

2012 ANNUAL REPORT



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Annual Report 2012

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

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South China Insurance Co., Ltd.(SCIC)

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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

ADD: 12F, No. 156, Sec. 3, Min Sheng East Road, Taipei
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Credit Rating Agency

Taiwan Ratings Corporation

ADD: 49 F, No. 7, Sec. 5, Xin Yi Road, Taipei 105,
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<http://www.taiwanratings.com>



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

Financial Highlight

Unit: NT \$ thousand

HONESTY



EFFICIENCY



ACTIVENESS



RESPONSIBILITY



TEAMWORK

As of December 31, 2012 and 2011

2012

2011

Consolidated Income Statement

Net interest income	21,648,184	20,251,022
Net income (loss) excluding interest income	13,661,381	13,783,447
Net revenues	35,309,565	34,034,469
Provision for bad debts	(5,613,441)	(4,783,582)
Provisions for insurance reserves	(259,748)	(86,360)
Operating expenses	(18,984,231)	(18,760,335)
Consolidated income before income tax from continuing operations	10,452,145	10,404,192
Income Tax Expense	(1,581,097)	(1,859,935)
Consolidated net income	8,871,048	8,544,257

Consolidated Balance Sheet

Total assets	2,062,013,289	1,975,025,894
Total liabilities	1,929,232,940	1,849,510,386
Total shareholders' equity	132,780,349	125,515,508

Ratio- Consolidated basis

ROE(after tax)	6.87%	7.57%
ROA(after tax)	0.44%	0.44%
Capital Adequacy Ratio	136.27%	140.21%

Credit Ratings (long/short/outlook)

Taiwan Ratings	twA+/twA-1/Stable (2013/06)
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CHAIRMAN
RONG-JOU WANG

1. Operating Results

1. The Domestic and International Financial Environment in 2012

Affected by the deterioration of the European debt crises, fiscal cliff in the US, and the deceleration of Chinese economy in 2012, the global economy remained weak which resulted in lower growth in international trade. Taiwan, being an export-oriented economy, took the hardest blow. Domestically, the economy has been affected by the price increases in petrol fuel and electricity, the reintroduction of capital gains tax on securities transactions, and supplemental premium for Second Generation National Health Insurance. These factors depressed domestic demand and stock market transaction volume. According to the estimate of The Directorate General of Budgeting, Accounting, and Statistics, economic growth in 2012 was 1.26%, marking a rather slow growth in recent years.

2. Changes in Corporate Structure

Since Hua Nan Financial Holdings Co., Ltd.(hereafter “the Group” or “HNFHC”) was founded in Dec. 19, 2001, HNFHC have operated in various professional fields of financial services, spanning from banking, securities, insurance, investment trusts, asset management, venture capital, and management consulting. As of the end of 2012, HNFHC has seven wholly-owned subsidiaries.



VICE CHAIRMAN
MING-CHENG LIN

3. Business Plans and the Results of the Implementation of the Operating Strategies

Based on opportunities such as the cross-strait currency clearing agreement, deregulation of financial markets, and the government's promotion of financial services geared toward cross-strait regional needs and platforms of wealth management, the Group made an after-tax net profit of NT\$ 8.871 billion in 2012, thanks to the endeavor of all employees in the group. HNFHC delivered a 4% annual growth and NT\$1.03 earnings per share, maintaining steady growth in our profit. Aside from continuing to improve our source of profit in 2012, the group focuses on improving operational strength and exploring overseas business. The key approaches adopted are: Adjust loan mix, improve asset quality, strengthen capital levels, expand overseas operation, and enhance cross selling capabilities. The measurable results are as follows:

(1) Adjust loan mix

Aim to increase core profitability by adjust loan mix, and increase lending towards small and

medium enterprises, overseas, and OBUs that generate higher profit margin. At the end of 2012, such segment made up 35.98% of total loans, a 1.66% increase over the 34.32% at the end of last year. These initiatives boosted the average interest rate spread from 1.32% to 1.36%, and net interest margin from 1.00% to 1.05%.

(2) Improve asset quality

Aim to continuously improve asset quality, increase the collection of past-due loans, and set aside additional provision. At the end of 2012, NPL ratio, coverage ratio, and reserve to loan ratio were 0.44%, 218.66%, and 1.04%, respectively; compared to the corresponding figures of 0.47%, 211.12%, and 1.05% at the end of previous year, that are at par with the industry average.

(3) Strengthen capital levels

In order to respond to the requirements of international oversight, strengthen risk absorption capacity, and increase the Group's operational resources, HNFHC have completed capital injection to the tune of \$20 billion for HNCB in 2012. Capital



PRESIDENT

MAO-SHYAN LIU

adequacy ratio for HNFHC at the end of 2012 was 136.27%, while the capital adequacy ratio for HNCB was 12.94%, and Tier 1 capital adequacy ratio reached 9.31%. Aside from compliance with the FSC requirements on capital adequacy ratios, by strengthen capital levels would enable the Group in the expansion of business and position in the Greater China market.

(4) Expand overseas operation

HNFHC will continue to expand business in Greater China and overseas with the following strategies:

A. Greater China Region

- (a) Banking operation: In May 2012 HNCB Shenzhen Branch was approved for Renminbi operations for Taiwanese businesses, becoming the first Taiwan-owned bank to do so.
- (b) Leasing operation: Hua Nan International Leasing Company has been launched in December 2012. In the future that company will explore leasing business opportunities along with HNCB Shenzhen Branch.

- (c) Securities, property & casualty insurance, and investment trust operation: HNSC has applied for a license for the second Beijing office and will act as the main point of contact for the Group; SCIC continues to seek opportunities for cooperation with peers in China; HNIT will apply for QFII qualification for better positioning in China.

B. Other Overseas Regions

HNCB Sydney and Macao Branches have been established in February and May 2012, respectively. As of the end of 2012, HNCB already has nine overseas branches.

(5) Enhance cross selling capabilities

HNFHC will coordinate the cross selling capabilities and engage in customer relationship management. The Group will also sponsor integrated marketing campaigns aims at raising public interest to better realize the benefit of cross selling. By the end of 2012, cross selling makes up 24% of business at all subsidiaries and the ratio is increasing.





4. Execution of Budget, Revenue and Expenditures, and Profitability Analysis

The Group's 2012 consolidated net income after tax was NT\$ 8.871 billion, and the consolidated earnings per share was NT\$1.03. Consolidated return on assets was 0.44%, and the consolidated return on equity was 6.87%. On a standalone basis, HNFHC posted a return on assets of 6.35% and the return on equity of 6.87%. The following are the summary of results of each subsidiary:

(1) Hua Nan Commercial Bank ("HNCB")

Net income in 2012 was NT\$8.661 billion with earnings per share of NT\$1.56. The return on assets was 0.44%, and the return on equity was 7.83%.

(2) Hua Nan Securities ("HNSC")

Net income in 2012 was NT\$147 million with earnings per share of NT\$0.18. The return on assets was 0.73%, and the return on equity was 1.31%.

(3) South China Insurance ("SCIC")

Net income in 2012 was NT\$513 million with earnings per share of NT\$2.56. The return on assets was 3.95%, and the return on equity was 17.87%.

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

Net loss in 2012 was NT\$65 million, with the loss per share of NT\$2.12. The return on assets was -7.48%, and the return on equity was -15.19%.

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

Net loss in 2012 was NT\$36 million with the loss per share of NT\$0.18. The return on assets was -1.91%, and the return on equity was -1.91%.

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

Net income in 2012 was NT\$13 million with earnings per share of NT\$13.43. The return on assets was 39.25%, and the return on equity was 54.89%.

(7) Hua Nan Asset Management ("HNAMC")

Net income in 2012 was NT\$103 million with earnings per share of NT\$1.03. The return on assets was 3.33%, and the return on equity was 9.29%.

5. Status of Research and Development

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

The Group have implemented the application of the "Analytical CRM System", the "Operational CRM System", and the "KPI System". As a result, The effectiveness of marketing analysis, sales application, and outcome management have increased. Additionally, from the integration of physical and virtual channels in the Group, the barriers in the sales channels have reduced. By deploying "Customer Product Purchase Tendency Model" that created in-house to improve the accuracy of target customer selection during marketing campaigns, it can assist subsidiaries in increasing the effectiveness of such campaign. By adopting such model, the Group is able to complete the Life Stage product offering for retail customers, which can effectively increase the number and value of the high value customers.

(2) Hua Nan Commercial Bank ("HNCB")

In terms of research and development, HNCB continues to encourage employees to devote themselves to research and development. In 2012, employee individual research and development proposals totaled 624 projects. Of these, 109 have been adopted.

(3) Hua Nan Securities ("HNSC")

A. In compliance with policies and regulations, HNSC conducted research and development in the following areas: new business such as OTC stock trading, convertible bond asset swap transactions, interest swaps, sub-brokerage for foreign securities, the issue of domestic call and put warrants, index and stock options and futures, interest rate futures, gold futures, asset securitization; and derivatives products such as structured products. In addition, talent development and recruitment in investment banking operation, financial engineering, and risk control were improved.

- B. HNSC conducted the planning of the following information systems:
- (a) Planning for the web-based platform of overseas sub-brokerage: aim to provide a platform for securities transactions in multiple nations, so that the clients can trade multiple products on the same platform. Moreover established a sub-system for pricing in New Taiwan Dollars, thereby making transactions more convenient for the clients.
 - (b) Planning for the expansion of operating management systems: including the planning for customer relationship management, regional supervisory system, manager system, and decision support management systems.
 - (c) The installation of securities manager systems: the system performs a thorough description of the transaction history of securities clients, thereby assisting branch managers in the management of futures business.
 - (d) Wealth management trust operation system planning: in order to coordinate with the application for future wealth management trust business, the support system will be implemented as needed arise.
- C. By combining the professional knowledge of overseas product department, financial product department, and futures trading department and directed it to the research and trading of financial product arbitrage. With the research and development of software design by the information department, spread, arbitrage, and hedging computer trading programs were developed. Aided by technical analyses such as artificial intelligence charts, HNSC may monitor the direction of long and short trading and seized superior trading opportunities to maximize profit.
- D. Under the guidance of the parent company HNFHC, HNSC actively engaged in potential mergers and acquisition of targets that will sustain the securities related operations.
- E. The subsidiary-Hua Nan Investment Advisory, performs in-depth and timely research on the fundamentals, technical trends, and funds flow with information from global finance, domestic and foreign macroeconomics, industry, and individual companies. HNSC will then be able to stay current with investment trends and hedge risky industries. Aside from issuing related investment publications and holding investment seminar, investment advisory and credit reference were offer for related subsidiaries in the Group.
- F. Monitor closely with the “Project on Developing Financial Services with China-Taiwan Characteristics” and the related “Project on Developing Greater China Region Asset Management and Wealth Management” proposed by the FSC. By undertaking investment evaluation and anticipate future business growth.
- G. Stay current on the agreements from the “Cross-Strait Securities Oversight Platform Conference,” which allows Taiwanese shareholders to establish a China-Taiwan joint venture securities company with full operating licenses in Shanghai, Fujien, Shenzhen, and several other financial reform zones. In order to get a head start, HNSC have begun to contact potential joint venture shareholders and perform related investment planning and evaluation.
- H. Introduce wealth management products such as insurance and offer a wide range of choices for customers.
- I. Studying the feasibility and planning to promote new wealth management businesses, such as those with Renminbi priced products.
- J. Planning to promote new Offshore Securities Units (OSU) to add room of operations.
- K. Stay current on the evolution of laws pertaining to Renminbi-denominated bonds issued in Taiwan and T-shares issued by Taiwanese corporations in China. Maintain the effort to build relationship with Chinese corporations for possible future underwriting opportunities.





(4) South China Insurance (“SCIC”)

As the distribution channels and customers become more diversified, SCIC continues to focus on the research and development of the innovative combinations of new products and marketing projects. In 2012, SCIC has developed 106 new products, of which 82 were available for sale in the distribution channels. Aside from coordinating with the business development needs, the efforts can also provide a complete set of professional service. Therefore, SCIC has earned the “Insurance Faith, Hope, and Love Award” four years in a row with insurance professionalism and the innovation of the insurance products, an outstanding performer compared to the peers.

In terms of risk management, SCIC continue to solidify risk management awareness and shape a risk management culture to strengthen current risk management mechanism. With the knowledge of the organization and associated risks possessed by Board members and high level executives, SCIC will establish a top-down risk management regulation and supervise the adoption of risk management mechanisms at all business units. The initiatives can ensure that the operational goals and strategies are aligned with the risk management principles. Also, in order to ensure transparency in risk management, risk management department periodically summarizes the risk exposure update of all business units to senior executive users and disclose accordingly. Additionally, SCIC have incorporated a risk management committee chaired by independent board members and created a risk management department from the risk management team with a goal of upgrading risk management mechanisms.

SCIC upholds the guidance of prudent management. In 2012 SCIC continued to receive the twAA- rating from Taiwan Ratings with “stable” outlook. This rating is a nod of approval to South China Insurance’s robust capital level, underwriting performance that is superior to the industry average, the liquidity that is higher than average, and the steady operating cash flow. Soon thereafter, the A.M. BEST credit rating company also awarded an “A- (good) rating in financial strength, issuing entity credit rating of

a-, and stable credit outlook”. These facts reflected SCIC’s strong Risk-Based Capital (RBC), superior underwriting profit, increasing market share, and the support from the parent HNFHC in terms of sales contribution and risk management. These factors elevated the standing of SCIC in the industry.

In 2013 SCIC continue to strive for the goal of “Achieving both quantity and quality, reaching Top 5 status in the industry, and entering a new age of international expansion.” SCIC aim to boost operational effectiveness, provide well-rounded customer service, improve the utilization of information management, and adhere corporate social responsibilities.

(5) Hua Nan Investment Trust (“HNIT”)

With the easing of the European debt crisis in 2012 and the sustained recovery of global economy, together with the continued high level of available funds in the market, all mutual funds under the management of investment trust companies has increased by NT\$110.5 billion, reaching a total of NT\$1.85 trillion, represented a 6.4% increased compared to last year.

