face value	
Total amount	NT\$ 4,700,000,000	
Interest rates	Annual coupon rate 2.85%	
Duration	7 years Due date : 2013/06/29	
Priority of repayment	Subordinated	
Guaranteeing institution	None	
Trustee	Mega International Commercial Bank	
Underwriting institution	N/A	
Certifying attorney	Due Law To Reason Attorney Office Shui-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 payment shall be stopped until the aforementioned Ratio meet the minimum legal requirement.(Interest shall be accumulated, but shall not be additionally applied during the period which no interest has been paid. Interest on principal is otherwise calculated based on annual coupon rate.)	
Whether included in qualifying capital	Yes	
Credit Rating	twA- by Taiwan Ratings Corp. dated 2006/05/25	
Other rights	Amount of converted (traded or subscribed) common stock, overseas depository receipts, or other negotiable securities up to the publication date of this annual report	None
	Issuance and conversion (traded or subscribed) regulatuons	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	

2011

*Corporate
Social
Responsibility*



HONESTY.



EFFICIENCY



ACTIVENESS



RESPONSIBILITY



TEAMWORK

1. Company Fulfillment of Social Responsibility

Item	Implementation Status	Reasons for discrepancy from the Code of Corporate Social Responsibility for Listed Companies
1. Implementation of Corporate Governance		
(1) The company shall stipulate corporate social responsibility policies or systems, and review the effectiveness of such policies or systems in implementation.	(1) HNFHC is committed to participate in public welfare and holds a critical review at the end of each year. The review will include annual performance appraisals..	Hua Nan Financial Holdings Company has yet to formulate a corporate social responsibility system. However, the Company is committed to fulfilling its corporate social responsibility and engages in reviews to determine the effectiveness of its efforts.
(2) The company shall establish a full-time or part-time unit in charge of implementation of corporate social responsibility.	(2) The General Administration Management Department is responsible for coordination and planning of corporate social responsibility-related affairs.	None
(3) The company shall regularly hold corporate ethics education and training for directors, supervisors and employees and include the performance in this respect as part of an effective bonus or disciplinary system.	(3) Our Company holds public welfare events on a regular basis to promote corporate ethics and fulfill its social responsibility. Directors and employees also regularly participate in internal and external corporate ethics training curricula. Our Company has formulated Employee Work Guidelines to specify corporate ethics and behavior. This code also sets for a reward and discipline system used in annual performance reviews.	None
2. Development of a Sustainable Environment		
(1) The company shall strive to boost the efficient use of resources and utilize recyclable materials so as to reduce the impact on the environment.	(1) A. Our Company complies with government policies to conserve energy. It has appropriately adjusted the usage of air-conditioning and uses energy-saving illumination equipment to reduce energy consumption. B. Our Company has adopted an e-file system to reduce the use of paper. C. Our Company is installing water-saving equipment to conserve water.	None
(2) The company shall establish a suitable environmental management system based on the nature of the financial industry.	(2) As a business in the financial services industry, Our Company is striving to conserve energy, reduce carbon and maximize the use of resources in its operating environment and offices. We aim to prevent its operations from creating pollution or having a negative impact on the environment.	Our Company has yet to formulate an environmental management system. However, it is striving to appropriately manage its operating environment.
(3) The company shall establish a unit or appoint designated personnel responsible for environmental management.	(3) The General Administration Management Department is responsible for environmental management and maintenance.	None
(4) The company shall monitor the impact of climate change on its operations and formulate strategies to conserve energy, reduce carbon, and lower greenhouse gas emissions.	(4) Our Company implements strict budgetary controls and has set forth targets for the energy reduction and water usage throughout the Company. It has installed various equipments and also engaged in information campaigns to reduce the impact of climate change on the Company's operations.	None
3. Maintaining Public Welfare		
(1) The company shall comply with related labor laws to ensure the rights and benefits of employees and establish appropriate management methods and procedures.	(1) The Company has formulated Employee Work Rules in accordance with the Labor Standards Law and other related legislation to clarify employee rights and benefits, as well as management procedures. It has also established an Employee Welfare Committee to carry out measures in this respect. The Company also provides retirement pensions in accordance with laws to ensure quality of life in retirement.	None
(2) The company shall provide employees with a safe and healthy working environment, and conducts safety and health education for its employees regularly.	(2) The Company complies with related laws in providing employees with regular health check-ups and fire safety inspections. This ensures the safety and health of employees.	None

Item	Implementation Status	Reasons for discrepancy from the Code of Corporate Social Responsibility for Listed Companies
3. Maintaining Public Welfare		
(3) The company shall formulate and publicize its consumer rights policies and provide clear and effective procedures enabling consumers to file complaints.	(3) The Company has formulated firewall policies and rules on joint marketing to ensure the rights of consumers. Also in accordance with rules by the regulatory authority, the Company states the data confidentiality and privacy policy on the website. The Company and its subsidiaries have set up customer service e-mail links on their websites to offer channels to consumers to submit complaints, after which the respective recipient company will process these complaints accordingly.	None
(4) The company and its suppliers shall collaborate in jointly working to enhance corporate social responsibility.	(4) The Company utilizes green building materials in the remodeling of its offices in an effort to fulfill its corporate social responsibility in conserving energy and protecting the environment.	None
(5) The company shall participate in community development activities and events promoted by charitable and welfare groups in the course of its business activities, volunteer services, and providing professional services on a pro bono basis.	(5) Please refer to the detailed information in Charitable Events Held in 2011 in this annual report.	None
4. Reinforcing Information Disclosure		
(1) The company shall disclose important and credible corporate social responsibility-related information.	(1) The Company holds various public welfare activities to fulfill its corporate social responsibility. It releases the content of these initiatives through the media.	None
(2) The company shall produce corporate social responsibility reports and disclose its efforts to promote corporate social responsibility.	(2) The Company has yet to compile a corporate social responsibility report.	The Company discloses its participation in public welfare activities in its annual report each year.
5. If the company has established its own corporate social responsibility principles based on the Code of Corporate Social Responsibility for Listed Companies, please explain any discrepancy between the Code and the Company's implementation:		
The Code set forth by the Taiwan Stock Exchange is to serve as reference in helping listed companies, but there is no compulsory requirement for listed companies to adopt this Code. HNFHC has yet to formulate a corporate social responsibility code, but it still acts according to the principles of the Code.		
6. Other important information to facilitate understanding of the company's corporate social responsibility (such as the systems, measures, and practices that the Company adopts with regards to environmental protection, community participation, contributions to society, social services, public welfare, consumer rights, human rights, and safety and health):		
Please refer to the information in Charitable Events Held in 2011 in this annual report .		
7. Describe the screening standards of any organization in reviewing products or corporate social responsibility statements of the company:		
HNFHC has not compiled any corporate social responsibility statements to date.		

2. Charitable Events Held in 2011

1. Taipei 101 New Year's fireworks

The fireworks show at Taipei 101 is the center of Taiwan's celebrations each New Year's Eve. In recognition of the centenary celebrations of the ROC, HNFHC, as a leader in Taiwan's banking industry, helped to make this event a success on New Year's Eve 2011.

2. Seminar on the Challenges and Opportunities for Taiwan's Banking Industry After the Signing of the ECFA

This seminar was held by Ph.D. candidates at TamKang University's Graduate Institute of Management Sciences. Taiwan Financial Holdings Chairwoman Susan Chang was invited to deliver an address, while Taiwan Financial Holdings President Shou-tzuoo Huang and representatives from the political, banking, and academic communities were invited to participate in a discussion. HNFHC sponsored the event.

3. Imperial Treasures: Relics of Famen Temple Underground Palace and the Flourishing Tang

The Famen Temple was an important place for the development of Buddhism in China, and the Underground Palace provided a true reflection of the culture of the Tang Dynasty court. HNFHC was the title sponsor for this exhibition, while the To Sun Foundation arranged for 120 artworks to be brought to Taiwan. The exhibition provided the public a wonderful opportunity to view outstanding cultural relics and also helped to enhance religious culture and arts education.



Chairman Rong-Jou Wang (left) on behalf of HNFHC accepted an Award Certificate of Appreciation from Cheng-Hao Liao (right) the Chairman of To Sun Foundation.

4. 2011 Taipei Lantern Festival

HNFHC has sponsored the Taipei Lantern Festival for many years in an effort to involve in social and cultural activities, bring the Company closer to the public, and enhance its brand name image. This year, HNFHC sponsored the Student Lanterns and the Revolving Lanterns exhibition areas at the Sun Yat-sen Memorial Hall, and it also provided 20,000 small lanterns marking the Year of the Rabbit to distribute to the public for free.

5. 2011 Cross-strait Banking Seminar and Bohai Summit

Jointly held by the Bank Education Association of Taiwan, National Taiwan University's Center for the Study of Banking and Finance, Peking University's School of Economics, People's University of China, and Kainan University, a seminar explored corporate banking, SME lending, and agricultural village financial interaction in the post-ECFA era. HNFHC was one of the sponsors of this event.

6. 2011 TMA Asia-Pacific Conference

The 2011 TMA Asia-Pacific Conference was held by the Turnaround Management Association, and co-sponsored by TMA branches in the Asia-Pacific and National Taiwan University Center for the Study of Banking and Finance. The conference was held at the Grand Hotel in Taipei from April 13 to April 15, 2011, and the main purpose was to rescue distressed companies. Discussions focused on the process of restructuring and related substantive international topics. HNFHC was one of the sponsors of this event.

7. Embracing the Silk Road

Embracing the Silk Road was jointly initiated by The Home Expedition CEO Richard Chang, extreme marathoner Yi-chie Lin and renowned artist Jay Chou in an effort to express their commitment to environmental protection. Participants walked or ran to bring attention to the problem of water resources, as well as energy conservation and carbon reduction, enabling this initiative to reach all corners. HNFHC helped to sponsor this event.

8. Wang Nong Art Exhibit in Beijing

A retrospective of Mr. Nong Wang's art was held in Beijing in the first part of 2011. This event was jointly sponsored by the Bei-hong Xu Memorial and the Chinese Cultural Association under the Ministry of Culture. The cross-strait cultural interaction was supported by HNFHC.

9. HNFHC Badminton and Table Tennis Tournament

HNFHC held the employee badminton and table tennis tourney on May 14, 2011 at the National Taiwan University Sports Center. This event expresses the Company's concern for the health of the physically and mentally handicapped, advocates exercise, helps to generate interaction among departments within the group and fulfills the Company's corporate social responsibility. HNFHC also donated NT\$200,000 to the Eden Social Welfare Foundation.



Chairman Rong-Jou Wang (middle) had picture with athletes from Eden Social Welfare Foundation.

10. "One Ball Makes One Dream Comes True" Event to Support Youth Baseball

HNFHC sponsored two baseball activities held by the Chinese Taipei Baseball Association to celebrate the nation's centenary and support youth baseball. The Company also donated NT\$1 million to a fund to nurture youth baseball and held a camp for young players. HNFHC also supported an activity to collect blessings from 100 youth baseball teams for the nation's centenary celebrations. The team from Chinese Taipei was successful in its efforts by winning the First World Youth Baseball Championship.



Chairman Rong-Jou Wang pictured with Little League Baseball players from all countries.



(top) Chairman Rong-Jou Wang pictured with the team of Chinese Taipei Little League Baseball.



(bottom) HNFHC invited children from Hualien Yuli Elementary School to join the 1st IBAF 12U Baseball World Championship Enterprise Day.

11. Lei Chen Democracy and Human Rights

Foundation

HNFHC donated funds to the Lei Chen Democracy and Human Rights Foundation in an effort to fulfill its corporate social responsibility.

12. Ministry of Finance-Organized Sports Competition and Carnival to Show Concern for the Earth

A special athletics competition led by the Ministry of Finance, sponsored and co-sponsored by Land Bank of Taiwan and state banks to celebrate the nation's centenary. A festival was held in conjunction to promote sports, show concern for underprivileged groups, and advocate environmental protection.

13. Run to Celebrate the Nation's Centenary

To celebrate the nation's centenary and for state owned banks to respond to government policy to support public welfare activities, HNFHC and the Taipei City Tax Department jointly sponsored a run that was organized by the Ministry of Finance. This event encouraged people to stay fit and donate unified invoices to public service organizations.



Road race of the Uniform Invoice Cup Race 2011.



The Uniform Invoice Cup Race 2011 successfully raised over 160,000 invoices for charity.

14. Carnival to Welcome the Golden Decade for Taiwan

Ministry of Finance organized a carnival entitled "Golden Decade for Taiwan" to welcome the nation's centenary. The event was held by the Land Bank of Taiwan and co-sponsored by HNFHC.

15. ROC Centenary Music Concert

HNFHC, in response to the government's promotion of activities to celebrate the nation's centenary, sponsor- a music concert that was organized by the Council for Cultural Affairs and Sports Affairs Council on November 12, 2011 in Kaohsiung. The line-up of singers featured many of Taiwan's most popular stars. Music was used to express one's hopes and dreams for the nation, as well as the country's spirit of determination. Vice President of Taiwan's Vincent C. Siew personally attended the event and delivered remarks.