A review of the sizes of all types of funds show that the five types of funds with the highest growth in size are high yield bonds, international general bonds, international stock index, domestic stock, and international bond combination. Among them, high yield bond funds increased by NT\$ 66.6 billion, marking the highest growth in size three years in a row. This fact shows that funds in the market continue to flow toward high yield bonds. Also, the three types of funds showing the greatest reduction in size are money market funds, domestic stock funds, and international stock funds. Among them, money market funds declined by NT\$42.5 billion.

The money market funds are the higher composition of funds managed by HNIT, investments flowed out of the money market fund due to a more optimistic sentiment in the market. As a result, total fund size declined in 2012 compared to the previous year.

(6) Hua Nan Venture Capital (“HNVC”)

HNVC’s researches are outsourced to Hua Nan Management & Consulting.

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

HNMC eagerly dispatch project managers to attend lectures and training of relevant industries in Taiwan and abroad to improve the evaluation on investment projects and the professionalism of management after the commitment of funds. HNMC also assist the operation of the invested companies and their financial planning to create strategic alliances and partnerships. The ultimate goal is the IPOs of the invested companies and rewards back to the venture capital shareholders.

(8) Hua Nan Asset Management (HNAMC)

HNAMC has positioned itself in diversified operations and established three core businesses, namely: “NPL investment and disposal,” “trust management,” and “real estate direct investment and property management.” HNAMC can adjust operating strategy and allocate human resources according to market changes with greater flexibility to avoid the exhaustion and the excessive concentration of revenue sources.

2. An Overview of the Group’s 2013 Operation Plan and Future Development Strategies

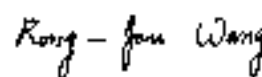
Looking ahead, while the overall economy shows signs of recovery in 2013, the protracted debt crisis in Europe, lingering sequester and debt ceiling worries in the United States, and the devaluation of the Japanese Yen are all contributing to uncertainties in the global economy. Aside from implementing the operational realignments and repositioning planned in 2012, the Group envision a five core strategies for 2013, which includes: (1) Bolster the group’s core operations, (2) Balance contributions to net income among the subsidiaries within the Group, (3) Expand overseas operation, (4) Improve asset quality of the group and (5) Preserve the customers’ rights and privileges. The Group believe that all business segments will continue to thrive this year, by maintain prudent business acumen, grasp the opportunities in the wake of financial deregulation between Taiwan and China, and prevail over all challenges.

3. Credit Ratings

Rated Institution	Rating Agency	Long-term	Short-term	Outlook
HNHFC	Taiwan Ratings (2013/06)	twA+	twA-1	Stable
HNCB	Taiwan Ratings (2013/06)	twAA	twA-1+	Stable
	Moody’s (2013/08)	A3	P2	Stable
HNSC	Taiwan Ratings (2013/06)	twA+	twA-1	Stable
SCIC	Taiwan Ratings (2012/12)	twAA-	-	Stable
	A.M. Best (2013/01)	A-	a-	Stable

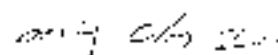
Chairman

Rong-Jou Wang



Vice Chairman

Ming-Cheng Lin



President

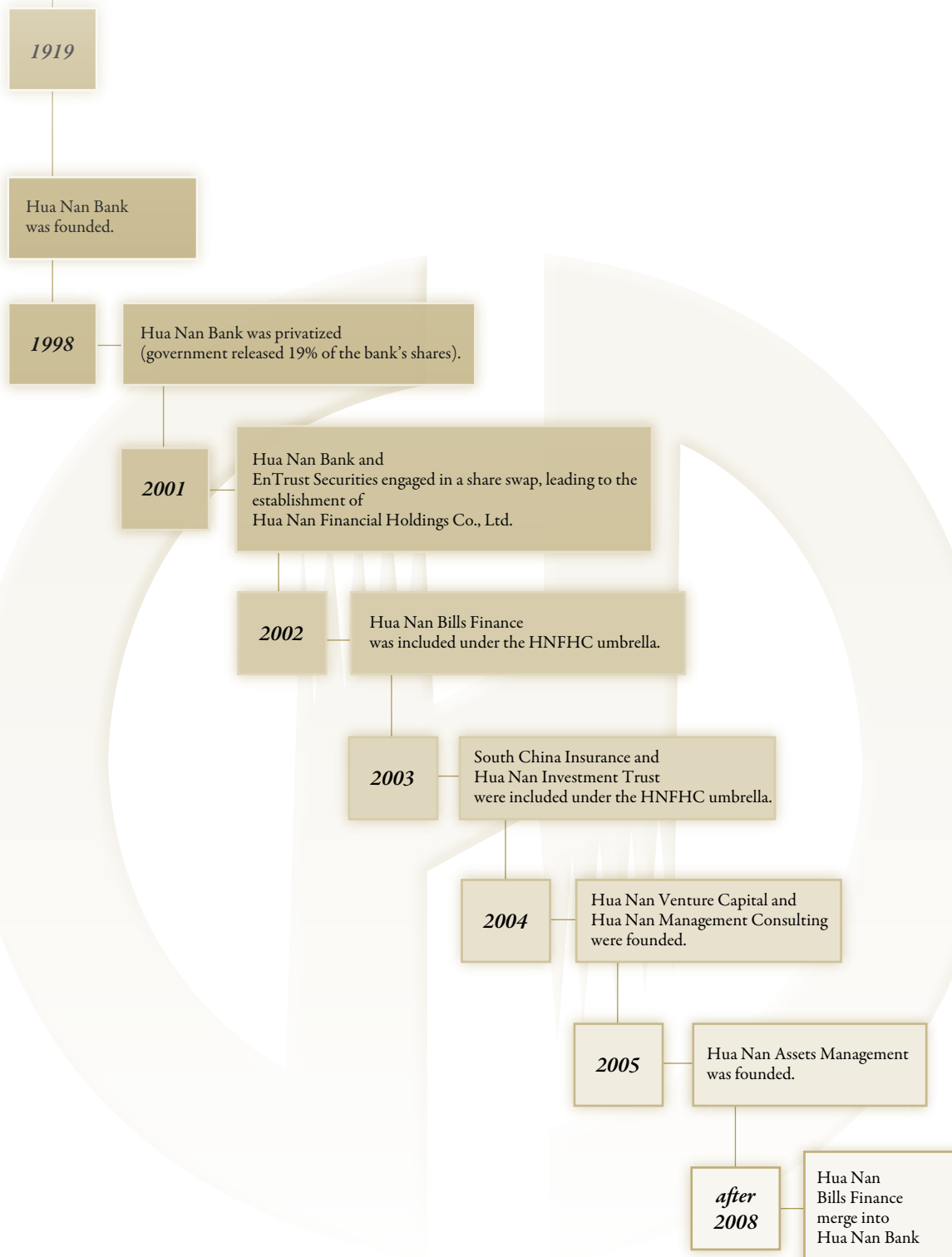
Mao-Shyan Liu




1. Date of Establishment

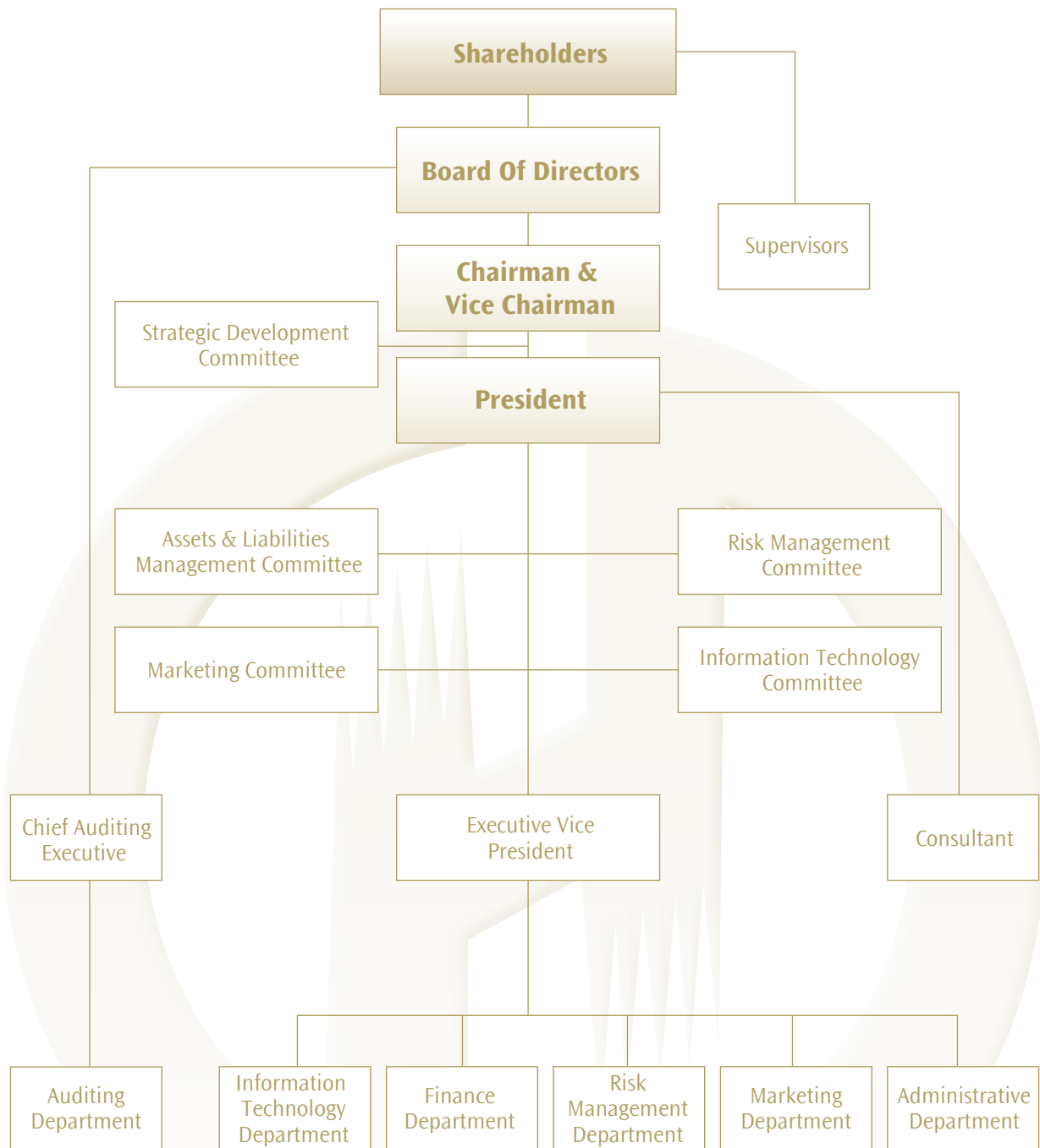
Hua Nan Financial Holdings Co., Ltd. (HNFHC) was established through a share swap between Hua Nan Commercial Bank Ltd. (HNCB) and EnTrust Securities Co., Ltd. (now called “Hua Nan Securities” or “HNSC”) on December 19, 2001.

2. Corporate Milestones



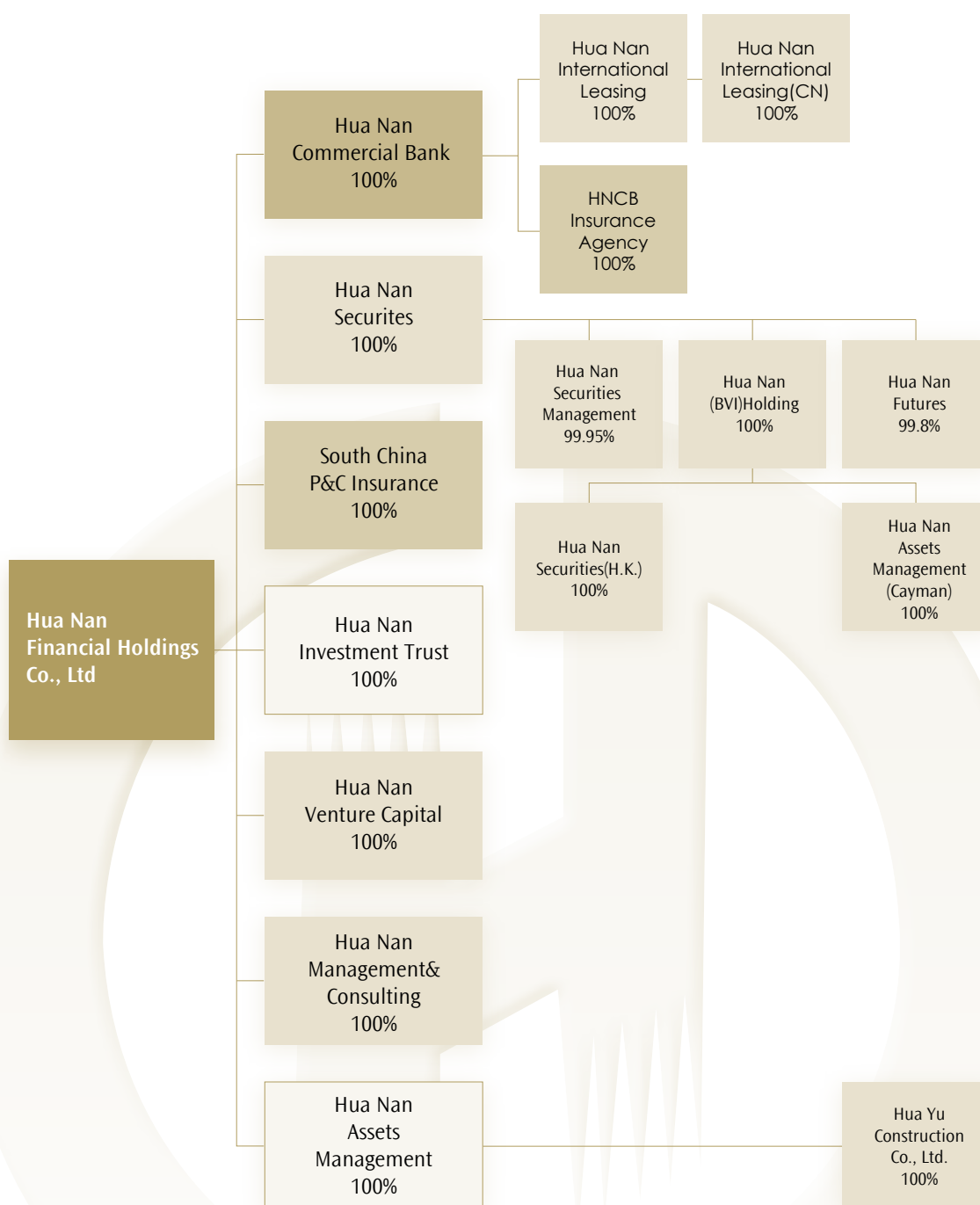


1. The Organization Chart





2. Company Structure



Divided by Line of Business

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

3. Board of Directors and Supervisors

Date: 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. Chairman, Memorial Scholarship Foundation to Mr. Lin Hsiung-Chen 	<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, Hua Nan Financial Holdings Co., Ltd 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.
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 Affairs, 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.
Lin, Yun	<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.
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"> Executive Vice President and General Auditor, Bank of Taiwan Department of Credit Management SVP and General Manager, Bank of Taiwan Secretariat, Board of Directors SVP and Chief Secretary, 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.
Shih-Tien,Chiang	<ul style="list-style-type: none"> Executive Vice President of Bank of Taiwan 	<ul style="list-style-type: none"> Department of Planning SVP and General Manager of Central Trust of China Executive Vice President of Central Trust of China Executive Vice President of Bank of Taiwan 	<ul style="list-style-type: none"> Dept. of International Trades Tamkang 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
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 (TSCE) 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, Memorial Scholarship Foundation to Mr. Lin Hsiung-Chen. • 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., Univ. of California Los Angeles, U.S.A.
Hsu Chen, An-Lan	<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 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 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
Li-Chien Kuo	<ul style="list-style-type: none"> Supervisor, Hua Nan Financial Holdings Co., Ltd Standing Director General, Department of Planning, Ministry of Finance 	<ul style="list-style-type: none"> Deputy Director General, Training Institute, Ministry of Finance Counselor, Ministry of Finance Executive Secretary, Ministry of Finance 	<ul style="list-style-type: none"> MA of Public Finance, National Chengchi University
Chang Hsu, Hsueh	<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.
Shen, Chia-Ying, Vivien	<ul style="list-style-type: none"> Supervisor, Hua Nan Financial Holdings Co., Ltd Standing 	<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-Hsien Liu	98.07.01	<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	98.07.29	<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	91.03.18	<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	100.01.16	<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
Chief Auditing Executive	Chin-Nan Ku	98.7.24	<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	94.03.22	<ul style="list-style-type: none"> Significant Experience: Senior V.P./Chief Secretary of Hua Nan Commercial Bank Education: Master of Business Administration, National Chengchi University
G.M. of Finance Department	King Huo Lu	101.08.01	<ul style="list-style-type: none"> Senior Vice President & General Manager of Finance & Accounting Dept. Education: Department of Accounting, Soochow University
G.M. of Information Technology	Michael Duh	97.03.01	<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 Chen Hsu								
	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		10	25,911	639	1,863	62,480	62,480	6,146	9,302

Unit: in NT\$ thousand

Sum of A, B, C and D as percentage of net income after tax		Remuneration to part-time employees								Sum of A,B, C, D, E, F, and G as percentage of income after tax		Remuneration from invested non-subsidiary enterprise(s)
		Wages, bonuses, and special allowance, etc.(E)		Pension upon retirement(F)		Employee bonuses		Number of exercisable employee stock options (H)				
						from distribution of earnings(G)						
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	Hua Nan Financial Holdings	Consolidated subsidiaries	



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(I)	Hua Nan Financial Holdings	Consolidated subsidiaries(J)
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

Unit: in NT\$ thousand

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	17,355	17,355	1,144	1,642	0.21%	0.21%	0

4. Range of Remuneration to Supervisors

Breakdown of remuneration to Supervisors(NT\$)	Supervisors	
	Sum of foregoing 4 items(A+B+C+D)	
	Hua Nan Financial Holdings	Consolidated subsidiaries(I)
Below 2,000,000	Sou-Shan Wu、Tzu-Hsin Wu、Chin-Chien Chen、Hsu-Hsueh Chang、Chia-Ying Shen	Sou-Shan Wu、Tzu-Hsin Wu、Chin-Chien Chen、Hsu-Hsueh Chang、Chia-Ying Shen
2,000,000 (inclusive) ~ 5,000,000	Fu Chuan Enterprises Co., Ltd.、China Main-Made Fiber Co., Ltd.	Fu Chuan Enterprises Co., Ltd.、China Main-Made Fiber Co., Ltd.
5,000,000 (inclusive) ~ 10,000,000		
10,000,000 (inclusive) ~ 15,000,000	Ministry of Finance	Ministry of Finance
15,000,000 (inclusive) ~ 30,000,000		
30,000,000 (inclusive) ~ 50,000,000		
50,000,000 (inclusive) ~ 100,000,000		
Over 100,000,000		
Total Number of Directors	10	10



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 incress 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	Capita increase out of earning or capital reserves Capital incress 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 incress of 390,574,396 shares out of earnings
2008.08	\$10	10 billion	100 billion	6,089,612,808	60,896,128,080	Capital incress of 119,404,172 shares out of earnings
2009.09	\$10	10 billion	100 billion	6,272,301,192	62,723,011,920	Capital incress of 182,688,384 shares out of earnings
2010.08	\$10	10 billion	100 billion	6,617,277,757	66,172,777,570	Capital incress of 344,976,565 shares out of earnings
2011.09	\$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	8,214,314,422	82,143,144,220	\$12,000,000,000
2012.09	\$10	10 billion	100 billion	8,625,030,143	86,250,301,430	Capital increase of 4,107,157,210 shares out of earnings

2. Type of Shares

Type of Shares	Authorized capital stock			Notes
	Outstanding shares	Unissued shares	Total	
Common stock	8,625,030,143	1,374,969,857	10,000,000,000	Listed stocks

3. Shareholder Structure

Date: 2013/4/23

Quantity	Shareholder structure	Government agencies	Financial institutions	Other institution	Individuals	Foreign institution and Individuals	Total
Persons		16	29	595	177,993	540	179,173
Shares held (shares)		215,330,146	3,018,557,399	1,994,397,894	2,232,150,463	1,164,594,241	8,625,030,143
Shareholding ratio (%)		2.50	35.00	23.12	25.88	13.50	100.00

4. Distribution of Equity

Par value : NT\$ 10 Data / Date: 2013/4/23

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 (Top 10 shareholders)

Date: 2013/4/23

Major shareholders	Shares	Shares held (shares)	Shareholding ratio (%)
Bank of Taiwan		1,831,201,815	21.23%
Shin Kong Life Insurance Co. Ltd		397,819,781	4.61%
Bank Taiwan Life Insurance Co. Ltd		331,425,875	3.84%
Ta-Yung Hsing Yeh Co. Ltd		287,212,627	3.33%
First Commercial Bank		210,596,017	2.44%
Taiwan Tobacco & Liquor Co. Ltd		188,895,000	2.19%
Yuan Ding Investment Co. Ltd		187,492,952	2.17%
Yoong Cai Investment Corporation		166,073,563	1.93%
Memorial Scholarship foundation to Mr. Lin Hsiung Chen		152,324,336	1.77%
Ministry of Finance		146,613,586	1.70%
Standard Chartered managed Vatican garde emerging markets stock index fund account		132,590,117	1.54%
Yung-Zei Investment Co. Ltd		106,612,209	1.24%
Fubon Life Insurance Co., Ltd.		98,635,230	1.14%

6. Market value, net value, earnings, and dividends per share during the most recent two years

Item		Year	2012	2011	Ending 2013/3/31
Market value per share (NT \$)	Highest		17.80	24.80	17.90
	Lowest		15.00	16.00	16.45
	Average		16.41	20.61	17.19
Book value per share (NT \$))	Before distribution		15.39	15.28	14.64
	After distribution		-	14.55	-
EPS (NT \$)	Weighted average number of shares		8,625,030	7,030,753	9,056,282
	EPS		1.03	0.99	0.30
Dividends per share (NT \$))	Cash dividend		0.50	0.50	0.29
	Stock dividend	Out of earning	0.50	0.50	-
		Out of additional paid-in capital	N/A	N/A	-
	Cumulative Undistributed Dividends		N/A	N/A	-
ROI analysis	P/E ratio		15.93	16.89	14.33
	P/D ratio		32.82	41.22	-
	Cash dividend yield		3.05	2.43	-

7. Dividend Policy and Implementation

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

meeting and in accordance with the following provisions:

- No more than 1% can be used for remuneration of board directors and supervisors.
- The sum of employee bonuses can amount to between 0.02% and 0.16%, with the exact amount to be determined by shareholders, who will decide whether to allocate the maximum amount or a portion thereof, to be carried out through the issuance of new shares. Persons

eligible for bonuses in the form of shares must be employees affiliated with the Company. Any changes to these regulations must be approved by the Board of Directors.

- (3) Shareholder dividends are determined based on the undistributed profit from the previous fiscal year, and a decision in this regard must be passed at the shareholders' meeting. Shareholder dividends are decided based on the Company's operational plans, and

dividends may be paid in cash and/or stock. Cash dividends must comprise no less than 10% of the total dividend to be issued. When the cash dividend is less than NT\$0.1 based on this formula, the dividend will not be paid unless resolved otherwise at a shareholders' meeting.

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\$ in thousands			NT\$ 86,250,301,000
Stock and cash dividends distribution	Cash dividend per share		NT\$ 0.5
	Stock dividend per share from capitalization of retained earnings shares		0.05
	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	NA(note)
		Pro forma average annual return on investment	
	Had there been no capitalization of capital surplus	Pro forma EPS	
		Pro forma average annual return on investment	
	Had there been no capitalization of capital surplus and stock dividends from capitalization of retained earnings been replaced by cash dividends	Pro forma EPS	
		Pro forma average annual return on investment	

Note: There was no published financial forecast for the Company in year 2013. 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 Subordinated Bond	2012 First Unsecured Corporate bonds
Date issue	2006/6/29	2013/1/21
Face value	NT\$ 1,000,000	NT\$10,000,000元
Place of issuance and exchange	Taiwan	Taiwan
Issue price	The bond is issued at full face value	The bond is issued at full face value
Total amount	NT\$ 4.7 Billion	Total issued amount : NT\$9.9 Billion. A Issue: NT\$5 Billion; B Issue: NT\$4.9 Billion.
Coupon rates	Annual coupon rate at 2.85%	A Issue :1.23% p.a. at fixed rate. B Issue:1.55% p.a. at fixed rate.
Duration	7 years, matured in 2013/06/29.	A Issue: 5 years matured in 2018/01/21. B Issue: 7 years matured in 2020/01/21.
Priority of repayment	Subordinated	A Issue: Same as other unsecured debtors. B Issue: Subordinated.





Guaranteeing institution	None	None
Trustee	Mega International Commercial Bank	Yuanta Commercial Bank
Underwriting institution	None	None
Certifying attorney	Due Law To Reason Attorney Office Shui-Shan Hou	Chan Kang-Jung Attorney Office Kang-Jung Chan
Independent auditing firm	Due Law To Reason Attorney Office Shui-Shan Hou	Deloitte & Touche Wei Chung, Yi-Chun Wu
Repayment method	Interest is paid annually at coupon rate. The principal is to be paid pursuant to face value at maturity.	Interest is paid annually at coupon rate. The principal is to be paid pursuant to face value at maturity.
Outstanding principal balance	NT\$4.7 Billion	NT\$9.9 Billion
Terms of redemption or early repayment	N/A	N/A
Restrictive term	If making interest or principal payments would lower Capital Adequacy Ratio to the level which does not meet minimum legal requirement, then interest or principal payments shall be stopped until the aforementioned Ratio meet the minimum legal requirement.(Interest shall be accumulated, but shall not be additionally applied during the period which no interest has been paid. Interest on principal is otherwise calculated based on annual coupon rate.)	If making interest or principal payments of B Issue would lower Capital Adequacy Ratio to the level which does not meet minimum legal requirement, then interest or principal payment s shall be stopped until the aforementioned Ratio meet the minimum legal requirement.(Interest shall be accumulated and additionally applied during the period which no interest has been paid. Interest and principal are calculated based on annual coupon rate.)
Whether included in qualifying capital	Yes	B Issue only
Credit Rating	twA- by Taiwan Ratings Corp. Date: 2006/05/25	Taiwan Ratings Corp Date : 2013/11/15 A Issue : twA+ B Issue : twA-
Other rights	Amount of converted (traded or subscribed) common stock, overseas depository receipts, or other negotiable securities up to the publication date of this annual report	None
	Issuance and conversion (traded or subscribed) regulations	None
Possible dilution of equity and impact on equity of existing shareholders due to issuance and conversion, trading or subscription rules, or issuance terms	None	None
Name of commissioned custodial institution for objects exchanged	None	None

7. Fund Execution Plan

1. Purpose and Plan for Use of Fund

In order to strengthen capital adequacy ratio and to raise working capital for operating purposes, the Board of Directors resolved to issue 2012 First Unsecured Corporate bonds on 29 ,October 2012 and later approved by FSC on 7 February 2013. The issue was completed on 21 January 2013 amounted to NT\$9.9 Billion.

2. Execution Plan

(1) Details of Plan

Use of Funds	Estimated Completion Date	Amount	2013	
			Q1	Q2
Raise Working Capital for Operating Purposes	2013 Q1	5,200,000	5,200,000	-
Repay 2006 Unsecured Subordinated Bond (NT\$4.7 Billion) matured on 29, June 2013	2013 Q2	4,700,000	-	4,700,000
Total		9,900,000	5,200,000	4,700,000

(2) Benefit Assessment

The plan has been executed successfully in first quarter of 2013 to raise working capital and in second quarter of 2013 repayment of NT\$4.7 Billion of 2006 subordinated bond matured on 29, June 2013 will be made, the following is estimated to be achieved:

A. Current Ratio boosts from 1.9% in December 2012 to 84.9% in end of first quarter 2013.

B. CAR ratio is up by 4.69% from 136.27% as of end of 2012 to 140.96% of first quarter 2013.

2012 *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 2012

1. Year-end care for the disadvantaged and sending gifts in winter time

HNFHC has been caring for disadvantaged groups in society for a long time. At the end of the year, donated NT\$ 100,000 to ten institutions that care for adults with developmental disabilities, such as the Taiwan Foundation Private Shin De Center, for a total of NT\$ 1 million. As well as arranged for a visit by the company's President Mr. Liu in person on January 11, 2012 at the Taiwan Foundation Private Shin De Center.