16. Summit on the World Economy Held to Mark the Nation's Centenary

HNFHC, to celebrate the nation's centenary and the 10th anniversary of HNFHC, specially co-sponsored a summit conference with the Economic Daily News in Taipei and Taichung on December 15 and December 16, 2011. The 2010 Nobel Prize in Economics Laureate Christopher A. Pissarides was invited to discuss the economic crises of Europe and the United States. Executive Vice President of HNFHC Jim Liu also was a panelist. Vice President Vincent Siew personally attended the event in Taipei and delivered remarks.



The Nobel Laureate Christopheher A. Pissarides (third from the right) was invited to the conference, co- sponsored by HNFHC, to discuss the economic crisis. Vice President Vincent Siew (third from the left) and Chairman Rong-Jou Wang (left) pictured together before the conference.

2011

Operating Results



HONESTY.



EFFICIENCY



ACTIVENESS



RESPONSIBILITY



TEAMWORK

1. Composition of Income from Main Areas of Business

Unit: NT\$ thousand

Item	Year		2011		2010	
	Amount	%	Amount	%	Amount	%
Operating Income						
Long-term Equity Investment Income	9,004,655	100	6,561,024	100		
Hua Nan Commercial Bank	8,385,429	93	5,949,838	91		
Hua Nan Securities	75,254	1	771,120	12		
South China Insurance	410,414	4	304,202	4		
Hua Nan Investment Trust	52,218	1	(546,256)	(8)		
Hua Nan Venture Capital	117	-	4,674	-		
Hua Nan Management & Consulting	9,855	-	3,068	-		
Hua Nan Assets Management	71,368	1	74,378	1		

2. Plans for New Products and Services

The Company will remain abreast of the latest financial market information and trends globally in developing new products. It will also work with its subsidiaries to ensure effective risk controls. The Company utilizes a CRM system to analyze the various attributes and needs of clients, and integrates product resources among subsidiaries to be able to introduce integrated product marketing, thereby meeting the comprehensive personal finance needs of the Company's customers.

3. Business Plan for 2012

1. To Solidify the Fundamentals and Reinforce the Existing Advantage in Taiwan

(1) Enhance Operational Capacity

A. Reasonable capital allocation

HNFHC appropriately allocates Company's capital to raise the developmental capacities of its subsidiaries.

B. Strengthen cross selling

Utilizing the Company's networks to coordinate client resources within the company and developing a cross-sector integrated marketing mechanism to increase the cross-selling on financial products. The Company will continue to emphasize this as a means to boost business.

C. Continued resource integration

- HNFHC will fully integrate the use of Company resources in order to boost efficiency.
- An integration platform is building on customer resources and cutting costs.

(2) Pursuing M&A Opportunities

HNFHC will take advantage of the economic downturn to pursue M&A opportunities to expand Company's operational blueprint and further strengthen its business.

(3) Implementing Risk Controls

In light of the current volatile financial environment, HNFHC is emphasizing the institution of effective risk management in a bid to maximize profits with the lowest risk possible.

(4) Strengthening Human Resource Management

- A. HNFHC will continue to allocate human resources in an optimal manner to strengthen interaction among employees and boost efficiency.
- B. The Company will boost employee training and education, thereby cultivating employees with professional expertise and global perspectives.

2. To Head West in China and Boost Profitability from Overseas Operations.

- (1) Generating business among Taiwan firms operating in the Pearl Delta
 - A. Increasing branches: HNCB has branches in Macau and Shenzhen, and a sub-branch in Baoan as well as a leasing company in Shenzhen.
 - B. Strengthening e-commerce platforms.
 - C. HNFHC will work together to create tight-knit service networks in the Pearl Delta, with existing branches in Shenzhen and Hong Kong. The Company will also develop a virtual network to expand servicing scope and strengthened operations.
- (2) Linking Taiwan and mainland Chinese operations
 - A. In Banking: HNCB will develop RMB business through its OBU and overseas branches.
 - B. In Securities: HNSC will seek to provide services to Taiwanese companies operating in mainland China that are looking for listing in Taiwan or issuing TDRs. It will also provide mainland QDII with broking services.
 - C. In Insurance: SCIC will seek opportunities to work with non-life insurance counterparts in mainland China.
- (3) Continued expansion of blueprint

HNFHC is extending its blueprint in mainland China by establishing a second branch, participating in taking ownership stakes, and setting up a leasing company. The Company's strategy is to select three focus areas from five main areas (Bohai Rim, Yangtze River Delta, Pearl River Delta, Chengdu-Chongqing, and Haixi) to perfect its regional distribution.

4. Industry Overview

The euro zone debt crisis took a turn for the worse starting in the second half of 2011, while nagging unemployment and fiscal tightening in advanced nations led to weaker demand. Combined with the lack of a coordinated response to the crisis, the global economy had already entered a clear slowdown. Looking ahead to 2012, various concerns and risks associated with the euro zone debt crisis, downward revisions in US economic growth, an adjustment in mainland China's real estate market, and a continued rise in international energy prices will lead growth in the first half of the year to pale against that of the previous year. However, the situation should improve quarter by quarter as 2012 progresses.

In light of the macroeconomic environment, the chances that Taiwan's Central Bank of China will increase interest rates in 2012 are slim. Some industries will again request loan relief, and domestic companies will have a weaker demand for capital. These factors will impact profitability prospects for the banking industry. However, cooperation in the cross-strait banking sector continues and restrictions are expected to be further relaxed for RMB business, taking ownership stake on both sides, and mainland banks establishing branches in Taiwan. This will be the direction for banking industry to develop in the future.

5. Research and Development

1. Marketing

In recent years, the Company has set the goal to increase the average number of products each customer purchases and expand the number of high value customers as the main development theme in customer relationship management. Each subsidiary works to promote high contribution products while utilizing customer purchase tendency models to provide products and services suited to specific customers at the appropriate interval. This increases the amount of products purchased by customers, bolsters product use, and enhances customer's value.

In the future, the Company will integrate Customer Purchase Tendency Models and Group personal finance products geared to each life stage and anticipate the most appropriate "next product offer" (NPO) that should be made to customers. When a customer calls directly or walks in to look for a service, staff will find between one to three products that will fit the needs of the customer from the database. The data provides more opportunities and utilizes group's resources effectively. At the same time, the Company researches any changes in the pattern of products purchased, thereby understanding customer value and relationship trends. This helps to ensure a steady and long-term customer relationship.

2. Risk Management

The Company's risk management platform is based on internal risk management guidelines and regulations. HNFHC has gradually completed policies and guidelines governing corporate credit risk, retail credit risk, market risk, operations risk, and asset and liability management. In the future, the Company will adjust and strengthen its management mechanisms as appropriate. It will also provide education and training to foster comprehensive risk management awareness throughout the Company.

6. Short to Long-term Development Plans

1. Financial Management

A. Short-term Business Development

- (a) Strengthen asset quality and comply with international standards.
- (b) Enhance capital structure and increase operational capacity.
- (c) Adjust composition of assets and boost profits overseas.
- (d) Maximize Company synergy and strengthen cross-selling.
- (e) Hasten the Company's overseas presence and have comprehensive Company-wide strategies.

B. Long-term Business Development

Over the longer term, HNFHC will not only pursue organic growth, but in light of the oversaturated domestic market and the hastened move into the Greater China market, we will not rule out engaging in M&A with complementary institutions. This would boost business scale, increase international competitiveness and fulfill the Company's vision and goal of becoming one of Taiwan's top financial holding companies and a quality regional financial institution.

2. Marketing

A. Short-term Business Development

- (a) Personnel Integration: HNFHC will seek to strengthen integrated employee training among the subsidiaries and help staff acquire related licenses to carry out cross-selling services. In addition, the Company will provide education and training to employees to have a better understanding on products and marketing expertise. The Company also has a cross-selling business management platform and multimedia training platform to provide the latest regulatory information on cross-selling, related business information, and banking and product expertise. This will help to achieve the goal of having each employee be aware of marketing possibilities at all times.

- (b) **Product Integration:** HNFHC encourages subsidiaries to develop new products with a product screening mechanism to control risk. Customer purchase tendency models are established based on a customer's personal finance needs and retired planning. This assists subsidiaries in formulating plans to raise the number of products utilized by customers. The Company will host integrated marketing events to launch products, thereby attracting new clients and maximizing group synergy in cross-selling.
- (c) **Channel Integration:** HNFHC utilizes the 283 operation sites and 250 cross-selling counters of subsidiaries to create integrated marketing teams comprised of managers from north, central, and southern districts. These sites and counters will provide corporate and retail customers with financial services in all domains. In addition, operation sites are an efficient means for each subsidiary to look for customers from other subsidiaries so as to provide a better range of products and services to customers. At the same time, the Company is aggressively increasing the usage of electronic transaction services in order to lower costs and further achieve synergy within brick-and-mortar and virtual networks.
- (d) **Customer Segmentation:** HNFHC will categorize customers into different segments based on their importance and value. The results will be recorded to customers purchasing behavior and be used as the possible development path and purchase tendency predictions down the road. This will enable the group to create a list of customers that can provide greater value to the Company. Consequently, subsidiaries can then effectively allocate marketing resources to maximize profit.

B. Long-term Business Development

The Company will continue to utilize the group's network, product's feature, client's referral and personnel to promote cross-selling operations, and hope to achieve the target of having over 20% of subsidiary's business derived from cross-selling initiations.

The Company seeks to attract new customers by using its corporate image of steady and trustworthy operations, and well thought-out product design and advertisements. It desires to strengthen its overall structure and profit quality of its client. The Company will also analyze the purchasing behavior of new customers and develop products with these customers in mind, thereby building a long-term mutually beneficial relationship.

The idea of being customer-driven organization is the objective of our Company. Our goal is to promote medium- and long-term development plans aiming to integrate the sales networks, and turn to information analysis, reliable operational procedures and highly functional sales systems to create a tight-knit internal sales network, thus assisting our sales team to enhance service quality and sales acumen. At the same time, we provide customers with integrated services and a one-stop shopping experience, thereby creating a closer relationship between the Company and customers.

HUA NAN COMMERCIAL BANK (HNCB)

Financial Highlight

Unit: NT \$ thousand

As of December 31, 2011 and 2010	2011	2010
Income Statement		
Net interest income	19,574,630	16,880,076
Net income excluding interest income	10,459,868	10,611,579
Gross income	30,034,498	27,491,655
Provision for bad debts	(4,760,831)	(6,559,251)
Operating expenses	(15,251,385)	(14,399,439)
Income before tax	10,022,282	6,532,965
Cumulative effect of change in accounting principles	-	-
Net income	8,385,429	5,949,838
Balance Sheet		
Total assets	1,936,462,171	1,837,357,044
Total liabilities	1,840,878,931	1,747,347,495
Total shareholders' equity	95,583,240	90,009,549
Ratio		
ROE	9.04%	6.87%
ROA	0.44%	0.33%
Tier I ratio	7.49%	7.54%
Capital Adequacy Ratio	11.34%	11.51%
NPL ratio	0.47%	0.79%
Coverage ratio	211.12%	108.57%
Credit Ratings (long/short/outlook)		
Taiwan Ratings	twAA/twA-1+/Stable (2011/12)	
Moody's Ratings	A3/P1/Stable (2012/03)	



HONESTY



EFFICIENCY



ACTIVENESS



RESPONSIBILITY



TEAMWORK

1. Composition of Income from Main Areas of Business

Unit: NT\$ million

Business	Year	2011		2010	
		Amount	%	Amount	%
Corporate Banking		13,168	31%	11,592	31%
Consumer Banking		11,618	27%	9,789	26%
Financial Trading		4,870	12%	5,509	14%
Foreign Exchange & International Operations		7,937	19%	7,210	19%
Trust & Wealth Management		2,319	5%	2,539	7%
Others		2,447	6%	1,243	3%
Total		42,359	100%	37,882	100%

2. Research and Development

A total of 440 projects have been suggested by employees of HNCB over the past two years, with the aim to improve business operations. These results show that HNCB is committed to enhancing its operating performance and promoting quality service in the bank. HNCB will continue to encourage all employees to be involved in research and development so as to create excellent business performance and sustainable initiatives in the future.