2. 2012 Taipei Lantern Festival

Beginning in 1997, Taipei City Government has held the Taipei Lantern Festival during the Lantern Festival days. HNFHC has continuously sponsored the activity for four years. The sponsorship into cultural development in the society can bring the Group closer to the general public. This year, HNFHC sponsored the lanterns in the "Student Lantern" area, which consisted of 25 sets of lanterns altogether. The Group contributed a total of NT\$ 1.5 million and the event organizer has printed small Year of the Dragon lanterns with the Group's logos on them to be distributed to the public.

3. Academy of Promoting Economic Legislation

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.

4. The Creator of "Black Jack" and "AstroBoy" – The World of Osamu Tezuka Exhibition

To maintain relationship with the Group's customers in Central Taiwan, HNFHC hosted a VIP Night on Friday, March 23, 2012 at the National Taiwan Museum of Fine Arts. The private event was for three hundred VIP customers, treating them to a special exhibition with dedicated guides, live performance, and dinner served.

5. 2012 Turnaround Management Association-Taiwan Conference

The 2012 Turnaround Management Association-Taiwan Conference was jointly hosted by Turnaround Management Association-Taiwan and the National Taiwan University Finance Research Center. The conference presented discussions on the European debt crises and corporate turnaround issues.

6. Hua Nan Financial Holdings Cup National Youth Baseball Championship

By naming the Group in a national youth baseball championship, HNFHC extending the care for the promising young athletes in the baseball arena and building a linkage between the corporation and baseball.

7. 2012 Hua Nan Financial Holding Employee Table Tennis and Badminton Competition and Social Care Carnival

To care for the physical and mental well-being of the Group's employees and increase cohesion within the Group, to demonstrate concerns for the disadvantaged, and to fulfill corporate social responsibility, HNFHC hosted "2012 Hua Nan Financial Holding Employee Table Tennis and Badminton Competition and Social Care Carnival" at National Taiwan University Sports Center on May 27, 2012. HNFHC donated cash to HONDAO Senior Citizen's Welfare Foundation and the Group's volunteer corps was also granted a banner and officially formed at the opening ceremony.

8. Taiwan-Russia Association Decadal Anniversary Concert

9. "Shifting Capital: the Rise of Financial Centres in Greater China" presentation and seminar

Taiwan Academy of Banking and Finance, Epoch Foundation, and Chatham House jointly hosted the presentation and seminar: "Shifting Capital: The Rise of Financial Centres in Greater China."

10. 2012 Little League Baseball Asia Championship

The Group assisted with the promotion of the international little league championship held in Taiwan. HNFHC contribution provided the Chinese Taipei Little League Baseball team members with sufficient resources and funds for the game.



11.2012 Asia Finance Association and Taiwan Finance Association Joint International Conference

12.2012 Cross-Strait Judicial Practice Conference and Tour

13.2012 Athletic Sponsor Award, Contribution Division, Bronze Medal

Starting in 2007, Hua Nan Financial Holdings joined the Chinese Taipei Baseball Association in the project "One Baseball for One Dream," which aims to help aboriginal children advance in little league baseball. The Group donates funds to domestic little league baseball training. Throughout Taiwan, the association hosted many training camps for little league baseball players and sports injury prevention seminars. The initiative went into remote villages, and donated funds and training equipment to the little league baseball teams at local elementary schools. HNFHC continued to sponsor major baseball events in Taiwan and provided resources for players to participate in the games, hoping to raise the name-recognition and visibility of Taiwan's baseball sport. After six years of ceaseless effort, HNFHC were awarded the 2012 Athletic Sponsor Award, Contribution Division, Bronze Medal, which was issued by the Sports Affairs Council, Executive Yuan, for the first time.

14.Hua Nan Cares for the Elderly

With the belief in giving back to society and caring for the disadvantaged, at the end of the year the Group visited senior citizens living by themselves throughout Taiwan. HNFHC hosted dining events in Pingxi, New Taipei City, Dali, Taichung City, Chaozhou Township, Pingtung County, and Guanshan Township, Taitung County. HNFHC donated goods to the elderly, dispatched the Group's volunteers to bring joy to the elderly, and arranged free doctor visits and haircuts.



Hua Nan Financial Holdings Cup National Youth Baseball Championship players.

15."Hua Nan Financial Holdings Fulfillment" Charitable Marketing Campaign

With the belief in giving back to the society as benefited from society, HNFHC promoted five charity projects under the title "Hua Nan Financial Holdings Fulfillment." The first was Hua Nan Financial Holdings' donation for the purpose of improving the care environment of individuals in a persistent vegetative state. The second was asking the customers to contribute. When customers bought certain products with a sufficient dollar amount, the subsidiary would donate NT\$50 to the Genesis Social Welfare Foundation for each transaction. The third was placing boxes for the collection of Government Uniform Invoices at branch locations throughout Taiwan. Altogether HNFHC collected more than 20,000 invoices. The fourth was inviting the general public to post messages on the campaign website to show their care for individuals in a persistent vegetative state. The fifth was dispatching the Volunteer Corps of Hua Nan Financial Holdings to perform a day of volunteer work at Genesis Social Welfare Foundation to fulfill charitable duty.



Hua Nan Cares for the Elderly in Guanshan Township, Taitung County.



Genesis Social Welfare Foundation accepted "Hua Nan Financial Holdings Fulfillment" charitable Marketing Campaign from President Mao-Shyan Liu.



16. "Care for Autism" Charitable Commercial Film

Autism Society Taiwan is a national entity that serves families with autistic members. Autism Society Taiwan has committed itself to promote the understanding and concern for autism among the general public since its founding. It hopes to advance the rights and welfare for autistic individuals through medical, educational, therapeutic, occupational, institutional, and legal means, with an end goal of independent living for these individuals. With the filming of this charitable commercial film, Autism Society Taiwan would like to call for the attention of the society with media coverage and offer autistic persons reception, care, guidance, and support. HNFHC contributed production and distribution cost, based on our belief in caring for the disadvantaged in the society.

17. Ministry of Finance, 2012 Uniform Invoice Cup Marathon Event

HNFHC jointly hosted the "Ministry of Finance, 2012 Uniform Invoice Cup Marathon Event" with National Taxation Bureau of Kaohsiung, under the direction of the Ministry of Finance.

18. Asian Baseball Championship

HNFHC sponsored the 26th Asian Baseball Championship held in 2012. The aim is to raise the international visibility of the nation's baseball sport. The Group added the "One Baseball for One Dream" charitable campaign to the events and contributed to the Aboriginal Little League Baseball Player Development Fund. The program is hoping to raise the awareness of building the foundation for domestic baseball among the general public.



2012 Uniform Invoice Cup Marathon Event.

19. One Baseball for One Dream – Aboriginal Little League Baseball Player Development Project

HNFHC used the NT\$ 1,000,000 Aboriginal Little League Baseball Player Development Fund that the Group donated this year to purchase baseball and training equipment for little league baseball teams in remote areas for the purpose of building a foundation for domestic baseball. The recipients were Chung Zheng Primary School in Hualien County, Taoyuan Primary School in Taitung County, and Futien Elementary School in Pingtung County.

20. 2012 Business Opportunities in Renminbi Forum

With a goal of promoting cross-strait cooperation, HNFHC sponsored the "Business Opportunities in Renminbi Forum," which was hosted by Want Daily News. The event sponsor invited banking associates in China, Taiwan, Hong Kong, and Singapore to share their experience in the international circulation and adoption of Renminbi, in hope that the conclusions of the event can offer forward-looking viewpoints and recommendations for the development of finance and economics.



Chairman Rong-Jou Wang (middle) had picture with the Groups volunteer corps.



"One Baseball for one Dream" - Aboriginal Little League Baseball Player Development Project in Hualien County.

2012 *Operating Results*



HONESTY

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1. Major Operations

- The Group is defined as a financial holding company. According to the Financial Holding Company Act, HNFHC is limited to investing and managing the investments.
- According to Article 36 of the Financial Holding Company Act, the Group is allowed to invest in the following businesses:
 - (1) Financial holding companies ;
 - (2) Banking businesses ;
 - (3) Bills finance businesses ;
 - (4) Credit card businesses;
 - (5) Trust businesses ;
 - (6) Insurance businesses ;
 - (7) Securities businesses ;
 - (8) Futures businesses ;
 - (9) Venture capital businesses ;
 - (10) Foreign financial institutions which have been approved for investment by the regulator ; and
 - (11) Other businesses which the regulator determines to be financially related.
- Additionally, according to Article 37 of the Financial Holding Company Act, a financial holding company may apply to the regulator for approval to invest in businesses other than those prescribed in the Article 36 of the Financial Holding Company Act, provided that the financial holding company and its representative do not act as the director or supervisor of such businesses, or designate a person to be the manager of such businesses, unless it is otherwise approved by the regulator. The total amount of investment in all of other businesses shall not exceed fifteen percent (15%) of the financial holding company's net worth. The shares of any of other businesses held by the financial holding company shall not exceed five percent (5%) of the total issued and outstanding voting shares of such businesses.

2. Composition of Income from the Group's Subsidiaries in the Past Two Years

Unit: NT\$ thousand

Year Item		2012		2011	
		Amount	%	Amount	%
Operating Income					
Long term equity investment income	9,335,560	100	9,004,655	100	
HNCB	8,661,219	93	8,385,429	93	
HNSC	146,540	2	75,254	1	
SCIC	512,898	5	410,414	4	
HNIT	(65,353)	-1	52,218	1	
HNVC	(36,255)	-	117	-	
HNMC	13,432	-	9,855	-	
HNAMC	103,079	1	71,368	1	

3. Plans for New Products and Services

The Group will remain abreast of the latest financial market information and trends globally in developing integrated products from our subsidiaries. With the deployment of Customer Relationship Management (CRM) system that analyzes customers' characteristics, the Group is able to launch integrated product marketing campaigns that will provide well-rounded financial service to the group's customers.

4. Business Plan for 2013

Due to the fierce competition in the financial industry in Taiwan, the deregulation of financial business between Taiwan and China, and the requirements imposed by regulators, business plan for 2013 will emphasize: bolstering the group's core operations, balancing contributions to net income among the subsidiaries within the Group, expand overseas operation, improve asset quality of the group, and preserve customers' rights and privileges.



1. Bolstering the group's core operations: Improve the Net Interest Margin (NIM) and Spread

- A. Adjust loan mix and promote SMEs and overseas loans that comes with higher margins.
- B. Improve loan sales skills and seek to increase the loan rates.
- C. Adjust loan mix and increase the ratio of demand deposit.
- D. Seek to increase the returns on investment in bonds and bills.

2. Balancing contributions to net income among the subsidiaries within the Group: improving contributions to net profit from non-bank subsidiaries

- A. Seek to improve the operating results of the subsidiaries so that the allocation of capital matches their contributions to the Group .
- B. Seek acquisition opportunities to expand market share.
- C. Achieving synergy from cross-selling and coordinated promotion.

3. Expand overseas operation: increasing the number of overseas branches and profit contribution.

- A. Greater China Area
 - (a) Banking: Beginning in 2013, HNCB Shenzhen Branch is allowed to provide a full range of Renminbi businesses. In addition it has applied branch licenses for Shenzhen Baoan sub-branch and Shanghai Branch. HNCB is also considering the location for a third branch .
 - (b) Leasing: Leasing Company in Shenzhen will explore business opportunities along with HNCB Shenzhen branch.
 - (c) Other finance related businesses: Closely monitor the deregulation process by the FSC to evaluate the feasibility and better position the Group in the Chinese market.
 - (d) Equity investment: Seeking targets for equity investment that are of investment value.
 - (e) Securities, property & casualty insurance, and investment trust: For securities subsidiary will

set up a second Beijing office that acts as a window of contact for the Group. For property & casualty insurance subsidiary, will continue to seek cooperation opportunities with Ancheng Insurance in Chongqing. For investment trust subsidiary, will apply for QFII qualification to tap into the Mainland China capital markets.

B. Other Overseas Markets:

- (a) Committed to upgrading HNCB representative office in Hanoi, Vietnam to a branch.
- (b) Committed to evaluating the feasibility of setting up branches in the ASEAN region.
- (c) Seek to improve the operating results of HNCB OBU and foreign branches and launch Renminbi denominated operations.

4. Improve asset quality of the Group: reducing non-performing loans (NPL) ratio and increasing coverage ratios and reserves.

- A. Seek to lower NPL ratio and increase the bad debt coverage ratio to match with the industry average.
- B. In compliance with the requests of the regulator aim to increase loan coverage ratio and Category I Credit Asset loan loss reserve to 1% before the due date.
- C. Conduct more extensive credit evaluation on credit loan assessment to avoid the excessive concentration of risks and lower future non-performing loans.

5. Preserve the customers' rights and privileges: Abiding by financial laws and regulations and providing customers with suitable products

- A. The Group will revise internal regulations and procedures as required by laws such as the Financial Consumer Protection Act and the Personal Information Protection Act.
- B. Before offering financial products to customers, will perform suitability evaluations such as KYC and KYP.
- C. Before distributing financial products to the sales channels, will perform product evaluation to avoid the offering of inappropriate products to the customers.



5. Industry Overview

Looking ahead to the operating environment of the financial industry in 2013, the macroeconomic condition is slowly recovered from the trough, and expect to witness an U shaped turnaround. However, as all banks have approached the limit of the mortgage loans against total loans, and the majority of companies are reluctant to invest, it is not expect to see significant growth in the loan demand. However, with the deregulation of cross-strait financial policies remains on course, the ratification of cross-strait currency clearing agreement and the government's initiatives in promoting financial operations with Taiwan-China characteristics and plans to establish wealth management investment platforms for local citizens. These factors will be beneficial to the development of new businesses of domestic financial institutions. In terms of the securities market, the trading volume in the stock market shrank due to the proposed capital gains tax on securities transactions and the supplemental premium on Second Generation National Health Insurance in 2012. It is expected such bearish influences will fade out in 2013, and the transaction volume in the stock market will recover. Additionally, the government is proposing new offshore securities units for securities brokers. Thanks to the consensus from cross-strait finance and securities conferences, Mainland China will open its market to Taiwan at a significant scale. As a whole, the securities market in 2013 should be healthier than that in 2012. As a whole, 2013 will be a year full of challenges and opportunities for the financial industry in Taiwan.

Affected by the fluctuations in the international financial markets at this moment, domestic financial industry faces over-competition and depressed profit margin. In light of ever-changing financial conditions, the Group will continue to maintain grasp on the current operating environment and development opportunities, as well as effectively integrate the Group's resources - channels, products, customers, and personnel - to promote cross selling, and taking advantage of the group's niches to realize maximum productivity.

As Renminbi businesses and cross-strait financial policies on the course of deregulation, related regulations and restrictions will be eased or abolished. The Group will continue to carry out businesses in Renminbi-denominated

deposit, mutual funds, and insurance policies in order to seize the business opportunities in fast-developing cross-strait financial cooperation.

6. Research and Development

1. Marketing

- A. In the past two years, the Group has installed three main frameworks – customer management strategy, business intelligence analysis, and customer management system – for the purposes of intensifying the understanding of customer product usage, promoting customer value, and increasing the customers' adhesiveness to the Group.

(a) Customer management strategy:

The Group's two main strategies for customer relationship management are "increasing the size of high-value customers" and "increasing the average products holding in all customers." The Group has segregate all customers into "high value customers," "potential customers," and "average customers" to prioritize customer relationship management. By executing the strategy of "cross-selling" to new customers, "maintaining" existing customers, and "reclaiming" customers who seldom purchase from the Group and who were past customers. Assisted with "high value customer management mechanisms," the Group can develop business opportunities among customers and implement strategies to achieve the goal in customer management.

(b) Business intelligence analysis:

With the analysis of customer life stage graphs and product information, the Group employed proprietary algorithms such as Decision Tree and Logistic Regression to create eight "Customer Product Purchase Tendency Models" and a database on "Financial Product Usage Life Stage of the Group's Customers." Combining the information from the two said sources, HNFHC will provide the subsidiaries a priority list of customers to contact based on different products with the aim to increase the chance of successful sales.

(c) Customer Management System:

By the application of “Analytical CRM System”, “Operational CRM System”, and “KPI System”, HNFHC seek to increase the work effectiveness of marketing analysis, sales application, and outcome management.

- B. In the future, the Group will intensify the usage of existing programs and systems. By taking advantage of the analysis of business intelligence analysis to establish the sales information on the optimal Next Product Offer (NPO). In addition developing a “Sales Momentum Boost” plan, by combines three projects – sales channel integration, sales incentive integration, and marketing resource integration to establish an integrated mechanism. The mechanism offers the following benefits: establishing a sales management platform for subsidiaries within the Group, an integrated web interface to the Group’s external users, upgrading incentives, building a cross selling resource integration, optimizing the physical and virtual sales channels, tracking potential business opportunities, providing one-stop shopping sales platforms, and increasing sales momentum.

2. Risk Management

The Group’s risk management platform is based on risk 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 Group will adjust and strengthen its management mechanisms as appropriate. It will also provide education and training to foster comprehensive risk management awareness throughout the Group.

A. Research plan on the linkage of Corporate Governance, Risk & Compliance (GRC) Mechanisms

To improve the free flow of information between internal audits, risk management, and compliance (together are broadly defined as risk management) and avoid the duplicated operation between different units and siloed control environments, HNFHC propose to improve the communication and information sharing between risk management, audit, and compliance units and

attempt to build an information-sharing platform. Furthermore, the Group will evaluate the possibility of linking self-evaluation of internal control, risks, and compliance.

B. Business Process Management Project

In order to optimize the depth and breadth of implementation of risk management instruments, HNFHC propose to research the essence and methodology of integrated business process management. Initially the research will help refine the process design of all business units, the efficiency and effectiveness of operation execution. In the future the Group will continue to intensify the research and introduce and promote the essence of BPM.

C. Attaining Balance between Risk and Return

To achieve the goal of balancing risk and return, HNFHC plan to use “Risk-Adjusted Return on Capital” (RAROC) to evaluate all of the business segments and understand the profitability of all businesses after taking risks into consideration. Subsequently, the Group can draft a suitable business development strategy in advance. This way, the efficiency of capital allocation can be improved and outcome evaluation of risk adjustments performed after transactions.

D. Potential Future Exposure of Derivatives (PFE)

HNFHC will refine the methodology of calculating the Potential Future Exposure coefficients of Over The Counter (OTC) derivatives. In order to reflect market information in a timelier manner, aside from the Backward Looking methods that rely on historical fluctuations, the Group has also added the Forward Looking methods that incorporated Implied Volatility. HNFHC also attempt to synthesize these two methods to generate a PFE coefficient table for use within the Group.

E. Control of Trading Counterparties’ Credit Risks

HNFHC will substantiate the content of derivatives trading counterparties’ credit risk statement. Will continue to monitor the portfolios of clients and the vulnerabilities by analyzing the number of contracts, the nominal principal balance, and credit exposure. The Group continues to observe the influence of possible fluctuations in future





markets (such as the continued devaluation of Japanese Yen) on the credit risks of the Group's trading counterparties.

F. Market Risk Capital in the Trading Book

HNFHC continue to study the latest regulations and developments of Basel 2.5 on the recognition of market risk capital in the trading book. With that as the basis, The Group is able to calculate Stressed VaR and Incremental Risk Capital to evaluate their impact on the Group's market risk capital. Initially, such data will be furnished for internal management purposes, but in the future the data may be requested by regulators and should be readily available for compliance reasons.

G. Management of Non-Financial Risks

To follow the international trend and, at the same time, comply with the key points of international regulators, HNFHC will emphasize the research and management of other special areas with non-financial risks, aside from operational risks. Examples are: Business Conduct Risk, Information Security Risk, Reputational Risk, and Strategic Risk. By doing so, the Group can maintain a more holistic understanding of the group's risk profile. Regarding operational risks, aside from the subsidiaries' new product evaluation mechanisms on new products in the wealth management and asset management segments, HNFHC also have a second set of business evaluation mechanism that aims to provide suitable and value-generating products to the customers. The Group perform social responsibilities to protect the customers' rights and the Group's reputation. By introducing ISO 27001 and completing the certification process to promote the emphasis, management, and supervision of information security among members of the Group.

The focus in the future would be persistent innovation, promotion, and implementation of the concept "Governance, Risk & Compliance." HNFHC will use the collective wisdom of the risk management, compliance, and internal audit units

among members of the Group to control related risks effectively while they assist the business units in pursuing revenue targets.

H. Setting the Risk Appetite of SCIC

The purpose of setting a Risk Appetite level is to ensure that SCIC has sufficient capital to offset unexpected losses. During the process of setting the Risk Appetite level, operational units have to cooperate with risk management units to consider the profits and the corresponding risks in all strategic scenarios. Therefore, Risk Appetite is a powerful tool that helps SCIC in decides the optimal business strategy.

At this moment, SCIC has already used the fluctuation of earnings to evaluate the risks it is facing. SCIC also considers the risk limit that it can sustain to set a reasonable Risk Appetite.

7. Short to Long-term Business Development Plan

1. Financial Management

A. Short-term plan

- (a) Bolster the group's core operations.
- (b) Balance contributions to net income among the subsidiaries within the Group.
- (c) Expand overseas operation.
- (d) Improve asset quality of the group.
- (e) Preserve the customers' rights and privileges.

B. Long-term plan

Aside from the Group's organic growth, in light of oversaturation of domestic financial institutions as well as fast track positioning in the Greater China Market, HNFHC do not rule out mergers and acquisitions with outstanding or complimentary financial institutions to improve the scale of operation and increase international competitiveness. By doing so, it is hoping to accomplish the two visions of the Group: to become a leading domestic financial holding company and a regional financial institution.

2. Marketing

A. Short-term business development plan

(a) Integration of personnel: HNFHC will consolidate the financial professional training in the subsidiaries and encourage employees to obtain certification in the financial businesses that the Group cross sell. By sponsoring product integrated marketing campaigns and conducting financial product information and marketing training, and coupled with the “cross selling management platform” of the financial holding company, it can offer the most up-to-date marketing regulations, business information, and knowledge of the products. By adopting the platform, it can improve the professional proficiency of all employees in the Group as well as achieving the goal of marketing by all.

(b) Product integration: HNFHC encourage subsidiaries to develop new financial products with evaluation mechanism to control the risks. By integrating the products of the subsidiaries, the Group sponsor integrated marketing campaigns for the products. Customer purchase tendency models are created based on the customers’ wealth management needs and career planning. Assist the subsidiaries to draft customer-product holdings improvement plans to increase the number of products owned by customers and exert the synergy of the Group’s cross selling.

(c) Channel integration: HNFHC will take full advantage of the 284 distribution channels of the Group’s subsidiaries and set up 250 cross selling counters. Defined by the four major regional channel centers of HNCB, it has set up integrated marketing teams – North 1 Area, North 2 Area, Central Area, and Southern Area – that span across subsidiaries. HNFHC will offer customers tailored and well-rounded financial service to build deep and long-term relationship with customers. As the same time,

in order to offer more “safe, convenient, and efficient” web-based service and achieve the synergy of the physical and virtual channels, the Group continues to develop and refine virtual channels to continuously increase the usage volume of web-based customers and to aggressively attract younger customers.

(d) Customer segmentation: HNFHC will segment customers according to the importance and value. By establishing the sales information of Next Product Offer (NPO) based on the result of business intelligence analysis, HNFHC can assist the subsidiaries in effectively allocating marketing resources to create the best operating results.

B. Long-term business development plan:

HNFHC will utilize the Group’s three resources – channel, products, and customers – to develop cross selling to achieve the strategic goal which states that the three key cross selling metric (Brokerage business of HNSC, insurance business of SCIC, and mutual funds business of HNIT) would be accounted for more than 25% of the sales figure of these three subsidiaries.

HNFHC will use the Group’s corporate image of prudence and integrity, distinctive product design and marketing appeal to improve the customer base and profitability of all customers as a whole. The Group will implement the management concept of “customers first” to build a more intact communications platform for employees in the group and to improve the timeliness of customer service. Moreover, HNFHC will use the Group’s channels and varied products to provide integrated financial service, cater to the one-stop shopping needs of the clients, and improve the interaction between the Group and customers.





HONESTY



EFFICIENCY



ACTIVENESS



RESPONSIBILITY



TEAMWORK

HUA NAN COMMERCIAL BANK (HNCB)

Financial Highlight

Unit: NT \$ thousand

As of December 31, 2012 and 2011	2012	2011
Consolidated Income Statement		
Net interest income	21,170,783	19,576,139
Net income excluding interest income	9,964,038	10,560,580
Gross income	31,134,821	30,136,719
Provision for bad debts	(5,467,323)	(4,760,831)
Operating expenses	(15,567,516)	(15,334,957)
Income before tax	10,099,982	10,040,931
Income tax expense	(1,438,763)	(1,655,502)
Net income	8,661,219	8,385,429
Consolidated Balance Sheet		
Total assets	2,022,757,255	1,936,302,645
Total liabilities	1,897,018,995	1,840,719,405
Total shareholders' equity	125,738,260	95,583,240
Ratio		
ROE	7.83%	9.04%
ROA	0.44%	0.44%
Tier I ratio	9.36%	7.50%
Capital adequacy ratio	13.04%	11.36%
NPL ratio	0.44%	0.47%
Coverage ratio	218.66%	211.12%
Credit Ratings (long/short/outlook)		
Taiwan Ratings	twAA/twA-1+/Stable (2013/06)	
Moody's Ratings	A3/P2/Stable (2013/08)	

1. Major Operations

1. All types of deposits: checking accounts, demand deposits, time deposits, and savings deposits.
2. Issuing financial bonds.
3. Loans: short-, medium-, and long-term loans, loans with time deposits as collateral, and consumer loans.
4. Discounting of bills and notes.
5. Investment in securities: government bonds, short-term bills and notes, corporate bonds, financial bonds, and stocks of corporations.
6. Domestic electronic fund transfer.
7. Cashing commercial drafts.
8. Issuing domestic letters of credit.
9. Guaranteeing corporate bonds for underwriting.
10. Domestic guarantees.
11. Transfer payments and receipts on behalf of clients.
12. Selling government bonds, treasury bills, corporate bonds, and stocks of corporations.
13. Underwriting securities: government bonds, treasury bills, corporate bonds, and stocks of corporations.
14. Trading securities.
15. Trading securities with power of attorney from clients.
16. Custody and warehousing.
17. Safe deposit boxes.
18. All agency services pertaining to business categories on the operating license or approved by the authority.
19. Credit cards and cash advances.
20. Selling gold bullion, gold coins, and silver coins on behalf of others.
21. Buying and selling gold bullion, gold coins, and silver coins.
22. Export foreign exchange, import foreign exchange, general outbound and inbound remittance, foreign exchange deposit, loans denominated in foreign currencies, and guarantees on foreign currency guarantee payments.
23. Derivatives approved by regulators.
24. Operations permitted by the Trust Enterprise Act.
25. Trading of government bonds.
26. Margin and short-selling of securities transactions.
27. Brokerage, trading, certification, and underwriting of short-term bills and notes.
28. Issuing prepaid cash debit cards.
29. Agency of public interest lottery as approved by regulators.
30. Export licensing.
31. Import licensing.
32. Corporate and financial bond trading.
33. Wealth management.
34. Bond trading.
35. Asset-based beneficiary securities.
36. Trust of funds.
37. Trust of receivables and the property pledged for the receivables.
38. Trust of securities.
39. Trust of real estate.
40. Discretionary investments in the form of trust .
41. Agency for the issue, transfer, registration, and distribution of dividends and bonuses for securities.
42. Consulting service for the issue and fundraising of securities.
43. Certifier of the issue of stocks and bonds.
44. Certifying securities.
45. Custody of assets.
46. Custody of funds invested in securities.
47. Consulting service for investments, property management, and real estate development.
48. Trustee in the issue of bonds.