3. Business Plan for 2012

1. Actively manages the volume of NT dollar deposits, helping to keep HNCB's status as the local bank with the lowest capital costs.
2. HNCB strengthens its internal management mechanism by better monitoring irregular accounts and showing concern for customers at teller windows. This is reducing operational risk.
3. HNCB is best utilizing the new branch license it has received and is taking part in government's land planning policies. It is working to improve the performance of laggard operational units and is engaging in operations analysis in order to strengthen the Bank's business network.
4. HNCB is promoting a global financial services network, strengthening its relationship with outstanding companies and enhancing its competitiveness.
5. HNCB continues to promote its e-banking services, thereby reducing costs and enhancing transaction efficiency.
6. HNCB promotes B2C agency collection operations that provide companies with diversified tools to conveniently receive and make payments. This helps to expand the Bank's scale of business in this area and boost income.
7. The Bank has planned and is executing a customer service network marketing project that includes outgoing and incoming calls. This boosts the volume of sales generated by the cross-selling and increases the number of products purchased and profits contributed made by customers.
8. HNCB is taking advantage of the opportunities for cross-strait banking cooperation brought about by regulatory liberalization. It will continue to focus on stable operations and pursue innovative means in promoting its corporate lending business.

9. HNCB reinforces its business directed at SMEs and aims to nurture these businesses and expand the scale of lending to them, thereby enhancing the structure of its corporate finance operations.
10. HNCB has established a Greater China Business Development Task Force to remain abreast of cross-strait business opportunities. It seeks to expand its business with Taiwan businesses operating throughout Greater China. It will also work to utilize its platform throughout Greater China to create new opportunities for its lending business.
11. HNCB will take advantage of opportunities associated with overseas Taiwanese businesses coming back to invest or participate in infrastructure projects here. It will actively assist these companies in obtaining financing to meet their capital requirements in Taiwan and overseas.
12. HNCB is working to provide firms involved in the government's i-Taiwan 12 projects, the Six Major Emerging Industries, and investment recruitment initiatives with financing to acquire land and build factories in industrial zones, and to participate in major infrastructure projects.
13. HNCB is handling a wide range of import- and export-related foreign currency lending operations to support the government's policy of promoting external trade.
14. HNCB is proactively promoting central factory supplier receivable financing to help SME suppliers obtain working capital, enhance supply quality and boost competitiveness.
15. HNCB continues its association with Factors Chain International to increase cooperative opportunities in factoring and expanding business in this area, while strengthening the variety of services it provides to enterprises.
16. The Bank continues to promote e-financing business and develop cooperative relationships with central factories. It is strengthening its self-liquidating financing operations in order to generate business opportunities for financing of supply chains.
17. The Bank is actively seeking to be the lead arranger in domestic and overseas syndicated lending business.
18. The Bank is actively engaging in cross-selling with other subsidiaries of Hua Nan Financial Holdings. The joint use of resources helps provide customers with diversified and comprehensive products and services, creating a win-win situation for the Bank and clients.
19. HNCB monitors the state of the markets closely and strengthens its product innovation and services in response. The Bank cooperates with the government's advisory system and utilizes the media to publicize its operations, helping to boost visibility and enhance the Bank's image.
20. The Bank is establishing a leasing company in mainland China. The company will work in conjunction with the Bank's strategic objectives to expand business in Greater China.
21. HNCB is increasing capital for the Shenzhen branch to enhance its working capital in 2012. The paid-in capital of the Shenzhen branch increased to 500 million yuan from 300 million yuan. It is also applying to initiate RMB business in the future. The Bank is working to gradually expand the online bank function of the Shenzhen branch in order to provide Taiwanese businesses with more comprehensive and convenient financial services.
22. HNCB is working to expand its blueprint in mainland China. It is applying to establish a Shanghai branch and a Baoan sub-branch in Shenzhen in order to establish a comprehensive operation in China.

- 23.HNCB has already entered into cooperative MOU with Fujian Haixia Bank, Bank of China, Bank of Communications, and China Merchants Bank, and will continue to expand substantive cooperation with these counterparts in a bid to increase profitability.
- 24.The Sydney and Macau branches will commence operations in 2012, marking a new milestone in the Bank's internationalization. It has already applied to upgrade the Hanoi office to a branch. These efforts are gradually creating a tight-knit network to provide service to Taiwanese businesses.
- 25.HNCB is strengthening RMB business at its OBU, providing its OBU customers with comprehensive banking services.
- 26.HNCB has introduced its Comprehensive Mortgage Finance Platform for persons purchasing luxury properties or looking to change homes, and first-time homebuyers. This program offers discounts and incentives to customers who spend at specific stores, furniture shops, and appliance outlets. This will increase the volume of business it engages in with each customer.
- 27.The Bank will select outstanding customers with low loan-to-value (LTV) and low balances on their mortgages to promote revolving mortgages. Increased investment incentives will encourage customers to tap into available credit lines. In addition, the Bank will use direct mailing and other mechanisms to encourage customers to apply for this service, thereby boosting the contribution of each customer to Bank profits.
- 28.The Bank will continue to promote guarantee mortgages and increase the number of products that are packaged with these mortgages. It will turn to various marketing techniques and produce manuals to attract customers, thereby increasing non-risk handling fee income.
- 29.The Bank will establish comprehensive after-sales service procedures and continue to promote its Prestige Club. It will differentiate customers into specific groupings and hold activities to show its concern for its clients.
- 30.HNCB, via strategic cooperation with key investment trusts, will seek to expand the scale of its custodian operations and will aim to provide services for new funds offered by investment trusts, thereby generating handling fee income.
- 31.The Bank has created a special task force to promote various business initiatives. The project aims to utilize bank-wide marketing efforts to promote real estate trusts and standardized money trusts, thereby generating handling fee income.
- 32.HNCB emphasizes bond funds and long-term premium policies as core items for a customer's asset portfolio. It is working to hone the abilities of its account executives to market and sell these items as products to provide stability in times of market volatility.
- 33.HNCB establishes a system to have every employee be involved in marketing promotion. This is aimed at stimulating the sale of personal finance products throughout the Bank's network.
- 34.HNCB will use its strengths in corporate banking and retail banking, emphasize its advisory abilities, and provide training and education to its employees, helping to promote bank-wide marketing.
- 35.The Bank will cooperate with companies from other sectors in issuing joint-branded credit cards and providing a range of contracted vendors in a wide range of fields that offer special deals to cardholders. This will increase the value of HNCB's cards and boost the ratio of cards in force.
- 36.HNCB is actively in discussions with strategic alliance partners on repurchase guarantee, which will ultimately help the Bank to boost the volume of auto loans and loans to foreign laborers.

- 37.HNCB cooperates with well-known internet shopping sites to expand the network available to our cardholders. The Bank is aggressively seeking to establish internet-related value-added services, such as the ability to place orders for mutual funds and other transactions over the internet, to satisfy the needs of customers.
- 38.The Bank is providing an integrated service platform and creating differentiated services as well as raising interest rates at appropriate times in order to boost income.
- 39.HNCB continues to educate financial advisors with proper concepts on negotiating handling fees. We hope to provide customers with professional knowledge and increasing customer reliance on HNCB.
- 40.HNCB has joined the domestic and foreign fund data transmission platform. This improves operational efficiency to trade funds. It has also established an automated review mechanism of the "custodian banking services for securities investment trust fund monthly reporting system" and is improving the account balance checking function of the "custodian bank operational system."These systems will reduce manpower costs and operating error, while effectively exercising responsibility as a custodian bank for funds. Ultimately, this boosts the service quality of a custodian bank.
- 41.The Bank has adopted electronic operations to simplify procedures associated with property trusts accounts and increase efficiency.
- 42.The Bank is actively engaging in foreign securities trading to expand capital gains and interest income.
- 43.HNCB invests in domestic convertible corporate bonds and domestic bonds at the appropriate time in order to enhance the performance of its bond trading.
- 44.The Bank is strengthening its trading of equities to maximize profits.
- 45.HNCB is expanding its trading positions in swaps deals, such as FX swaps and CCS to boost forex proprietary trading profit.
- 46.HNCB continues to promote treasury marketing unit business, mainly for hedging and other trading, to customers with more demand and low in credit risk. The Bank is promoting currency and commodity derivatives to satisfy the overall need of customers and boosts the Bank's income.

HUA NAN SECURITIES CO., LTD. (HNSC)

Financial Highlight

Unit: NT \$ thousand

As of December 31, 2011 and 2010	2011	2010
Income Statement		
Revenue	2,986,818	3,174,626
Expense	(2,803,293)	(2,242,227)
Income before tax	183,525	932,399
Cumulative effect of change in accounting principles	-	-
Net income	75,267	771,120
Balance Sheet		
Total assets	20,017,637	26,630,663
Total liabilities	8,871,046	15,040,813
Total shareholders' equity	11,146,591	11,589,850
Ratio		
ROE	0.66	6.68
ROA	0.32	3.08
Tier I ratio	7.49%	7.54%
Capital Adequacy Ratio	536.74%	377.85%
Credit Rating (long/short/outlook)		
Taiwan Ratings	twA+/twA-1/Stable (2011/5)	



HONESTY



EFFICIENCY



ACTIVENESS



RESPONSIBILITY



TEAMWORK

1. Composition of Income from Main Areas of Business

Unit: NT\$ thousand

Business \ Year	2011		2010	
	Amount	%	Amount	%
Brokerage	2,482,174	75.16%	2,650,048	88.40%
Underwriting	175,032	5.30%	117,916	3.93%
Dealing	645,119	19.54%	229,789	7.67%
Total	3,302,325	100%	2,997,753	100%

2. Plans for New Products and Services

Taiwan's major brokerages are aggressively engaging in R&D and employee training in the wake of the regulatory environment is gradually opening up, banking supervision is signing the MOU progressively, and the market is adapting to new types of financial products. Looking forward to coming year, HNSC will work in tandem with the regulatory environment set forth by regulators in evaluating and planning the following types of new financial products and related business:

- Based on the state of the market, HNSC will examine and apply to offer cash management account business and wealth management business through trust.
- The brokerage will actively develop a comprehensive investment banking business in response to government policy that encouraging brokerages to do so. HNSC will develop financial advisory services for corporate restructuring and M&A, as well as other broadly defined brokerage and underwriting services with a goal of becoming an investment bank.
- The regulatory authority will allow securities operating sub-broking business in Hong Kong H shares and US N shares, or even A shares in the near future. HNSC will take the advantage and aggressively promote the business to Hong Kong and US shares in order to provide greater services to the public.
- HNSC will design and promote financial derivatives, such as call and put warrants, asset swaps, and structured products.
- HNSC will actively seek to be a market maker in futures, TAIEX and individual stock options markets and ETFs. 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.
- HNSC will integrate the specialized knowledge from Overseas Product Development Department, Financial Product Department, and Futures Dealing Department in devotion to provide research on arbitrage and trading of financial products. Also, the development by the Information Department of computer trading programs on all types of financial derivatives, spreads, arbitrage and hedging, supported by technical analysis, will enable the company to pinpoint the direction of markets and the best trading points to generate the maximum profits.
- HNSC will create special project teams with Product Design Department to form an integrated online platform to determine the risk and other features of products such as equities, futures, domestic and overseas funds, and sub-brokerage services of Hong Kong. This up-to-date information will be available to public and assist them in placing online orders. Staff can also utilize this platform to find appropriate products for different types of clients, thereby enhancing sales, expanding business, and providing customers with rapid and convenient services.
- With government encouragement, the Underwriting Department of HNSC is actively contact Taiwanese-owned overseas enterprises through Hong Kong office, as well as legal and accounting firms in hope to be have these companies to be interested in coming back to list in Taiwan.

9. HNSC established a representative office in Shanghai in November 2009. The office provides investment information regarding cross-strait securities, and evaluates possible strategic alliances with top-notch mainland brokerages or equity investment projects.
10. The subsidiary of HNSC, Hua Nan Securities Investment Management, provides information at timely manner covering the global financial sector, domestic and overseas economy, and on specific industries and companies. This in-depth fundamental, technical and capital research helps to provide insight investment trends and potentially risky industries. In addition to periodically issuing investment publications and holding investment seminars, Hua Nan Securities Investment Management provides other subsidiaries within the group with investment advice and credit reference.

3. Business Plan for 2012

The stock market was bullish for the domestic and international at the beginning of 2012. The debt crisis in Greece finally showed signs of ebbing after the coordinated efforts by Germany and France to address the situation. US economic indicators were also gradually improving and the stocks were on an uptrend. In March, however, the National People's Congress of China has been revised GDP growth to 7.5% for 2012. This was the first time in eight years that mainland China's government had lowered its annual growth target, and this news caused sharp falls in stocks markets throughout Asia, especially in China, Hong Kong and Taiwan. Upon closer inspection, however, the mainland's low-key growth forecast appeared to be in line with its intention of promoting quality growth rather than solely focusing on a fast pace of growth. The mainland is seeking a stable growth, modest inflation, and structural change to benefit the public, enable the reform and promote harmony economy. The initial worries of a slowdown in China faded, and Asian stock markets stabilized after few days.

Looking ahead, while global economic growth momentum is limited, but the euro zone debt crisis is gradually moderate. In addition, policies promoting growth in the US will likely lead to an expansion ahead of the US presidential election in the second half of the year. Global economic growth appears to stage a gradual rebound and world stock markets expect to enter a bullish phase. As for Taiwan, President Ma Ying-jeou won the second term of election could help to maintain a peaceful period between cross-strait relations. An investment protection agreement between Taiwan and China is expected to be signed soon, and negotiations to the ECFA are expected to gain steam. Taiwan is seeing a constant stream of visiting delegations from all parts of mainland China, and person-to-person and capital interaction between the two sides are likely to become even closer. China's 12th Five-year Plan and Taiwan's Golden Decade vision will present enormous business opportunities, and a variety of bullish economic factors are starting to take hold. Meanwhile, the two sides are also looking forward to enjoying the so-called peace dividend. Foreign investors are gradually returning to Taiwan, which will limit the downside for the market. However, Taiwan is an export-oriented economy and is deeply impacted by the state of the international economy. There are considerable uncertainties that could affect the global economy this year, and we should proceed with extreme caution.

4. Industry Overview

The status and development of the securities industry can be summarized as follows:

1. The Number of Securities Brokerages Has Decreased after a Period of Mergers and Acquisitions. Medium- and Large-sized Brokerages Continue to be Integrated into Financial Holding Companies

Changes in Number of Securities Brokerages in Recent years

Year	Total Number of Securities Brokerages		
	Total No. of Brokerages	Branches	Total
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
2011	150	1,039	1,189

Source: Taiwan Securities Association website

As the cross-strait relationship continues to improve and the government promotes to be internationalization, Taiwan's brokerage firms are facing competition from not only local foreign counterparts, but also mainland China. Securities brokerages desiring to strengthen their market edge in this competitive environment must do so by expanding their economies of scale or through increasing their number of offices. Consequently, mergers and acquisitions will continue to be seen. Besides creating a broader branch network, brokerages are aggressively working to expand operations in Greater China.

2. Foreign Firms Seeking to List in Taiwan and Cross-Strait Brokerage Interaction to Promote Internationalization of Taiwan's Brokerage Market

The Taiwan Stock Exchange (TWSE) in 2008 initiated a push to encourage foreign firms to list in Taiwan. The number of listed firms at TWSE by foreign issuers at the end of 2011 was 12, double the number from the previous year. The number of TDR listings increased to 32, making Taiwan the largest Asian market for depositary receipts. Meanwhile, the TWSE is planning to sign a memorandum of cooperation with the Shanghai Stock Exchange and further strengthen its cooperation with exchanges in the Greater China, which will prove beneficial in expanding business for Taiwan's brokerage industry.

3. Intense Competition in Online Brokerage E-Trading

E-trading is more cost-effectively compared to physical entity today. In addition, the function and popularity of mobile devices continue to improve. Consequently, brokerages are actively working to promote their e-trading platforms. As of the end of 2011, the number of brokerages offering online trading in Taiwan increased to 78 from 63, with the volume rising to NT\$20.759 trillion, accounting for 33.3% of total market turnover compared with the previous year's 26.3%.

HNSC periodically updates the software and hardware for online trading system to enhance program stability and transaction speed. It also improved the transaction interface, which helped to expand its market share. HNSC online trading market share rose to 2.89% in 2011 compared with 2.63% in the previous year.

5. Research and Development

The following are the main research and development plans to be carried out by HNSC:

1. In conjunction with government policy and in compliance with regulations, HNSC is engaging in R&D on new areas of business and structured financial derivatives, such as emerging stocks, convertible bond asset swaps, interest rates swaps, sub-broker operations, issuance of domestic call and put warrants, index and individual stock options, interest rate futures, gold futures, and asset securitization. HNSC is also strengthening the training and recruitment of talent in the areas of investment banking, financial engineering, and risk management.
2. HNSC is carrying out planning for the following information systems:
 - (1) Planning and establishment of overseas sub-broker web trading platform: This new platform allows customers to trade a wide range of products from many nations and uses NT dollar as denominated currency to its sub-system in order to make the system even more user-friendly.
 - (2) Planning the expansion of business management systems: This includes customer relationship management planning, district supervisory system planning, manager system planning, and decision-making support management system planning.
 - (3) Establishing a securities manager system: This system will provide a comprehensive overview of a customer's transactions, thereby assisting branch managers in operating their futures business.
 - (4) Planning a wealth management and trust service system: This system will be established in conjunction with the wealth management and trust service in the future.
3. HNSC engages in the operational risk management to enhance risk management culture and carry out the following risk management operations in accordance with related risk management plans of the parent company:
 - (1) Risk self-assessment (RSA) tools for operations risk
 - (2) Operations risk assessment procedures (ORAP) in the course of carrying out new business
 - (3) Corporate loss database (CLD) establishment.
 - (4) Operational risk indicators (KRI) formulation.
 - (5) Continued development and improvement of the intraday risk control for the t proprietary trading in stock market in coordination with the front desk operation.
 - (6) Risk management guidelines formulation for new areas of business by each department.
 - (7) Examination and amendment the framework and guidelines of risk management of the company in each department.
4. HNSC will integrate the expertise knowledge of Overseas Product Development Department, Financial Product Department, and Futures Dealing Department to provide arbitrage research and trading of financial products. Also, Information Department develops computer trading programs on all types of financial derivatives, spreads, plus arbitrage and hedging, supported by technical analysis, to pinpoint the direction of markets and the best trading points to generate the maximum profits.

5. Underwriting, Bond Department and other related units in HNSC actively pursue strategic alliances with legal and accounting firms to train and recruit talent personnel as well as introduce related professionalism. It will also cooperate with the venture capital, management and consulting, and bank subsidiaries of HNFHC in obtaining sources of clients in order to help HNSC promoting and expanding its business operations.
6. HNSC will work under the framework of HNFHC to actively seek potential M&A targets in order to expand its business and forge sustainable operational growth.
7. Hua Nan Securities Investment Management provides information on the state of the global financial sector, the domestic and overseas macro economy, and on specific industries and companies at appropriate times. This in-depth aspect on fundamental, technical and capital research helps to provide insight on investment trends and avoid potentially risky industries. In addition to periodically issuing investment publications and holding investment seminars, Hua Nan Securities Investment Management provides information to other subsidiaries in the group with investment advice and credit reference.

6. Short- to Long-term Business Development Plans

1. Short-term Strategies:

To achieve balanced development in all areas of business, including broking, underwriting, dealing, and new financial products, and to develop wealth management-related operations. HNSC desires to become one of the Top 10 domestic brokerages in profitability and capital size.

2. Medium- and Long-term Strategies

- (1) Brokerage: To complete its network blueprint and expand into new areas of business.
- (2) Investment Banking: To strengthen underwriting and expand capital size.
- (3) Management: To expand the scale of capital under management and enhance management performance.
- (4) Financial Innovation: To strengthen financial engineering capabilities and introduce new financial products from Taiwan and abroad.
- (5) E-enterprise: To integrate corporate resources and boost operational efficiency.
- (6) Risk Control: To monitor risk-weighted assets and reduce operations risk.

SOUTH CHINA INSURANCE CO., LTD. (SCIC)

Financial Highlight

Unit: NT \$ thousand

As of December 31, 2011 and 2010	2011	2010
Income Statement		
Operating income	4,280,952	4,040,099
Operating cost	(2,759,509)	(2,808,676)
Gross income from operations	1,521,443	1,231,423
Operating expense	(1,011,264)	(938,252)
Net operating income	510,179	293,171
Non-operating revenue	9,646	54,168
Non-operating expense	(612)	(3,528)
Income before tax	519,213	343,811
Income Tax	(108,799)	(39,609)
Net income	410,414	304,202
Balance Sheet		
Total assets	12,454,280	12,079,522
Total liabilities	9,848,786	9,726,343
Total shareholders' equity	2,605,494	2,353,179
Ratio		
ROE	16.55%	13.69%
ROA	3.35%	2.64%
Capital Adequacy Ratio	530.17%	514.67%
Credit Ratings (long/outlook)		
Taiwan Ratings	twAA-/Stable (2011/11)	
A.M. Best Ratings	A- /Stable(2012/03)	



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TEAMWORK

1. Composition of Income from Main Areas of Business

Unit: NT\$ thousand

Business	Year	2011		2010	
		Amount	(%)	Amount	(%)
Written Premium Income		6,053,319	95.00	5,500,568	93.88
Fire Insurance		1,127,710	17.70	1,027,327	17.53
Marine Insurance		614,196	9.64	537,544	9.17
Motor Insurance		3,408,127	53.48	3,081,629	52.60
Casualty Insurance		590,644	9.27	583,379	9.96
Health and Personal Accident Insurance		312,642	4.91	270,689	4.62
Reinsurance Income		318,781	5.00	358,783	6.12
Total		6,372,100	100.00	5,859,351	100.00

2. Plans for New Products and Services

SCIC in 2012 will continue to develop new products to meet various needs in the marketplace and satisfy customer demand. New products are planned as follows:

Products Names
Personal accident for drivers of commercial auto insurance
Auto insurance with additional terms: for vehicle testing and measured performance
Comprehensive homeowner insurance
Comprehensive pet insurance
Comprehensive artwork insurance with additional terms: for private collections
Comprehensive artwork insurance with additional terms: for losses
Personal accident insurance (Type A)

3. Business Plan for 2012

1. Reducing Operating Costs: SCIC will implement a strict Retained Combined Ratio management mechanism and a comprehensive cost management systems to reduce expenditures. It will also boost information systems development and management capabilities in order to reduce time and manpower costs.
2. Boosting Market Share: SCIC will continue to develop and maintain network operations, increase business units and adjust its branch network. It will streamline its policy renewal procedures, develop differentiated products and strengthen product competitiveness.
3. Raising Customer Satisfaction: SCIC will provide customers with comprehensive insurance planning and policy services, thereby raising customer satisfaction and creating long-term partnerships with customers.
4. Enhancing Utilization of Insurance Proceeds: SCIC will diversify existing risks and increase sources of steady incomes. It will take advantages of group resources and information sharing platforms to adjust its allocation of financial assets.
5. Strengthening Data Management and Utilization: SCIC will integrate the electronic platforms used by frontends and planning to introduce the ISO27001 data security certification system. It will also purchase audio/visual meeting systems in Luodong, Hualian, and Taitung to further improve its level of e-commerce services.
6. Bolstering Employee Education and Training: SCIC will strengthen the foreign language education of its employees and increase the percentage of pass rate of English aptitude tests. SCIC will also establish targets for the percentage of employees that receive professional licenses and joint marketing licenses. SCIC is to ensure that employees are well-versed in areas of the insurance industry and will provide education and training at both managerial and non-managerial levels.

4. Industry Overview

The overall written premium of the property and casualty insurance market in 2011 was NT\$112.45 billion, an increase of 6.91%, or NT\$7.2 billion, from the previous year. SCIC posted a total written premium of NT\$6.05 billion in 2011, a rise of NT\$552.8 million, or 10.05%, from 2010. SCIC also increased its market share to 5.39%.

5. Research and Development

1. Results of R&D of New Insurance Products over the Past Two Years

SCIC's new insurance products were all developed in-house. SCIC has developed the following major insurance products over the past two years:

Products Names
Passenger liability insurance for bus
Rental reimbursement insurance
Passenger liability insurance for bus with additional terms - for medical liability
Third party liability auto insurance (specially for bus companies)
Third party liability auto insurance with additional terms for excess liability specially for bus companies
Third party liability auto insurance (consolidated limit on group injury and property damage – applicable for outstanding drivers)
Comprehensive store insurance with additional terms : for public accident liability for signboards (Type A)
Art exhibition insurance
Construction and maintenance contractor accident liability insurance with additional terms :for natural disaster liability
Employee honesty guarantee insurance with additional terms: for the securities industry
Employers liability insurance for employers at the construction site
Mini group accident insurance
Overseas emergency relief with additional terms
Motorcycle passenger liability insurance

Products Names
Limited accident coverage for auto insurance
Insurance agent guarantee insurance
Initial cancer diagnosis health insurance
Cancer hospitalization expenses and health insurance (per day of hospitalization)
Personal accident insurance (standardized) with additional terms: condolence payments for food poisoning
Personal accident insurance (standardized) with additional terms: compensation for accidents overseas
Personal accident insurance (standardized) with additional terms: condolence payments for emergency treatment
Group accident insurance (standardized) with addition terms (Type D) for medical care

Note: These products were jointly developed by SCIC's in-house team involved in underwriting, claims, actuarial services, legal services, and operations. None of these products were designed on an outsourced basis. Consequently, the R&D expenses are included in the financial statement as business expenses.

2. Future Research and Development Plans

SCIC continues to develop new products for different market niches in order to satisfy the various needs of customers. The key new products are mentioned in Future Development of New Products and Services above. At the same time, the company will strengthen data system integration and boost e-commerce marketing.