2. Composition of Income by Major Business Segments

Unit: NT\$ million

Segments	2012		2011		Change	
	Amount	%	Amount	%	Amount	%
Corporate Banking	13,961	31%	13,168	31%	793	6%
Consumer Banking	12,745	29%	11,618	27%	1,127	10%
Financial Trading	5,380	12%	4,870	12%	510	10%
Foreign Exchange	9,083	20%	7,937	19%	1,146	14%
Trust and Wealth Management	2,219	5%	2,319	5%	(100)	(4%)
Others	1,229	3%	2,447	6%	(1,218)	(50%)
Total of all major revenues	44,617	100%	42,359	100%	2,258	5%

Note:

1. The business segments listed above include interest, fees, financial assets/liabilities, exchange, bad debts recovery, and rent revenue of operating assets.
2. Consumer banking includes credit cards and cash cards. Foreign exchange includes overseas branches and Overseas Banking Unit.
3. Other income declined in 2012 compared to 2011 due mostly to the bad debts recovery in 2012 declined by NT\$810 million.

3. New Financial Products and Services in the Planning Pipeline

1. To increase the number of new customers, HNCB plan to introduce a new product called “Stepping Up” demand savings deposit for individual customers.
2. In order to increase the sales channels of the passbook gold deposit. HNCB will launch the “paper gold” project in Hong Kong in the second quarter.
3. To offer customers more diversified gold passbook investment payment methods, HNCB expect to launch “gold piggy banks” in the third quarter to improve competitive advantage.

4. Planning cross-border transfer payment and receipt operations to expand cross-strait online shopping payment services.
5. Planning for cross-strait use of cards that allows HNCB debit cards to be used in the China Unionpay network.
6. Launch internet banking services at HNCB Macao Branch and construct a complete electronic funds transferring service network in the Asia-Pacific region.
7. To expand export financing and cooperate with the government’s export promotion policy, HNCB will launch “Financing preferential treatment for SME exporters project.”
8. To provide more convenient financial service, HNCB will offer a web-based order system for foreign currency cash and traveler’s check purchases.
9. Target prime customers and offer “financing mortgage,” “easy repayment according to salary level – flexible repayment of mortgage,” “residential owners,” and “first time home owner” projects. By introducing new customers with stable income and offer flexible designated mortgage payment date at the request of mortgage customers, a complete mortgage product line can be constructed.
10. HNCB will develop credit cards suitable to different customer segments to increase the number of effective cards. Continue to promote the Love JCB Precious Easy Credit Card, Gourmet Credit Card, and Visa Signature Credit Card. In addition HNCB will aggressively court competitive or leading retail channels to join forces to issue co-branded cards, with the goal of introducing new credit card customers, and increase charging volume and market share.
11. HNCB will offer acquiring service for China Unionpay cards to enhance the competitiveness of acquiring business and increase revenue.
12. Depending on future market demand and the progress of policy deregulation, HNCB will introduce products such as funds denominated in multiple currencies, ETFs, foreign bonds, discretionary investments, and DCD dual currencies offered by domestic investment trusts companies.



13. HNCB aim to become the custodian of funds for five more investment trusts companies that have broad name-recognition and will also select existing top-performing funds in custodian for secondary marketing purposes.
14. HNCB will improve core asset allocation with bond funds and long-duration insurance policies to protect the assets of the customers.
15. HNCB will increase the types of diversified mutual funds in the sales channels and offer suitable wealth management products, such as ETFs, funds denominated in multiple currencies, foreign bonds, and products offered to professional investors.
16. HNCB will utilize innovative investment models and plan stand-alone management operations, to offer new services to the customers.
17. Along with the new legislations and amendment to existing laws, HNCB will increase new product types according to the changes. As well as launching niche trust products, such as trust of restricted newly issued stock for employee, standardized money trust coupled with fund investments.

4. Business Plan for 2013

1. Continue to manage the quantity and quality of NTD deposit to ensure that HNCB ranks in the top three of demand deposit market share among domestic banks.
2. HNCB continue to improve the process flow of deposit and fund transfer operations in order to enhance service and lower operational costs.
3. Carefully use the newly acquired license for one branch and by referencing the government's National Land Planning policies to perform operational analyses on branches with inferior results to strengthen HNCB's branch network.
4. Promote HNCB's e-banking services to deepen customer relationships and increase HNCB's competitiveness.
5. Broaden the segment of user of internet banking, including mobile internet banking, to strengthen HNCB's electronic banking advantage.
6. HNCB will plan and execute telephone banking marketing projects, including marketing with incoming and outgoing calls, with the aim to increase cross-sell, customer adhesiveness and contribution.
7. Step up the effort in developing SME operations. HNCB will combined with SME credit guarantee mechanisms, to continue support SMEs, increase the size of corporate finance loans, and strengthen the structure of corporate finance loans.
8. HNCB will seize the business opportunities of the return of Taiwanese corporations formerly operating overseas and participate in the business opportunities of major domestic public construction projects by helping corporations to obtain credit limit to fulfill their needs in domestic and overseas operations.
9. Actively help corporations acquire needed financing and participate in national infrastructure projects such as: i-Taiwan 12 projects, investment recruitment initiatives, the Six Major Emerging industries, incoming foreign capital, investment in the land and buildings in industrial zones by returning Taiwanese corporations.
10. To coordinate with the government's international trade promotion policies, HNCB actively engage in foreign trade related foreign exchange credit operations.
11. Actively promote the "supplier financing credit guarantee project" to help SME suppliers obtain operating funds and improve supply quality and finance competitiveness.
12. With new membership in the international organization FCI, HNCB continue to engage in the promotion of international accounts receivable factoring. Aside from targeted new customers, maintain relationship with existing customers to create opportunities.
13. HNCB continue to promote e-Finance, developing qualify central suppliers receivable financing, and strengthen the cooperating relationship with the SME supplier to boost self-liquidating financing business and seize the opportunities in supply chain financing.



14. HNCB actively seek suitable syndicated loan customers, by strengthen cooperation with peers in the financial industry to participate in international syndicated loans to increase HNCB's name recognition in syndicated loan markets and boost competitiveness.
15. HNCB will actively offering integrated financing solutions in the China-Hong Kong-Taiwan area. By providing financial services related to funds management and trade financing to assist Taiwanese businesses in needs.
16. In conjunction with HNCB subsidiary HNIL to expand business in the Greater China area.
17. Broaden and deepen HNCB positioning in the Greater China market. As it has already obtained FSC approval for branches in Shanghai and Baoan, Shenzhen. HNCB will actively follow through with the process for the above mentioned locations to broaden operational domain in the Greater China market.
18. HNCB's Shenzhen Branch has already started offering Renminbi services for corporate entities with Taiwanese capital in May 2012. To broaden the scope of the Renminbi service, HNCB will actively pursue the permit for the full range of Renminbi operations under ECFA agreement as soon as possible.
19. HNCB Shenzhen Branch and Hua Nan International Leasing Corporation in Shenzhen which established in 2012, will complement each other in the banking and leasing operation to promote financial service in the Greater China Area by taking into consideration the risk characteristics of local customers.
20. HNCB will fully furnish the money logistics platform function for Taiwanese businesses in Taiwan-China-Hong Kong, by adding Renminbi functions on HNCB's e-banking platform "Global Finance Facilitator Service," to enable clients that can simultaneously manage the funds at the DBUs, OBU, Hong Kong Branch, and Shenzhen Branch in Taiwan-China-Hong Kong to assist the business development of Taiwanese businesses.
21. Aside from HNCB's positioning in the Greater China market and as a response to the emerging market of the ASEAN countries, HNCB is actively evaluating establishing branches in ASEAN countries to serve local Taiwanese corporations and participate in local economic growth, which translate to improving profits.
22. Promote the Renminbi operations at DBUs to provide customers with comprehensive financial services.
23. HNCB will establish a complete channel sales network, integrate channel resources more extensively, promote a culture of selling by all employees, encourage all employees in branch channels to sell personal financial products, and train personal finance AO for talent pool. HNCB will provide all types of pre-employment training and education, implement personal finance AO job level ranking, and train secondary selling skills.
24. Through partnership with firms in other industries, HNCB will develop co-branded cards in areas such as food, clothing, residence, transportation, education, entertainment, and life necessities, or affiliated discount channels to increase the value of the credit cards and actual usage.
25. Actively seek strategic alliance partners in guaranteed repurchase receivables to increase the loan volume of car loans. HNCB will also try to establish channels of cooperation with real estate brokers and property title registration professionals to explore steady mortgage and land finance sources.
26. HNCB will unveil "Individual well-rounded finance platform" to increase the breadth and depth of transactions with customers. With successful experience in integrated marketing to government employees with mortgage as core, HNCB will focus on targeted customers and combine personal finance products such as mortgage, unsecure loans, credit cards, securities, and mutual funds to offer one-stop shopping to our clients as our approach to integrated marketing.

27. HNCB will offer a comprehensive service platform and create differentiated service to raise interest rates and increase profits.
28. Based on different promotion strategies, HNCB will offer flexible interest rate pricing to expand businesses.
29. HNCB will upgrade the FC guidance function and offer more guidance to wealth management advisors who are behind the sales quota. Moreover will upgrade the selling skills and help wealth management advisors to complete the fund health check-up customer care campaign.
30. HNCB will improve the wealth management and marketing function of the internet banking. Combined with the internet banking's marketing reward programs, the goal is to increase usage among the young and internet users.
31. HNCB will establish a complete after-sales service operation process, improve service quality and organizing care and check-up programs for VIP's Assets Under Management. The program allows wealth management advisors to reviews the VIP's assets and offer real-time planning reports to invigorate the assets and returns on investment.
32. For customers with high contribution, HNCB will take a refined and customized approach to build relationships. Organizing boutique customer management events such as VIP customer seminars and prestige club wealth management lectures.
33. For customers with an interest and potential to invest, HNCB will hold investment seminars on mutual funds and insurance from time to time to offer the latest investment news to develop relationship and contribution.
34. For customers with salary direct deposit and loan customers who are government employees and teacher, HNCB will offer internet banking discounts and use this approach as the model of marketing to save the cost of over the counter transactions and increase the volume of transactions.
35. HNCB will rely on the advantage in both corporate and personal banking at all business units of HNCB to improve the promotion of trust products and the training for employees to achieve total sales.
36. HNCB will construct value-added service of internet banking to offer product information on mutual fund order placement and transaction function to satisfy the needs of the customers.
37. HNCB will connect with construction management companies, real estate brokers, insurers, and accounting institutions for a strategic alliance and increase the source of trust service.
38. Through project promotion teams, HNCB actively promote real estate related trusts, such as pre-construction payment trust and real estate development trust, real estate transaction security trust, and standardized fund trust, such as retirement security trust, children education trust, and insurance benefit trust.
39. Seek fund custody business for Renminbi denominated funds. HNCB are also broadening the scope and seeking to become the custody bank of investment trusts companies with wide name recognition. Moreover HNCB will strengthen the promotion of the funds currently in custody and transferred to custody to increase the scale of custody business.
40. HNCB will include collective investment trust funds into the sales platform and encourage all employees to promote such product. As well as timing the opportunity for short duration promotion to increase the customers' return on investment and contribution to sales figure.
41. HNCB will improve operational efficiency by participating in offshore fund data transmission platform, as well as improving fund order placement and transaction confirmation.





42. HNCB will establish an automatic review mechanism named “Custodian bank security investment trust fund monthly report system,” which can perform the oversight duties of a fund custody institution. In addition establish a “foreign currency pricing function” to seek the fund custody business opportunities of “foreign currency priced funds” and “multiple currency funds.”
43. HNCB will adopt electronic processing to simplify the asset trust bookkeeping operation flow and improve operational efficiency.
44. HNCB will seize the opportunities to trade equity securities to earn capital gains.
45. HNCB will actively engage in securities transactions and investments in foreign currencies to increase capital gains and interest revenue.
46. HNCB will invest in domestic convertible bonds and buy back domestic bonds as deem it appropriate, in order to increase the revenue in bond trading.
47. HNCB will manage the foreign exchange swap position to increase the profit of the bank.
48. As a response to the permission for Renminbi related business at DBUs, will develop derivatives denominated in Renminbi, or increase those related to Renminbi, or increase those related to underlying assets in the Chinese market.

5. Industry Overview

In 2012, as slumping foreign demand negatively impacted Taiwan exports, the willingness to invest by corporations and the strength of consumption among the general public was hit hard. Domestic real estate market has also been limping along due to the government’s multiple market-cooling policies. The real estate related loans grew at a slower pace. In terms of wealth management operations: the promotion of the bank’s wealth management operation has been impacted by the simultaneous weakening of foreign and domestic economy that caused investors to be reluctant to invest. Looking ahead to 2013, global economy is expected to climb out of the bottom and gradually recover. Loan demands among corporations are expected to rise,

creating opportunities for corporate banking in 2013. A reviving economy will also push stock indexes higher in the capital markets, a sign that is beneficial to the promotion of wealth management business.

The banking industry faces a high degree of homogeneous competition. The domestic market for banks has become saturated. To expand sources of profit, banks have been aiming at overseas markets and evaluating areas with potential in the Asia-Pacific region, such as Southeast Asia. By acquisitions or setting up branches, HNCB seek to broaden the position and improve profitability.

In recent years, the government has greatly deregulated laws and regulations that govern cross-strait financial cooperation. Examples include setting up branches offices for financial institutions in China and Taiwan on the two side of the strait and launching OBU Renminbi denominated businesses. The governments also signed cross-strait currency settlement agreement in 2012 and formally allowed DBU to conduct Renminbi denominated businesses in February 2013. Not only do the general public benefit by having more diversified investment products, corporations are also offered faster and more convenient financial services.

6. Research and Development (R&D)

A total of 290 R&D projects initiated by HNCB in the last two years have resulted in measureable outcome. The efforts have been tremendously effective to HNCB’s operation improvement, enhancing operating results, and upgrading service quality. In the future, HNCB shall continue to reward employees who commit themselves to R&D in order to create better results and reach another pinnacle.