6. Short to Long-term Business Development Plans

1. Operational Targets

- (1) To expand market share, increase its offering of differentiated products and raise product competitiveness.
- (2) To boost the ratio of retained business, maintain quality business, and boost core profits.
- (3) To strengthen information management and utilization, and to promote audio-visual conference systems throughout the company.
- (4) To integrate commercial insurance and retail insurance supervisory platforms, thereby providing customers with integrated insurance planning and policy services.
- (5) To formulate innovative capital utilization strategies, increase the level of stable investment returns, and use group resources and data to boost investment performance.
- (6) To fulfill SCIC's corporate social responsibility and to work in conjunction with government policy to promote micro-insurance. SCIC also will assist social welfare organizations that cater to the underprivileged.

2. Business Goals

SCIC's premium revenue in 2011 stood at NT\$6.37 billion, including written premiums of NT\$6.05 billion and reinsurance expense of NT\$318 million. The average claim(loss) ratio was 51.87%.

SCIC recorded operating income in 2011 of NT\$4.28 billion, including NT\$3.76 billion of retained earned premium, net investment loss of NT\$40 million, and other operating income of NT\$560 million. Operating costs were NT\$2.76 billion, including NT\$1.96 billion in the retained claims payment and net changes in liability reserves of negative NT\$82 million and other operating costs of NT\$887 million. Operating expenses were NT\$1.01 billion, and operating profit was

NT\$510 million. Net non-operating profit was NT\$9 million, bringing pre-tax profit to NT\$519 million. Net profit after tax was NT\$410 million, equivalent to net earnings per share of NT\$2.05. ROA was 3.35% and ROE was 16.55%, with profits reaching 86.4% of the company's target.

3. Key Operational Policies

(1) Business Development

- A. SCIC plans to take roots in cooperative relationships with the banking and insurance networks, increasing business deals with regional insurance agents, and strengthen its B2C and B2B operations.
- B. SCIC plans to increase its business units and adjusting its network of offices and increasing direct sales team and business service manpower. It will assess business units that does not meet targets and then make managerial changes or change the location of its offices appropriately.
- C. SCIC will place greater emphasis on insurance premium renewal management and establishing a multi-level mechanism based on products, business units, and individuals. This will increase operational stability and effectively enable managers and employees to monitor the progress of renewals, thereby solidifying the company's business foundation.
- D. SCIC will seek to boost the ratio of retained business. It will examine and adjust the structure of reinsurance agreements. It will also promote development of retail and SME insurance, which will help to generate greater retained business and boost its basis for core profits.
- E. SCIC participated in the "Faith, Hope and Love Insurance Award" competition and for the third consecutive year won the "Best Insurance Professionalism Award" and the "Best Product Innovation Award".

(2) Risk Management

- A. SCIC has formulated risk management policies in order to effectively implement risk management and comply with standards required by the regulatory authority. These policies will serve as the basis of the company's day-to-day risk management operations.
- B. In order to avoid carrying too much risk in the pursuit of profits, SCIC has also formulated operational strategies and targets and specific risk appetite levels. These take into consideration business growth and risk and reward, and are aimed at effectively controlling risk and establishing a corporate culture that emphasizes risk management.
- C. SCIC is implementing risk limits and will continue to maintain the accuracy of the loss database. The company holds risk management committee meetings on a monthly basis to ensure that it keep abreast of the level of risk it carries.

(3) Cost Control

- A. SCIC has already implemented a low-cost recycled supplies policy in order to cut down on the resources and costs.
- B. SCIC is working in conjunction with HNFHC's e-document system, thereby significantly reducing the amount of paper used, boosting administrative efficiency, and reducing costs.
- C. SCIC strictly implements annual budgets to effectively control costs. It also has instituted a cost-sharing mechanism, under which each department is required to closely monitor its costs. This initiative helps to promote cost controls and awareness of budget utilization. The cost ratios from 2009 to 2011 stood at 31.91%, 31.51%, and 30.68%, respectively. This shows that the company's costs are declining and that cost control measures have been effective.

(4) Capital Management

- A. SCIC takes into consideration asset risk in each of its investments. It complies with all types of risk control mechanism designed by HNFHC, the parent company and employs the VaR indicator in the examination and adjustment of its risk asset positions. It closely monitors any changes in risk as it seeks to steadily increase its returns, thereby ensuring a thorough understanding of potential risks from volatility in financial assets.
- B. The nature of funds in the insurance industry is different from other financial institutions. Therefore, SCIC places the greatest emphasis on liquidity and safety in its fund utilization policies, followed by profitability considerations. This ensures solvency and protects the rights of the insured.

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

Financial Highlight

Unit: NT \$ thousand

As of December 31, 2011 and 2010	2011	2010
Income Statement		
Operating income	245,109	263,769
Operating expense	(176,723)	(190,638)
Net operating income(loss)	68,386	73,131
Non-operating revenue	2,145	1,307
Non-operating expense	(7,219)	(771,292)
Income before tax	63,312	(696,854)
Cumulative effect of change in accounting principles	-	-
Net income	52,218	(546,256)
Balance Sheet		
Total assets	953,112	952,734
Total liabilities	466,670	951,623
Total shareholders' equity	486,442	1,111
Ratio		
ROE	21.42%	(199.19%)
ROA	5.48%	(42.84%)



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1. Business Composition

Type of Assets		(%)
Mutual Funds	Equity	53.46
	Fixed Income	42.67
Discretionary Business		3.65
Fee Income		0.22
Total		100.00

2. Plans for New Products and Services

HNIT provides appropriate financial products with diversified and convenient service channels that reflect market trends and satisfy the personal finance needs for various types of customers.

3. Business Plan for 2012

1. To strengthen asset management capability to better foster stable business performance.
2. To actively promote e-commerce to enhance customer service and operating basis.
3. To boost customer service and relationship, as well as promoting brand marketing.
4. To continue developing niche products that will complete HNIT's product line.
5. To emphasize employee education and training in order to build company's long-term development and service quality.

4. Industry Overview

There are five types of funds showing an increase in size in 2011, including domestic money market funds, domestic ETFs, high yield bond funds, domestic index funds, and multinational ETFs. In particular, the high yield bond funds has increased for two consecutive years, which reflects the trend that investment trusts would like to issue and the popularity of the fund among investors. In fact, some competitors increased the line to satisfy the market.

ETFs have become increasingly popular among investors in recent years, hence, the growth in the size of ETFs was the second highest of all types of funds in 2011. ETFs became attractive to many investors as Taiwan stocks were quite volatile in 2011, making single stock selection difficult. ETFs' passive tracking index management attracted the greatest amount of interest.

Meanwhile, the continued improvement in relations between the two sides of the Taiwan Strait has been a boon for investment trusts. Many companies in the industry have obtained QFII quotas in China. In addition, some firms cooperated with companies from China to establish China Fund Company.

The investment trust industry experienced a trend in which the big get bigger in 2011. The top five firms together accounted for a market share of 34.41%, while the 10 largest firms had a market share of 59.27%, which increased by 0.4% from previous year. Foreign capital increasingly entered the industry by merger and acquisition. Companies that were beneficial from the M&A have seen increase both in size and market share significantly in 2011.

5. Research and Development – Costs and Results of R&D over the Past Two Years

The research and development of new financial products by securities investment trust firms largely depends on the regulatory liberalization and approvals granted by regulatory authorities. HNIT has developed the following new products over the past two years in reflection of regulatory policies and market trends:

1. “Hua Nan Investment Grade Bond Fund” was issued on July 19, 2010. This fund primarily invested in investment grade bonds.
2. “Hua Nan Small- and Mid-cap Fund” was issued on December 27, 2010. This fund focused on investment in small- and medium-sized stocks listed on the Taiwan Stock Exchange.

6. Short to Long-term Business Development Plans

1. Short and Med-term Plans

- (1) To gradually create a comprehensive customer-driven product line.
- (2) To strengthen the abilities of the R&D team and the long-term performance of its funds in order to regain customer’s trust.
- (3) To enhance customer service and customer satisfaction.
- (4) To strengthen risk management and promote more streamlined operational procedures in order to boost overall service efficiency.

2. Long-term Plans

- (1) To become the Top 10 securities investment trust company in terms of Assets Under Management in Taiwan.
- (2) To seek opportunities on discretionary trading of government funds.

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

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

Financial Highlight

HNVC

Unit: NT \$ thousand

As of December 31, 2011 and 2010	2011	2010
Income Statement		
Operating Income	59,598	64,768
Operating expenses	(35,678)	(26,590)
Net operating income (loss)	23,920	38,178
Non-operating revenue	4,862	882
Non-operating expense	(28,665)	(34,089)
Income(loss) before tax	117	4,971
Net income (loss)	117	4,674
Balance Sheet		
Total assets	1,899,263	974,915
Total liabilities	159	619
Total shareholders' equity	1,899,104	974,296
Ratio		
ROE	0.01%	0.47%
ROA	0.01%	0.47%

HNMC

Unit: NT \$ thousand

As of December 31, 2011 and 2010	2011	2010
Income Statement		
Operating Income	32,143	23,810
Operating expenses	(21,250)	(20,182)
Net operating income	10,893	3,628
Non-operating revenue	326	174
Income before tax	11,219	3,802
Net income	9,855	3,068
Balance Sheet		
Total assets	31,049	22,903
Total liabilities	8,857	7,936
Total shareholders' equity	22,192	14,967
Ratio		
ROE	53.04%	20.31%
ROA	36.53%	13.16%

HONESTY

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HNVC**1. Business Plan for 2012**

1. To strengthen the development of sources of top-notch potential investments in order to boost management performance.
2. HNVC diversifies investment risks and boosting the performance of its funds through appropriate allocations of investment phase, areas and industries.
3. The company will select appropriate timing to realize profits. It will provide assistance to invested companies that are particularly profitable to go listed, and seeking opportunities to exit other investments. This will maximize investment returns for shareholders.

2. Industry Overview

1. Data compiled by the Taiwan Venture Capital Association and released in its 2011 Yearbook indicate the state of Taiwan's venture capital industry as follows:
2. Fundraising: 5 new venture capital funds were established in 2010, with the paid-in capital coming to NT\$2.545 billion. The capital raised for the year were at NT\$1.35 billion, while the reduction in capital was NT\$20.996 billion.
3. Investment: The total number of venture capital investment projects in 2010 was 633, with invested amount reaching NT\$13.752 billion. This is equivalent to the average over the past 10 years and indicates that the economy is gradually recovering.
4. Invested Industries: The most popular industries for investment in 2010 were opto-electronics, electronics, and semiconductors. Among these, the opto-electronics industry continues to be the largest in the number of investments and highest in the amount invested. However, more and more investments are being made in the green energy and environmental protection industries, with these two industries likely to become a popular destination for investment in the future.

5. Investment Stages: In 2010, 59.19% of investments in the venture capital industry were in the expansion stage, following by 28.75% in the mature stage. These two stages accounted for 87.94% of investment. The ratio of investments in the early stage remained low, which is unfavorable for fundraising in emerging industries.
6. Investment Areas: In 2010, 85.25% of all venture capital investments were made locally, amounting to NT\$11.723 billion.
7. Investment Performance: The average EPS for the venture capital industry in 2010 was NT\$0.42. While this was not as good as 2009's result, the performance is still better than the financial tsunami period.

3. Research and Development

All of the HNVC's related industrial research is provided by HNMC.

4. Short- and Long-term Business Development Plans

1. The company will select appropriate timing to realize profits for its current portfolio, while also closely monitoring invested firms that have performed poorly. It will provide assistance or make provisions to reflect reasonable value of those investments.
2. Regarding reinvestments, HNVC seeks for expansion and mature stage companies that would go listed on the stock market and profits that can be realized within three years. Also HNVC will set appropriate allocations of various industries and area of the investment made according to investment policy.

HNMC

1. Business Plan for 2012

1. To maximize investment returns for shareholders of HNVC, a venture capital fund under management.
2. To enhance the professional expertise of the investment management team and operational performance, pro-actively plan to expand the scale of funds, and maintain sustainable development.

2. Industry Overview

At the end of 2010, Taiwan had 96 fund management companies (including self-managed venture capital companies) who managed 181 venture capital companies (not including 100 firms that had changed names and operations and 12 companies that had yet to be established or whose establishment was put off). The total capital under management was NT\$146.88 billion.

3. Research and Development

HNMC assigns project managers to attend seminars and training courses in Taiwan and overseas to strengthen their ability to evaluate potential investments and enhance their expertise in post-investment management. The company also provides assistance in investment management and financial planning, as well as the establishment of strategic alliances and partnerships of the invested companies, hoping to pave the way for the successful listing of these companies and generate returns for shareholders.

4. Short- and Long-term Business Development Plans

The primary business objective for HNMC is to utilize in-depth industry trend analysis to aid in finding potential projects and then providing professional investment analysis. The company also creates long- and short-term goals for the portfolio of companies in its venture capital fund under management.

HNMC intends to continue to embrace a cautious attitude in the management of its investment portfolio. It has plans to expand the scale of funds managed and to generate increased returns. It also will recruit talented personnel to gradually expand the group's asset management operations.

HUA NAN MANAGEMENT CO., LTD. (HNAMEC)

Financial Highlight

Unit: NT \$ thousand

As of December 31, 2011 and 2010	2011	2010
Income Statement		
Operating income	202,235	205,197
Operating expense	(128,645)	(122,609)
Net operating income(loss)	73,590	82,588
Non-operating revenue	30,802	19,988
Non-operating expense	(26,829)	(28,198)
Income before tax	77,563	74,378
Cumulative effect of change in accounting principles	-	-
Net income	71,368	74,378
Balance Sheet		
Total assets	3,463,009	2,945,842
Total liabilities	2,373,388	1,861,542
Total shareholders' equity	1,089,621	1,084,300
Ratio		
ROE	6.57%	7.01%
ROA	2.23%	2.53%



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TEAMWORK

VI OPERATING RESULTS - HNAME

1. Business Composition

Area of Business	Share
Disposal of NPLs	50.12%
Management of NPLs	13.54%
Direct Investment in Court-auctioned Real Estate	33.05%
Other	3.29%

2. Business Plan for 2012

1. NPL Investment and Disposal Operations

(1) Actively utilizing assets

- A. HNAME will give first consideration to assets in urban areas or key areas slated for redevelopment. It will generate rent income from these properties and benefit from price appreciation over the longer term.
- B. The company will look at large-scale syndicated loan projects. It will coordinate with banking syndicates and the restructuring mechanism to assist enterprises in their restructuring and thereby generate profits.
- C. HNAME will first rent then sell the collaterals it acquired, thereby increasing returns from each project and boosting the probability of disposal.

(2) Diversify disposals methods and channels

- A. For NPLs already acquired, the company will use its existing sales network and integrate sales platform of debt collection for corporates to speed up the disposal of these assets on its own or in batch sales.
- B. HNAME will continue to contract Taiwan Financial Asset Service Corp. or other impartial third parties to auction off NPLs and REOs. These diversified sales channels will enable quicker disposal of these assets.

(3) Strengthening cooperation with industry peers

- A. HNAME will provide domestic NPL valuation, acquisition planning, management and advisory services to foreign peers.
- B. The company will continue to evaluate engaging in strategic alliances or joint investment opportunities with industry peers.

2. Direct Investment and Disposal of Real Estate

(1) HNAME selects commercial real estate or factories in urban areas or nearby districts in the pursuit of capital gains, seeking to expand the scale of its operations.

(2) The company looks for medium to large-sized commercial real estate in metropolitan areas, such as stores, malls, hotels, or commercial centers. This increases rental income for medium to long-term investments and also provides opportunities for future price appreciation.

(3) The company continues to strengthen its asset management efficiency and hasten the expansion of its real estate rental and sale operations. It screens for buyers with good credit histories and will introduce them to HNCB for financing. This increases business opportunities for the group as a whole.

3. Entrusted Collection Operations

(1) Debt collection for HNCB

- A. The company will continue to seek to be a debt collector for HNCB's unsecured assets. In addition to increasing income for HNAME, this reduces the workload on HNCB branches in trying to collect difficult-to-collect debts. HNCB employees are thus able to dedicate their efforts in business development. This arrangement generates group synergy.
- B. HNAME examines existing collateralized loans and carefully screens them for investment opportunities, helping to maximize profits for the group.

(2) Collection for Enterprises

- A. The company will continue to promote its contracted collection operations to other companies to increase the size of this business.
- B. HNAMEC will establish an asset sales platform for this area of operations.

3. Industry Overview

The economic recovery in recent years has resulted in declining amounts of NPLs among financial institutions. The size of Taiwan's NPL market peaked in 2007 at NT\$236.8 billion. Subsequently, the sale of NPLs fell in the following three years, standing at only NT\$60.4 billion in 2010. In 2011, financial institutions sold about NT\$83.2 billion of NPLs, with unsecured debt comprising 89% of the total. As the economy still has not exhibited any clear signals of worsening, the NPL ratio remains low. It is expected that the NPLs sold will remain low over the next two to three years, with those sold mainly being unsecured.

As the amount of NPLs sold off by financial institutions has fallen sharply in recent years, some asset management companies have revised their business strategies. Some counterparts no longer limit themselves to bidding for NPLs, but also have branched out into the market for real estate foreclosures. In June 2011, however, the Ministry of Finance announced a so-called luxury tax, which levies a 10-15% special tax on real estate that is not for one's personal use and also sold within two years of purchase. This measure has impacted the asset management industry in bidding for foreclosures and thus their operating performance. Consequently, it is expected that the industry will face even more difficult times in the year ahead.

4. Research and Development

In addition to strengthening recovery of NPLs, HNAMEC is working to develop operations in the area of direct real estate investment and property management. The company is also striving to expand its contracted NPL operations. In light of the dramatic drop of NPLs in the marketplace, HNAMEC was only able to acquire NT\$1.495 billion of secured NPLs from Jih Sun Bank in 2011, bringing its total pool of NPLs to about NT\$15.092 billion. In the future, it will continue to work to expand its existing operations, generate sales and grow its business scale, thereby generating desired profits.

5. Short to Long-term Business Development Plans

1. Short-term Plans

- (1) The company will provide training for staffs to hone a second area of expertise for each employee. This will ensure a solid pool of employees versed in multiple disciplines.
- (2) In response to the enactment of an amended personal data protection law, the company will carry out an inventory of all personal information and categorize it. This will create a foundation from which to establish a mechanism to subsequently manage this data.
- (3) HNAMEC will continue to strengthen the recovery of existing assets in order to reduce its liabilities, boost its turnover rate, and bolster its investment capacity.

2. Long-term Plans

The supply of NPLs domestically will unlikely increase in the short term, and therefore HNAMEC will examine the feasibility of investing in European and American NPLs, as well as researching the profitability, safety, and suitability of such. These efforts will be made with future business expansion considerations in mind.

2011

Risk Management Summary



HONESTY.



EFFICIENCY



ACTIVENESS



RESPONSIBILITY

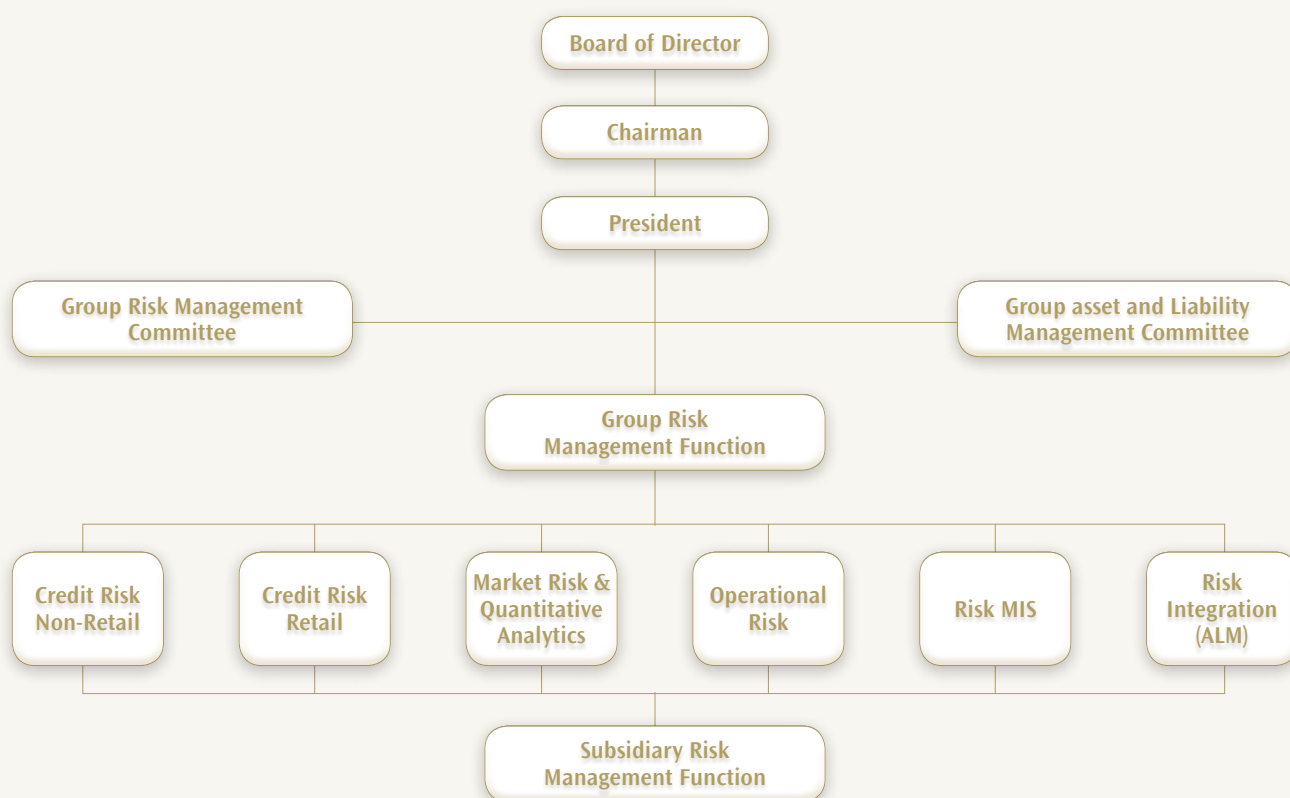


TEAMWORK

1. Introduction

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

2. Group Risk Management Organizational Structure



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

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

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

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

3. Risk Management Policies

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

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

4. HNFHC's risk taxonomy

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

1. Credit Risk

(1) Important Control Mechanisms

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.

(2) Risk Management Reports

A. Credit Exposure

The Group's credit exposure as of the end of 2011 was nearly NT\$1.9 trillion, with lending operations comprising about 75%, bond and bills operations about 20%, and other business accounting for the remaining 5%. Based on the standard approach as set forth in the Basel II Accord, the Group's nominal amount has been converted into risk-weighted assets. Credit risk-weighted assets stand at about NT\$1 trillion, while overall average risk weight is about 50%.

B. Concentration Risk Management

The Company has set forth seven single-name concentration risk limits for individuals and entities, as well as portfolio concentration risk limits on extension of credit to a single nation or industry. This data is monitored on a monthly basis.

Taiwan accounts for 89% of Hua Nan's credit exposure, with the remaining 11% of exposure being overseas. The five main areas of exposure overseas are the United States, Hong Kong, China, India, and Australia, which together comprise 61% of Hua Nan's overseas exposure. No other single country accounts for over 5% of exposure.

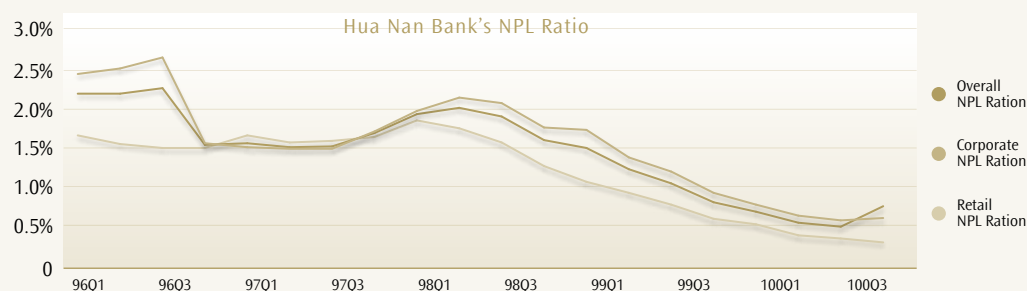
On a sector basis, private enterprises account for 52% of Hua Nan's credit exposure, individuals 26%, and the government agencies/enterprises 22%.

Among private enterprises, the banking, metals, transport and warehousing, construction, real estate, information, and oil and coal products industries together account for 48% of credit exposure, with no other sector comprising more than 5%.

As for individuals, mortgage loans account for 86.1% of exposure.

C. Credit Asset Quality

Subsidiary Hua Nan Commercial Bank's credit asset quality can be analyzed from the standpoint of overdue loans, break-down of credit rating levels, and changes in the M2+ ratio. Looking at overdue loans for instance, Hua Nan Bank's overdue loan ratio in recent years has continued to decrease. The Bank's NPL ratio at the end of 2011 stood at 0.47%, which was the best in recent years.



2. Market Risk

HNFHC's market risk management is to ensure that the Group's market risk exposure is within limits.

(1) Important Control Mechanisms

The important control mechanisms include ex-ante management and ex-post risk monitoring.