7. Short to Long-term Business Development Plan

1. Short-term business development plan

- A. HNCB will introduce new New Taiwan Dollar deposit products depending on the market and HNCB’s funding situation to satisfy the needs of different customer groups and respond to market competition. An example is the “Futures margin supreme interest demand deposit.”

- B. HNCB will continue to seek new customers of gold passbooks by sponsoring gold passbook Dollar Cost Averaging promotional campaign to increase transaction volume and fee income.
 - C. HNCB continue to seek safe deposit box tenants and maintain the renewal rate of existing tenants to increase rent revenue.
 - D. HNCB continue to promote relationship building with ordinary customers and seek to increase the number of products purchased.
 - E. HNCB will carefully use the newly acquired license for one branch and reference the government's National Land Planning policies to set up a new branch. In addition, continue to perform operational analyses on branches with inferior results to strengthen HNCB's branch network.
 - F. HNCB will provide comprehensive e-banking services and focus on the planning of global account management functions. As well as upgrading the functions of mobile banking to seize the portable business opportunities.
2. Long-term business development plan
 - A. HNCB will continue to promote customer-oriented segmentation management.
 - B. With the government's National Land Planning Policy as reference, HNCB continue to analyze Taipei City, New Taipei City, Hsinchu County and City, Taichung City, Tainan City, Kaohsiung City's population, business activities, industry characteristics, peer branch locations, and other relevant information. With the results of the comparison augmented by the survey in the field, HNCB will be able to plan the adjustment of branch locations accordingly to enhance the channel values.
 - C. Cross-strait payment: HNCB will establish a cross-border electronic payment platform to facilitate the cross-border funds transferring opportunities.
 - D. Smart and diversified: By combining marketing effort with social marketing to provide faster, more convenient and efficient financial services to the customers.
 - E. HNCB will explore business opportunities in the Greater China region through newly created Greater China Business division. HNCB will provide optimal financial solutions to the customers in cross-strait investment as well as promoting related financial products and services to increase the revenue contribution from overseas operation.
 - F. HNCB continue to improve the professional competencies of personnel and develop talent in reserve. Moreover building professional wealth management service teams to offer customers well-rounded wealth management consultation and financial planning.
 - G. HNCB will develop diversified wealth management products and establish prudent wealth management product evaluation processes. In which by screening superior wealth management products that can provide customers diversified wealth management products and protect customers' rights.
 - H. Segregating customers and manage them accordingly. HNCB will host customer care events and improve the management of VIP customers to improve customer relationship retention and satisfaction.
 - I. With the development of wealth management operation and the complexities therein, HNCB continue to promote management information system to enhance service efficiency and provide customers with more refined service.
 - J. Establishing the internal control and risk management mechanisms in the wealth management operation. HNCB codify standard operating procedures for all operations and increase the risk awareness of wealth management advisors to implement legal compliance and all standard operating procedures.



HUA NAN SECURITIES CO., LTD. (HNSC)

Financial Highlight

Unit: NT \$ thousand

HONESTY

EFFICIENCY

ACTIVENESS

RESPONSIBILITY

TEAMWORK

As of December 31, 2012 and 2011

2012

2011

Consolidated Income Statement

Revenue	2,264,266	2,986,818
Expense	(2,076,558)	(2,803,293)
Income before tax	187,717	183,525
Cumulative effect of change in accounting principles	-	-
Net income	146,540	75,267

Consolidated Balance Sheet

Total assets	19,931,613	20,017,637
Total liabilities	8,668,642	8,871,046
Total shareholders' equity	11,262,971	11,146,591

Ratio

ROE	1.31	0.66
ROA	0.73	0.32
Capital adequacy ratio	490.5%	536.74%

Credit Rating (long/short/outlook)

Taiwan Ratings	twA+/twA-1/Stable (2013/5)
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1. Major Operations

- Brokering securities transactions in centralized securities exchange market.
- Brokering securities at its business locations.
- Trading securities in centralized securities exchange market.
- Trading securities at its business locations.
- Underwriting securities.
- Securities transfer agency.
- Margin and short sale of securities.
- Brokerage of overseas securities.
- Operating securities related futures trading auxiliary businesses.
- Securities related futures business as a supportive business.
- Other securities related business approved by regulators.

2. Composition of Income by Major Business Segments

Unit: NT\$ thousand

Segments	Year	2012		2011	
		Amount	%	Amount	%
Brokerage		1,815,360	86.19%	2,401,567	84.51%
Underwriting		85,942	4.08%	86,847	3.06%
Trading		205,025	9.73%	353,296	12.43%
Total		2,106,328	100%	2,841,710	100%

The change of contribution to income among all major business segments is clarified as follows:

1. Brokerage

As of the end of 2012, the company has 55 business branches, including three basic-type branches. The daily average transaction volume of the stock market in 2012 was about NT\$94.39 billion, a 24.59% decrease compared to the NT\$125.7 billion level in 2011. The average market share of HNSC for the whole year was 2.73%, a 4.2% increase compared to the market share in 2011 (2.62%). Brokerage income declined from NT\$2.402 billion in 2011 to NT\$1.815 billion, marking a 24.44% decrease.

2. Underwriting

In 2012, HNSC entered into fifteen agreements as lead underwriter (including SPO lead underwriter), seven agreements as IPO lead and supportive underwriter, and performed 41 underwriting engagements (including IPO lead underwriter, SPO lead underwriter, and other supportive underwriter and financial consulting engagements). Acted as the transfer agent for ninety companies. As a whole, income from underwriting business declined from NT\$87 million to NT\$86 million, marking a 1.15% decrease.

3. Trading

Looking back at 2012, Taiwan's stock market dropped 21.18% in 2011, but advanced 8.8% in 2012. As a result, although the HNSC's income in trading business in 2012 (including financial products and futures trading) declined from NT\$353 million in 2011 to NT\$205 million, but the overall losses declined significantly from -NT\$538 million to -NT\$58 million in 2012. In terms of warrants, HNSC took market demand into consideration and reduced the issue of warrants slightly from 539 warrants in 2011 to 442 warrants.



3. New Financial Products and Services in the Planning Pipeline

With the deregulation of securities and finance laws and the Financial Oversight MOU already signed by Taiwan and China, various new financial products will gradually be unveiled. Major securities dealers in Taiwan are eager to test their mettle and actively engaging in research, planning, and all types of talent development. Looking into this year, HNSC will perform the evaluation and planning of the following new products and relevant businesses according to the schedule of deregulation by the authorities with oversight power:

1. HNSC will actively seek approval to perform wealth management services in the form of trusts. Plan to introduce relevant wealth management products such as insurance and offer customers a full range of choices in terms of products.
2. HNSC will actively promote a full range of investment banking operations: With the government-provided incentive that encourages securities dealers to transform themselves into investment banks, HNSC will develop financial consulting services such as business reorganization, mergers and acquisitions, and other related services in brokerage and underwriting in the broadest definition of the terms.
3. Regulators are expected to allow the re-consigned trading business of A-shares in China. HNSC will seize this opportunity and plan to apply for the QFII status, and actively promote relevant services to serve the investing public.
4. HNSC will engage in the design and promotion of derivatives such as call and put warrants, asset swaps, and structured products.
5. HNSC will actively participate in the market-making of futures, TAIEX index and options on company stocks, and ETFs: The financial products department and futures department will continue to promote market-making to energize the trading of relevant futures products in Taiwan.
6. With incentive from the government that encourages overseas Taiwanese corporations to conduct public offerings in Taiwan, the underwriting department will actively pursue overseas Taiwanese corporations through channels such as the branch office in Hong Kong, law firms, and accounting firms to assist the of listing these corporation's stocks on the exchange or OTC.
7. The Beijing Office of HNSC is expected to formally open in April. In the future it will serve as the main point of contact in China for the Group.
8. HNSC will follow the schedule of deregulation and plan for the promotion of the following business:
 - (1) Propose to promote new wealth management services such as Renminbi denominated products and perform relevant evaluation and planning.
 - (2) Propose to promote new Offshore Securities Units (OSU) to increase the flexibility of operation.
 - (3) Propose to promote Renminbi Formosa bonds and T shares in Taiwan, and continue to build connections with Chinese corporations and develop contacts with an eye on future underwriting opportunities.

4. Business Plan for 2013

In 2012, the stock market went through the European debt crises and the introduction of Taiwan's capital gains tax on securities transactions that depressed Taiwan's stock market and sapped the trading volume therein. Investor confidence was severely lacking. Looking to this year, the structural factors that tempered the global economic growth last year still exist that could trigger great changes in the global macroeconomic landscape. The deficit reduction negotiations in the USA, parliamentary elections in Italy and Germany, the possibility of a smooth transformation of the Chinese economy, and Taiwan's reintroduction of capital gains tax on securities transactions and second generation National Health Insurance premium could still impact the global and Taiwanese financial markets again. In particular, the quantitative easing policies adopted by the US, the EU, and Japan, which are little more than "printing money to save the economy," will undoubtedly pull all nations into a race to the bottom for their currencies. China's Renminbi is the most likely target to receive appreciation pressure. As a consequence, this fact will affect China's economic performance. Therefore, even though the visibility of this year's economic outlook is better than that of the previous year, this is a year in which HNSC must step carefully. Must bear in mind the possible twists, roadblocks, mishaps and make the preparation that HNSC can and should make, and respond in a prudent and conservative manner.

This year (2013), the government will commit itself to promoting cross-strait financial cooperation, and the trend implies development toward financial deregulation, international involvement, and more advanced institutionalized. The initiatives will assist in the expansion of the size of the capital market and connect with international development. The pace of deregulation over laws governing cross-strait financial cooperation is expected to accelerate. The operational goals for the current year are as follows:

1. Develop and recruit talent in related businesses and increase the capability for the operations as a whole in the future.
2. Improve channel sales strategy throughout Taiwan and increase the volume of channel sales.
3. By consolidating and moving channels, lower operational costs and seek acquisition opportunities to raise market share.
4. Combine related research resources and prudently trade stocks by strictly adhere to the stop-loss mechanism.
5. Promote international business in the Greater China Region to increase niches in overseas markets.
6. Keep up with the pace of deregulation and propose the promotion of new businesses.

5. Industry Overview

1. **The securities dealer industry has been through stages of acquisitions and consolidations. The total number of securities dealers is unchanged, but the number of head offices declined. Mid and large securities dealers have been consolidated to financial holding companies gradually.**

Table of Changes in the Number of Securities Dealers in Most Recent Years

Category Year	Total Number of Securities Dealers		
	Head Office	Branch Office	Total
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
2012	147	1,042	1,189

Source: Taiwan Securities Association website





As cross-strait trade and economic ties continue to develop, and the government-sponsored policies favor active international involvement in the securities market, domestic securities dealers not only face competition with foreign securities dealers operating locally, but also will face challenges from Mainland China in the near future. Under such intensive competition, if securities dealers wish to increase their own competitiveness in the market, they must expand their economies of scale or increase their entry points with the market. Therefore, aside from continuing mergers and acquisitions and adjusting operational locations on a company-wide basis, continued exploration of the Greater China Market is another focus of securities dealers.

2. IPOs of foreign corporations and the exchange and promotion of the securities industry between Taiwan and China. Promoting international involvement of the securities market and development momentum

Since 2008, Taiwan Stock Exchange has been continuously attracting foreign corporations to offer their shares to the public in Taiwan. As of the end of 2012, there were a total of twenty-six primary listings by foreign corporations, showing a tremendous achievement. There are thirty-three TDRs on the Taiwan Stock Exchange, making it the largest market for depository receipts in Asia. Also, in light of the transnational merger of exchanges and the restructuring of capital markets that have become the trend these days, Taiwan Stock Exchange is also planning to sign a Memorandum of Understanding for cooperation with Shanghai Stock Exchange and further increase to cooperation between exchanges in the Greater China Region. This step positively signifies the expansion of the domestic securities market.

The FSC has been promoting the IPO of T shares. Both Taiwan and China have reached a consensus on this issue. In the future, in the first stage, Taiwan will allow prime quality Taiwanese corporations registered in China to issue their stock to the public in Taiwan. In the second stage, Taiwan will allow Chinese corporations to issue their stocks in Taiwan. According to Director Tung Dao-Chih of the Department of International Affairs, China Securities Regulatory Commission, whether large corporations such as China Mobile and ICBC will offer their stock as T-shares in Taiwan in the future are up to the corporations to decide.

In the future, large state-owned corporations whose stocks are already publicly traded as A-shares can seek secondary offering in Taiwan as T-shares. Additionally, some of the more than eight hundred Chinese corporations that have A-shares listed can apply for public offerings in Taiwan. These development will help the expansion of domestic securities market tremendously.

3. Fierce competition in electronic trading such as the web portals of securities dealers

As electronic trading can effectively lower costs, and the functionality and popularity of personal mobile communication devices have been increasing, all securities dealers are actively promoting electronic trading to increase their customer numbers. As of the end of 2012, seventy-eight securities dealers have offered electronic trading. For the whole year, electronic (including internet and voice) transaction volume has increased to NT\$47.4456 trillion, and its share of total transaction volume has dramatically increased from 32.6% to 36%.

HNSC has rolled out a brand-new electronic trading system in 2012 and update the hardware and software of securities trading as needed. Additionally trying to increase the stability and execution speed of the programs as well as improving the order entry interface so that HNSC can continue to attract new customers and raise market share. In 2012, market share in electronic trading grew from 2.89% to 2.98%.