A. Process of Approval of New Products

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

B. Limits Monitoring

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

(2) Risk Management Reports

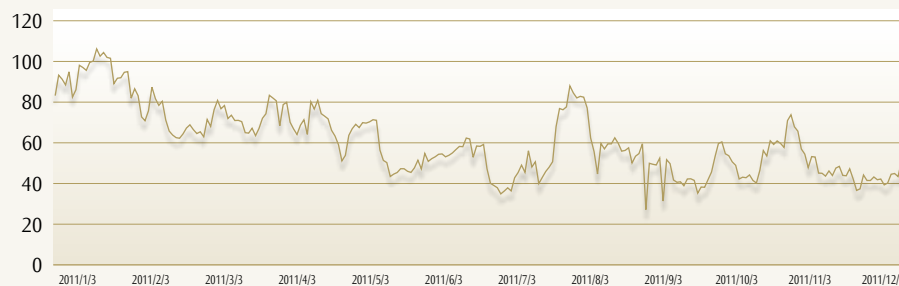
Market Risk Management reports disclosing risk profiles of trading book positions and limits monitoring are submitted to GRC and the board on a regular basis.

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

A. Changes in group trading book VaR for 2011

The lowest VaR of the Group's trading book in 2011 was NT\$27 million, while the highest was NT\$107 million. The average VaR was NT\$62 million.

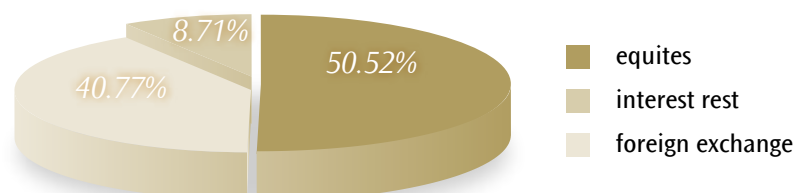
Unit: NT\$1 million



B. Summary of trading book VaR in 2011

The Group's trading book VaR at the end of 2011 stood at NT\$57 million. Classifying this risk into various categories, equities products accounted for 50.52% of the Group's VaR, followed by foreign exchange products at 40.77% and interest rate products at 8.71%.

The Group's trading book VaR at the end of 2011 was NT\$57 million, which was NT\$6 million below the level at the end of 2010 of NT\$63 million. In 2011, the Group reduced its trading book positions in light of the Euro zone and US debt crises, thereby avoiding overly high market risk.



3. 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.

(1) Important Control Mechanisms

A. Risk Self-Assessment, RSA

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

B. Operational Risk Assessment Process, ORAP

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

C. Corporate Loss Database, CLD

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

D. Key Operational Risk Control, KORC

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

E. Key Risk Indicator, KRI

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.

(2) Risk Management Reports

Hua Nan regularly submits reports to the board of directors that provide the operational risk loss events as well as the consequences of RSAs and KRIs. Business units will act on the shortcomings highlighted in these reports and then carry out the action plans that will be submitted to the board regularly explaining the progress being made.

4. 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 business.

(1) Important Control Mechanisms

A. New Insurance Product Approval

Prior to the introduction of insurance products, the insurance subsidiary is required to carefully consider the nature and targeted clientele of such products. Management procedures shall be formulated for each stage of the product and an insurance product prospectus shall be submitted to the Group's Risk Management Committee for approval. The submitted data shall take into consideration both profitability and risk controls.

B. Limits Management

Insurance risk should be kept within specified limits. To avoid having an overly large impact on Group capital, underwriting, reserves, and reinsurance risk management indicators are formulated. An action plan shall be submitted to related units when indicators reach warning levels. In addition, reports shall be submitted even when risk management units deem there to be an abnormal situation although indicators have yet to reach warning levels.

(2) Risk Management Reports

Insurance risk management reports are submitted to the Group's Risk Management Committee on a regular basis, disclosing insurance risk profiles and the control of limits.

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 foreign exchange risk, given its risk tolerances and other constraints.

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

1. Non-Trading Interest Rate Risk measurement tools:

The tools that Hua Nan Bank use to measure non-trading interest rate risk include interest rate re-pricing gap analysis, net interest income sensitivity analysis, and economic value of equity sensitivity analysis. Limits of the aforementioned indicators have been set, and changes on these indicators are monitored regularly.

As of December 31, 2011, Hua Nan Bank's cumulative interest rate re-pricing gap within one year for NT dollar positions was a positive NT\$42,005 million, which was a decrease of NT\$7,775 million comparing to the aforementioned re-pricing gap of NT\$49,830 million at the end of 2010.

As of December 31, 2011, Hua Nan Bank's cumulative interest rate re-pricing gap within one year for US dollar positions was a negative US\$744 million, which was a decrease of US\$563 million comparing to the aforementioned re-pricing gap of negative US\$181 million at the end of 2010.

2. Liquidity Risk Measurement Tools:

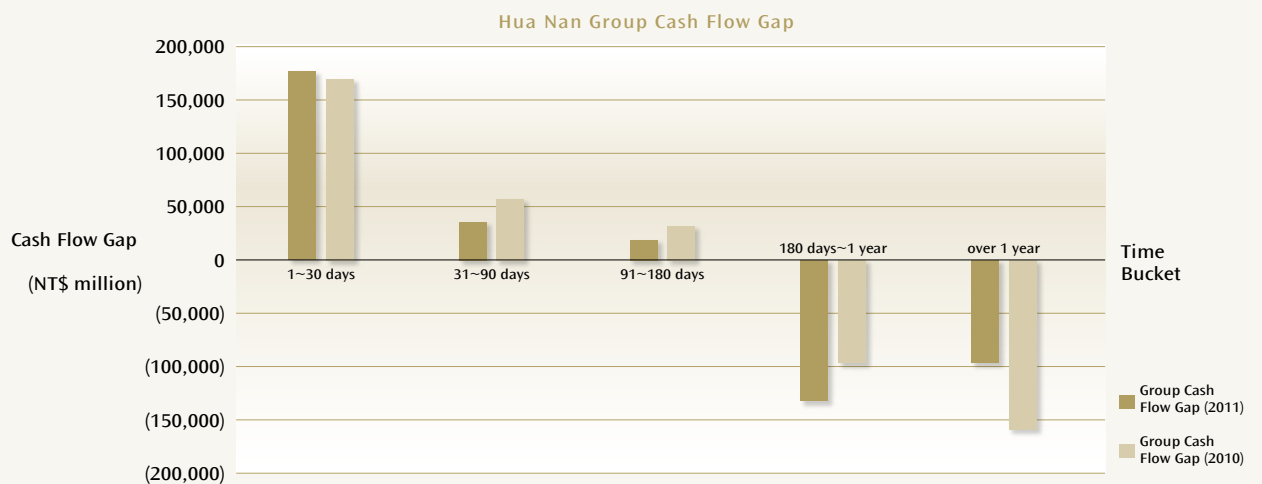
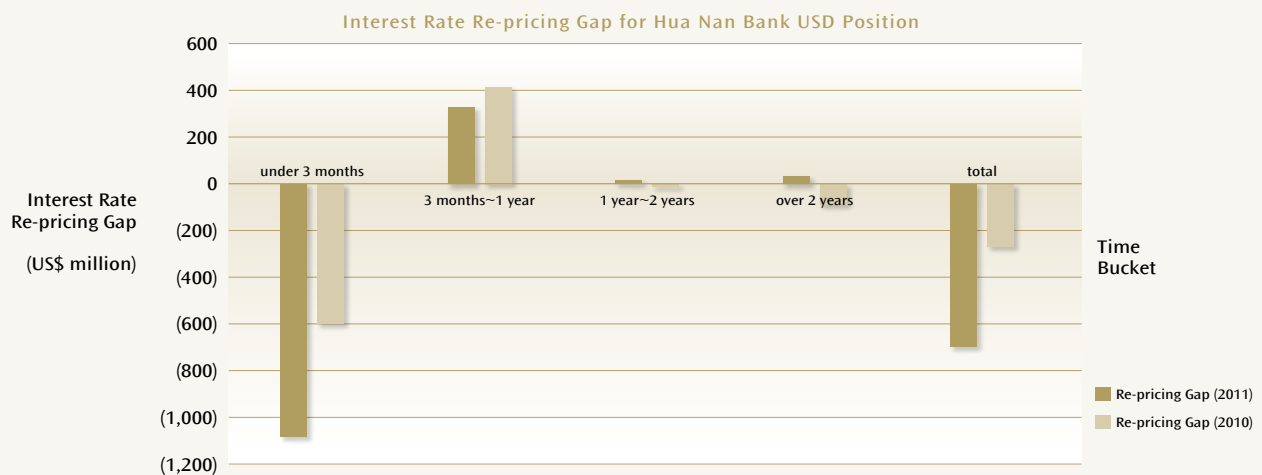
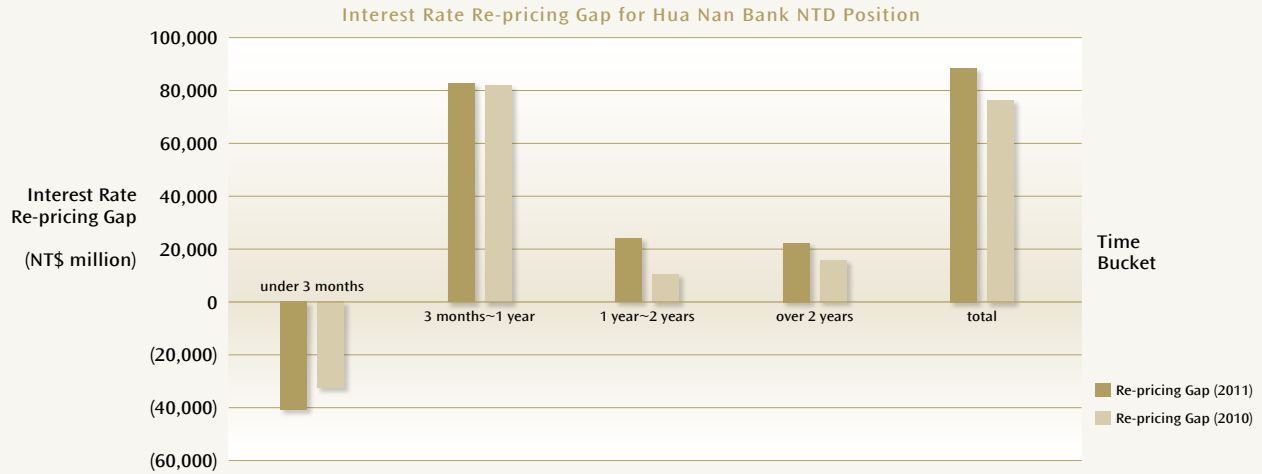
The Group's liquidity risk measurement tools include balance sheet liquidity ratios, cash flow gap analysis, analysis on the diversification of funding sources, and the ratio of highly liquid assets to net asset value. Subsidiaries may adopt different measurement tools according to its business nature. Limits of the adopted indicators have been set, and changes on these indicators are monitored regularly.

The Group's 1 to 30 days cash flow gap as of Dec. 31, 2011 stood at NT\$175,805 million, which was an increase of NT\$6,200 million from the 1 to 30 days cash flow gap at the end of 2010 of NT\$169,615 million.

3. Foreign Exchange Risk Measurement tools:

The Group's non-trading foreign exchange risk is measured by the effect of unfavorable foreign exchange rate changes on the net non-trading foreign exchange exposures.

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



7. Management Information Systems and technology infrastructures

In order to comply with the Basel II framework and the global best practice, HNFHC has dedicated a lot of resources to establishing technology infrastructures and management information systems for risk management. The followings are the projects completed or still in progress:

1. Group VaR System

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

2. Group Corporate Loss Database, CLD

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

3. Risk Datamart

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

4. Affiliates/Related Parties system in web platform

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

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.

2011

Consolidated Financial Statements



HONESTY.



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ACTIVENESS



RESPONSIBILITY



TEAMWORK

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, 2011 and 2010, 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 Attestation of Financial Statements by Certified Public Accountants, the Rules Governing the Audit of Financial Statements of Financial Institutions by Certified Public Accountants and auditing standards generally accepted in the Republic of China ("ROC"). Those rules and standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Hua Nan Financial Holdings Co., Ltd. and subsidiaries as of December 31, 2011 and 2010, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with the Regulations Governing the Preparation of Financial Reports by Financial Holding Companies, Regulations Governing the Preparation of Financial Reports by Securities Issuers, Regulations 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 Insurance Companies, requirements of the Business Entity Accounting Act and Regulation on Business Entity Accounting Handling relevant to financial accounting standards, the guidelines issued by the authority and accounting principles generally accepted in the ROC.

March 26, 2012

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, 2011 AND 2010

(In Thousands of New Taiwan Dollars)

ASSETS	2011	2010	Percentage of Variation %
	Amount	Amount	
Cash and cash equivalents	\$ 42,741,787	\$ 22,929,111	86
Due from the Central Bank and other banks	105,296,645	105,415,812	-
Financial assets at fair value through profit or loss	35,808,671	29,418,560	22
Bonds and bills purchased under resale agreements	964,902	1,983,813	(51)
Receivables, net	56,508,368	45,298,748	25
Discounts and loans, net	1,308,403,862	1,245,912,652	5
Available-for-sale financial assets, net	70,643,572	66,878,184	6
Held-to-maturity financial assets, net	288,449,565	304,567,500	(5)
Investments accounted for by the equity method	85,359	88,598	(4)
Other financial assets, net	20,909,388	12,822,345	63
Investments in real estate, net	603,097	621,556	(3)
Property and equipment, net	30,735,789	28,499,000	8
Intangible assets, net	539,815	653,530	(17)
Other assets, net	13,335,074	15,548,404	(14)
TOTAL	<u>\$ 1,975,025,894</u>	<u>\$ 1,880,637,813</u>	5

LIABILITIES AND STOCKHOLDERS' EQUITY	2011	2010	Percentage of Variation %
	Amount	Amount	
Due to the Central Bank and other banks	\$ 2,357,240	\$ 43,638,222	89
Commercial paper issued, net	2,659,514	5,904,667	(55)
Financial liabilities at fair value through profit or loss	27,907,823	37,767,034	(26)
Bonds and bills sold under repurchase agreements	23,915,984	23,686,422	1
Payables	46,058,537	40,611,765	13
Deposits and remittances	1,595,488,062	1,560,866,760	2
Bonds and bank debentures payable	38,350,000	36,000,000	7
Other borrowings	3,826,000	5,761,000	(34)
Accrued pension liability	2,016,551	1,845,365	9
Other financial liabilities	9,476,095	7,864,112	20
Reserves for operations	9,080,406	9,194,258	(1)
Other liabilities	8,374,174	7,162,642	17
Total liabilities	<u>1,849,510,386</u>	<u>1,780,302,247</u>	4
STOCKHOLDERS' EQUITY			
Common stock	82,143,144	66,172,778	24
Capital surplus	20,528,236	12,408,843	65
Retained earnings			
Legal reserve	6,782,026	6,173,895	10
Special reserve	265,804	-	-
Unappropriated earnings	14,137,300	12,156,774	16
Total retained earnings	<u>21,185,130</u>	<u>18,330,669</u>	16
Other equity			
Unrealized revaluation increments	5,689,980	3,927,660	45
Cumulative translation adjustments	(72,574)	(214,522)	-
Unrealized losses on financial instruments	(3,959,827)	(291,196)	-
Total other equity	<u>1,657,579</u>	<u>3,421,942</u>	(52)
Total parent stockholders' equity	<u>125,514,089</u>	<u>100,334,232</u>	25
MINORITY INTEREST	1,419	1,334	6
Total stockholders' equity	<u>125,515,508</u>	<u>100,335,566</u>	25
TOTAL	<u>\$ 1,975,025,894</u>	<u>\$ 1,880,637,813</u>	5

HUA NAN FINANCIAL HOLDINGS CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2011 AND 2010

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

	2011	2010	Percentage of Variation %
	Amount	Amount	
INTEREST INCOME, NET			
Interest income	\$ 32,386,931	\$ 27,435,269	18
Interest expense	(12,135,909)	(9,913,098)	22
Total interest income, net	20,251,022	17,522,171	16
NET INCOME EXCLUDING INTEREST INCOME			
Service fee and commission income, net	6,570,469	7,176,429	(8)
Income from insurance premiums, net	1,930,583	1,859,142	4
Gains or losses on financial assets and liabilities at fair value through profit or loss	1,778,556	(2,137,483)	183
Realized gains on available-for-sale financial assets	239,500	1,022,742	(77)
Losses from investments accounted for by the equity method	(3,239)	(1,554)	108
Income from investments in real estate	67,314	66,873	1
Foreign exchange gains or losses, net	(1,041,342)	3,794,529	(127)
Impairment losses	(32,513)	(68,015)	(52)
Income from financial assets carried at cost	243,099	409,671	(41)
Recovered bad debts and overdue accounts	3,031,766	2,033,815	49
Other non-interest income, net	999,254	772,664	29
Total net income excluding interest income	13,783,447	14,928,813	(8)
NET REVENUES	34,034,469	32,450,984	5
BAD-DEBT EXPENSES	(4,783,582)	(7,345,743)	(35)
PROVISIONS FOR INSURANCE RESERVES	(86,360)	(505,850)	(83)
OPERATING EXPENSES			
Personnel	(12,055,715)	(11,639,464)	4
Depreciation and amortization	(1,100,507)	(1,131,543)	(3)
Other general and administrative expenses	(5,604,113)	(5,056,868)	11
Total operating expenses	(18,760,335)	(17,827,875)	5

(Continued)

HUA NAN FINANCIAL HOLDINGS CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2011 AND 2010

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

	2011	2010	Percentage of Variation %
	Amount	Amount	
CONSOLIDATED INCOME BEFORE INCOME TAX	10,404,192	6,771,516	54
INCOME TAX EXPENSE	(1,859,935)	(690,171)	169
CONSOLIDATED NET INCOME	<u>\$ 8,544,257</u>	<u>\$ 6,081,345</u>	40
ATTRIBUTABLE TO			
Parent company	\$ 8,544,207	\$ 6,081,316	40
Minority interest	<u>50</u>	<u>29</u>	72
	<u>\$ 8,544,257</u>	<u>\$ 6,081,345</u>	40

	2011		2010	
	Pretax	After-tax	Pretax	After-tax
BASIC EARNINGS PER SHARE	<u>\$ 1.48</u>	<u>\$ 1.22</u>	<u>\$ 0.97</u>	<u>\$ 0.87</u>

(Concluded)

HUA NAN FINANCIAL HOLDINGS CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2011 AND 2010
(In Thousands of New Taiwan Dollars)

	Common Stock	Additional Paid-in Capital	Capital Surplus			
			Treasury Stock	Donated Assets Received	Others	Total
BALANCE, JANUARY 1, 2010	\$ 62,723,012	\$ 12,352,244	\$ 52,339	\$ 2,936	\$ 1,325	\$ 12,408,844
Appropriation of 2009 earnings (Note)						
Legal reserve	-	-	-	-	-	-
Special reserve	-	-	-	-	-	-
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)	-	-	(1)
BALANCE, DECEMBER 31, 2010	66,172,778	12,352,244	52,338	2,936	1,325	12,408,843
Appropriation of 2010 earnings (Note)						
Legal reserve	-	-	-	-	-	-
Cash dividends	-	-	-	-	-	-
Stock dividends	3,970,366	-	-	-	-	-
Net income for the year ended December 31, 2011	-	-	-	-	-	-
Issuance of common stock for cash	12,000,000	8,004,000	-	-	-	8,004,000
Compensation recognized for employee stock options	-	115,382	-	-	-	115,382
Special reserve from subsidiary's trading loss reserve	-	-	-	-	-	-
Equity adjustments on investments accounted for by the equity method	-	-	-	-	-	-
Treasury stock transaction - subsidiary's sale of the Company's stock	-	-	11	-	-	11
BALANCE, DECEMBER 31, 2011	\$ 82,143,144	\$ 20,471,626	\$ 52,349	\$ 2,936	\$ 1,325	\$ 20,528,236

Note: The remuneration to directors and supervisors amounting to \$54,732 thousand and \$61,566 thousand and employees bonus amounting to \$5,473 thousand and \$6,157 thousand had been deducted from earnings of 2010 and 2009, respectively.

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

Retained Earnings				Equity Adjustments			Minority Interest	Total
Legal Reserve	Special Reserve	Unappropriated Earnings	Total	Unrealized Revaluation Increments	Cumulative Translation Adjustments	Unrealized Gains (Losses) on Financial Instruments		
\$ 5,728,999	\$ 2,152,563	\$ 9,072,017	\$ 16,953,579	\$ 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)	(1,254,460)	-	-	-	(33)	(1,254,493)
-	-	(3,449,766)	(3,449,766)	-	-	-	-	-
-	-	6,081,316	6,081,316	-	-	-	29	6,081,345
-	-	-	-	(4,080)	(92,814)	1,869,847	-	1,772,953
-	-	-	-	-	-	-	-	(1)
6,173,895	-	12,156,774	18,330,669	3,927,660	(214,522)	(291,196)	1,334	100,335,566
608,131	-	(608,131)	-	-	-	-	-	-
-	-	(1,985,184)	(1,985,184)	-	-	-	(21)	(1,985,205)
-	-	(3,970,366)	(3,970,366)	-	-	-	-	-
-	-	8,544,207	8,544,207	-	-	-	50	8,544,257
-	-	-	-	-	-	-	-	20,004,000
-	-	-	-	-	-	-	-	115,382
-	265,804	-	265,804	-	-	-	56	265,860
-	-	-	-	1,762,320	141,948	(3,668,631)	-	(1,764,363)
-	-	-	-	-	-	-	-	11
<u>\$ 6,782,026</u>	<u>\$ 265,804</u>	<u>\$ 14,137,300</u>	<u>\$ 21,185,130</u>	<u>\$ 5,689,980</u>	<u>(\$ 72,574)</u>	<u>(\$ 3,959,827)</u>	<u>\$ 1,419</u>	<u>\$ 125,515,508</u>

HUA NAN FINANCIAL HOLDINGS CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2011 AND 2010

(In Thousands of New Taiwan Dollars)

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Consolidated net income	\$ 8,544,257	\$ 6,081,345
Adjustments to reconcile consolidated net income to net cash (used in) provided by operating activities		
Depreciation	885,341	944,986
Amortization	239,352	211,136
Bad-debt expenses	4,783,582	7,345,743
Compensation cost of employee stock options	115,382	-
Provisions for insurance reserves	86,360	505,850
Provisions for other reserves	-	33,319
Impairment losses	32,513	68,015
Gains from cash returned on cancellation of available-for-sale financial assets	-	(1,501)
Losses from investments accounted for by the equity method	3,239	1,554
Gains on disposal of investment in real estate	(24,686)	(57,414)
(Gains) losses on disposal of property and equipment	(650)	2,718
Gains on disposal of non-operating assets	(35,386)	(14,428)
Losses (gains) on disposal of collaterals assumed, net	1,663	(8)
Accrued pension liability	171,186	223,079
Deferred income tax	(198,221)	116,108
Unrealized deferred credits	100,871	97
Realized deferred credits	(1,660)	(845)
Net changes in operating assets and liabilities		
(Increase) decrease in financial assets at fair value through profit or loss	(6,424,129)	1,907,315
Increase in receivables	(11,566,108)	(2,677,688)
Decrease (increase) in prepayments	1,063,763	(603,886)
Decrease in financial liabilities at fair value through profit or loss	(9,839,738)	(5,445,051)
Increase (decrease) in payables	5,409,963	(1,576,922)
Securities brokerage accounts, net	(158,488)	(640,707)
Net cash (used in) provided by operating activities	(6,811,594)	6,422,815
CASH FLOWS FROM INVESTING ACTIVITIES		
Decrease in due from the Central Bank and other banks	119,167	53,188,158
Decrease in bonds and bills purchased under resale agreements	1,018,910	2,223,916
Increase in discounts and loans	(66,971,695)	(144,691,972)
(Increase) decrease in available-for-sale financial assets	(7,295,265)	8,978,773
Proceeds from matured held-to-maturity financial assets	1,469,762,783	2,101,623,846
Increase in held-to-maturity financial assets	(1,453,642,723)	(2,082,681,449)
Increase in bonds investments with no active markets	(7,940,951)	(2,878,101)
Increase in investment in real estate	(479,638)	(491,002)
Proceeds from disposal of investment in real estate	148,543	338,603
Acquisition of property and equipment	(616,850)	(638,741)
Proceeds from disposal of property and equipment	1,392	394
Increase in intangible assets	(98,758)	(184,167)
Acquisition of non-operating assets	(1,021)	(1,897)
Proceeds from disposal of non-operating assets	188,172	30,403
Proceeds from disposal of collaterals assumed, net	45,076	29,924
(Increase) decrease in other financial assets	(274,656)	156,636
Decrease (increase) in other assets	1,639,613	(2,162,162)
Net cash used in investing activities	(64,397,901)	(67,158,838)
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase (decrease) in due to the Central Bank and other banks	38,719,018	(4,983,092)
(Decrease) increase in commercial paper payable	(3,245,153)	1,692,769
Increase in bonds and bills sold under repurchase agreements	229,562	739,546
Increase in deposits and remittances	34,621,302	57,117,012
Increase in bonds and bank debentures payable	2,350,000	5,000,000
(Decrease) increase in other borrowings	(1,935,000)	2,461,000
Increase in other financial liabilities	1,611,983	678,129
Increase (decrease) in other liabilities	500,178	(139,705)
Issuance of common stock for cash	20,004,000	-
Cash dividends	(1,977,637)	(1,249,853)
Net cash provided by financing activities	90,878,253	61,315,806
EFFECT OF EXCHANGE RATE CHANGES	143,918	(262,899)
NET INCREASE IN CASH AND CASH EQUIVALENTS	19,812,676	316,884
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	22,929,111	22,612,227
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 42,741,787	\$ 22,929,111
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid	\$ 11,881,114	\$ 10,024,501
Income tax paid	\$ 925,180	\$ 517,406

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 **HUA NAN FINANCIAL HOLDINGS CO., LTD.**

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