6. Research and Development

Major future research and development projects of HNSC are as follows:

1. In compliance with policies and regulations, HNSC will perform research and development in the following areas: GreTai stock trading, convertible bond asset swaps, interest swaps, international sub-brokerage, the issue of domestic call and put warrants, index and stock options and futures, interest rate futures, gold futures, asset securitization; and derivatives products such as structured products. In addition, improved talent development and recruitment in investment banking operation, financial engineering, and risk control.
2. Conducted the planning of the following information systems:
 - (1) Planning for the web-based platform of overseas sub-brokerage: HNSC aim to provide a platform for securities transactions in multiple nations, so that the clients can trade multiple products on the same platform. In addition established a sub-system for pricing in New Taiwan Dollars, thereby making transactions more convenient for the clients.
 - (2) Planning for the expansion of operating management system: including the planning for customer relationship management, regional supervisory system, manager system, and decision support management systems.
 - (3) The installation of securities manager system: the system performs a thorough description of the transaction history of securities clients, thereby assisting branch managers in the management of futures business.
 - (4) Wealth management trust operation system planning: to coordinate with the application for future wealth management trust, HNSC will install the system as needed.
3. Combined the professional knowledge of the overseas product department, financial product department, and futures trading department and directed them to the research and trading of financial product arbitrage. With the research and development of software design by the information department, developed spread, arbitrage, and hedging computer trading programs. Aided by technical analyses such as artificial intelligence charts, HNSC may control the direction of long and short trading and superior trading opportunities to maximize profit.
4. Within the structure of parent company “Hua Nan Financial Holdings Co., Ltd.”, engage in potential merger and acquisition of targeted securities brokerages in order to grow stronger and with sustainability in securities related operations.
5. HNSC’s subsidiary, Hua Nan Investment Advisory, performs in-depth and timely research on the fundamentals, technical trend, and funds flow with information from global finance, domestic and foreign macroeconomics, industry, and individual companies to enable HNSC stay current with investment trends and hedge risky industries. Aside from issuing related investment publications and holding investment seminar, it offer related subsidiaries in the Group investment advisory and reference for credit assessment.





6. Follow the trend of the “Project on Finance Operation with China-Taiwan Characteristics” and the related “Project on Developing Greater China Region Asset Management and Wealth Management” proposed by the FSC. HNSC perform investment evaluation and create opportunities for profit.
7. Staying current on the agreements from the “Cross-Strait Securities Oversight Platform Conference,” which allows Taiwanese shareholders to establish a China-Taiwan joint venture securities company with full operating licenses and privileges in Shanghai, Fujien, Shenzhen, and several financial reform zones. HNSC have begun to contact potential joint venture shareholders and perform related investment planning and evaluation to get a head start.
8. Introduce wealth management products such as insurance and offer a wide range of choices for customers.
9. Studying the feasibility and planning to promote new wealth management operations, such as those with Renminbi priced products.
10. Planning to promote new Offshore Securities Units (OSU) to add room of operations.
11. Staying current on the evolution of laws pertaining to Formosa bonds issued in Taiwan and T-shares issued by Taiwanese corporations in China. Maintain effort to build relationship with Chinese corporations for possible future underwriting opportunities.

7. Short to Long-term Business Development Plan

1. Short-term strategy:

Seek balance growth in brokerage, underwriting, trading, and new financial product business lines. Promote new services such as wealth management. Aim to rank in the top ten among domestic securities dealers in terms of profit and size of capital.

2. Mid- and long-term strategy

- (1) Brokerage: complete the construction of distribution channels and explore new business lines.
- (2) Investment banking: improve underwriting service and increase the size of capital.
- (3) Asset management: increase the size of the funds under management and improve the results of operation.
- (4) Financial innovation: improving competence in financial engineering and introducing new domestic and international financial products
- (5) e-commerce: integrate corporate resources and improve operational efficiency.
- (6) Risk control: monitoring risk-weighted assets to lower operational risks.

SOUTH CHINA INSURANCE CO., LTD. (SCIC)

Financial Highlight

Unit: NT \$ thousand

HONESTY

EFFICIENCY

ACTIVENESS

RESPONSIBILITY

TEAMWORK

As of December 31, 2012 and 2011	2012	2011
Income Statement (in NT \$thousand)		
Operating income	4,901,453	4,280,952
Operating cost	(3,253,958)	(2,759,509)
Gross income from operations	1,647,495	1,521,443
Operating expense	(1,061,918)	(1,011,264)
Net operating income	585,577	510,179
Non-operating revenue	22,256	9,646
Non-operating expense	(1,253)	(612)
Income before tax	606,580	519,213
Income Tax	(93,682)	(108,799)
Net income	512,898	410,414
Balance Sheet (in NT \$thousand)		
Total assets	13,508,282	12,454,280
Total liabilities	10,372,591	9,848,786
Total shareholders' equity	3,135,691	2,605,494
Ratio		
ROE	17.87%	16.55%
ROA	3.95%	3.35%
Capital adequacy ratio	502.84%	530.17%
Credit Ratings (long/outlook)		
Taiwan Ratings	twAA-/Stable (2012/12/10)	
A.M. Best Ratings	A- /Stable(2013/01/16)	



1. The categories of SCIC's major and current products (services):

1. Fire insurance:

Commercial fire insurance
Fire insurance extended coverage
Residential fire insurance
Residential earthquake basic coverage

2. Marine insurance:

Cargo transit insurance
Inland transit insurance
Vessel insurance
Fishing vessel insurance
Air transit insurance

3. Automobile insurance:

Automobile material damage insurance
Automobile liability insurance
Automobile theft loss insurance
Mandatory automobile (motorcycle) liability insurance.

4. Accident insurance:

Engineering insurance
Guarantee insurance
Liability insurance
Other property insurance

5. Health and personal accident insurance:

Health insurance
Personal Accident insurance
Travel comprehensive insurance

3. New Products and Services in the Planning Pipeline

In 2013 SCIC will continue to develop new products based on the needs in different markets to satisfy a wide range of needs and selections from customers. New products in planning schedule are as follows:

Products Names
Limited coverage automobile-on-automobile collision loss insurance (commercial use)
Residential comprehensive insurance
Residential comprehensive insurance with extended motorcycle fire accident clauses
Residential comprehensive insurance with pet accident fee indemnification clauses
Golf player comprehensive insurance
Group health insurance
Group major illness indemnity clauses
Group cancer hospital stay medical health insurance clause (with per diem hospital indemnity)
Group first-time cancer diagnosis indemnity clause

Remark: The aforementioned products have been jointly researched and developed by SCIC's underwriting, claims, actuary, legal, investment, risk management, and sales staff and not outsourced to any other entity. Therefore, related R&D expenses have been recognized as current year business expenses.

2. Composition of Income by Major Business Segments

Unit: NT\$ thousand

Segments	Year	2012		2011	
		Amount	(%)	Amount	(%)
Gross written premium		6,053,319	95.00	6,509,881	94.91
Fire insurance		1,127,710	17.70	1,283,429	18.71
Flood insurance		614,196	9.64	561,029	8.18
Automobile insurance		3,408,127	53.48	3,673,832	53.56
Accident insurance		590,644	9.27	625,045	9.11
Health and accidental injury insurance		312,642	4.91	366,546	5.35
Reinsurance revenue		318,781	5.00	349,061	5.09
Total		6,372,100	100.00	6,858,942	100.00

Remark: the amount for different segments of insurance is based on the statistics of thirty different types of insurance.

4. Business Plan for 2013

1. Expand market share: SCIC continue to build relationships with bank and life insurance channels and increase business partnership with regional insurance brokerages/agencies. In addition seek to improve web-based B2C, B2B, and B2B2C sales figures.
2. Improve capability of information management and application: actively plan for the installation of new information core systems, integrate the application systems and customer information for all insurance categories. SCIC current objective is improving sales, policy writing, reinsurance, and automated claims functions.



- 3 Improve legal compliance and risk management: SCIC will raise awareness of legal compliance and implement internal control and audit regulations to lower the risks in legal compliance and all types of business operations. Moreover upgrade current risk control mechanisms to ensure that revenue targets and strategic/risk management guidelines reinforce each other.
- 4 Position in Mainland China and acquire talent in reserve: SCIC plan to add personnel to participate in the market researches in the Chinese market and help staff acquire professional licenses in China's insurance industry to build a reserve of talent for operations in China.
- 5 Balance resource deployment strategies: As SCIC respond to fluctuations in the market, review and adjust asset allocation, increase investment in high-yield products and overseas fixed income products to earn stable dividend revenue.
- 6 Fulfill corporate social responsibilities: SCIC will care for disadvantaged groups in remote regions, provide subsidies such as school supplies, food, and tuition to fulfill promise to care for residents in remote regions.

5. Industry Overview

The gross written premium for the property and casualty insurance as a whole in 2012 was NT\$119.83343 billion, representing a 6.61% growth over 2011, and insurance premium increased by NT\$7.4 billion. The gross written premium at SCIC in 2012 was NT\$6.5988 billion, representing a 7.54% growth over 2011, and insurance premium increased by NT\$456.56 million. Moreover, SCIC market share increased to 5.43%.

6. Research and Development

1. Research and development expenditure in the most recent two years and its outcome

New insurance products of SCIC are all developed by the in-house product development team alone. Important products among the new insurance products that SCIC developed in the past two years are as follows:

Products Names
Motorcycle passenger liability insurance
Limited coverage, specific accident automobile body compensation insurance
Insurance broker Guarantee insurance
First-time cancer diagnosis health insurance
Cancer hospital stay medical expense health expense (per diem hospital indemnity)
Personal injury insurance (standard) food poisoning compensation clause
Personal injury insurance (standard) overseas accident indemnity clause
Personal injury insurance (standard) emergency compensation clause
Group injury insurance (standard) injury medical insurance clause (type D)
Commercial vehicle accident driver injury insurance
Residential comprehensive insurance
Medical Malpractice Insurance(For Medical Institution)
Personal injury insurance (type A)
Personal injury insurance (type A) death and disability from accidents indemnity clause
Personal injury insurance (type A) injury medical insurance benefit clause
Group injury insurance (standard) injury medical benefit clause (reimbursement for the expense incurred type A)
Travel comprehensive insurance luggage loss coverage clause
Travel comprehensive insurance with travel safety insurance overseas public transportation additional indemnity payment clause

Remark: The aforementioned products have been jointly researched and developed by SCIC's underwriting, claims, actuary, legal, and sales staff and not outsourced to any other entity. Therefore, related R&D expenses have been recognized as current year business expenses.



2. Future research and development projects

To satisfy the varied needs and choices demanded by consumers, SCIC will continue to develop new products based on different markets. The new products are planning include: Limited coverage automobile-on-automobile collision loss insurance (business use); Residential comprehensive insurance; Residential comprehensive insurance with extended motorcycle fire accident clauses; Residential comprehensive insurance with pet accident fee indemnification clauses; Golf player comprehensive insurance; Group health insurance; Group major illness indemnity clauses; Group cancer hospital stay medical health insurance clause (with per diem hospital indemnity); and Group first-time cancer diagnosis indemnity clause. SCIC will also improve the integration of information systems and increase the effectiveness of e-commerce.

7. Short to Long-term Business Development Plan

1. Operating guideline

- (1) Increase premium revenue and control expenses and budgets.
- (2) Improve information system and increase operating benefit.
- (3) Increase administrative effectiveness and make service more speedy and convenient.
- (4) Implement corporate governance and reduce operational risks.
- (5) Position SCIC in the Chinese market and develop operational talent.
- (6) Adopt steady investment strategies and increase the stability of revenue stream.
- (7) Fulfill social responsibility and enhance corporate image.

2. Operational objective

Premium revenue at SCIC in 2012 was NT\$6.859 billion, including gross written premium of NT\$6.509 billion and reinsurance premium of NT\$349 million. The average indemnity ratio of all types of insurance is 47.54%.

Revenue of SCIC in 2012 was NT\$4.901 billion, which included retained contract expiry premium revenue of NT\$4.219 billion, net investment revenue of NT\$166 million, and other revenue of NT\$516 million. Operating cost was NT\$3.254 billion, including retained indemnity and payment of NT\$2.144 billion, liability reserve net change NT\$189 million, and other operating cost of NT\$921 million. Operating expenses were NT\$1.062 billion, and operating income was NT\$585 million. Net non-operating income was NT\$21 million. Pre-tax net profit was NT\$606 million. Net profit after income tax expense was NT\$513 million. Earnings per share were NT\$2.56. Return on assets was 3.95%. Return on equity was 17.87%. SCIC achieved 101.56% of 2012 budgeted goal.

3. Key operational policies

(1) Business development

- A. Continue to develop new channels, integrate the channels to promote new projects, and improve business relationship and scale with regional insurance brokers/agents. Creating mobile device App service platforms, increasing the scope of service platforms and enhancing efficiency.
- B. Expand business branches and scale of business and select areas with market potential to add business branches. SCIC will improve the professional competence of the sales staff and raise output to increase operating benefit.
- C. Utilize the policy renewal management mechanism to closely observe and track the renewal progress of all units and all personnel. By doing so, SCIC can secure the foundation of business and achieve the goal of steady growth in operating results.
- D. Participated in "Insurance Faith, Hope, Love Award" competition. SCIC has been recognized by "Insurance Faith, Hope, Love Award" four years in a row in terms of "Insurance Profession" and "Insurance Product Innovation."

(2) Risk management:

- A. To effectively implement risk management and comply with regulations set by regulators, SCIC has revised internal “Risk Management Policy” as the guideline for carrying out day-to-day risk management operations.
- B. To ensure that all risk management operations are in compliance with the operational objective and strategy drafted by the Board, as well as letting the board ensure the effectiveness of risk management and taking the final responsibility, SCIC has set up a risk management committee that is subordinate to the Board and codified the “Articles of Risk Management Committee.”
- C. Since the breadth and depth of risk management operation have increased enormously, SCIC expanded the Risk Management Team to the Risk Management Department for the purpose of intensifying and internalizing corporate risk management mindset, implementing the effectiveness of risk management, and increasing the professionalism of the personnel.
- D. To avoid the situations in which assume greater risk than what are willing to take for the sake of pursuing performance, SCIC also codified the risk appetite policy. By taking into consideration factors such as operational strategy and goals, business development, and risk and return to effectively control risks and gradually establish risk management mindset and operational style.

(3) Expense control:

- A. In order to lower the electricity bill and achieve the benefit of actual savings, gradually install energy-saving light bulb with lower power consumption at business branches.

- B. SCIC strictly enforce annual expense budget management regulations and implement expense allocation mechanism. Require all units to strictly control expenses and regularly track the condition of expenses, so that all units can fully control the progress of expense budget and its implementation to achieve the goal of actual control. To proves that SCIC achieved excellent result on the control of expenses, the expense ratio from 2010 to 2012 has been 29.58%, 29.48%, and 28.68%respectively, showing a declining trend over the years.

(4) Capital management:

- A. The first and foremost consideration for the external deployment of capital for investment by SCIC is the risk attribute of assets. SCIC cooperate with the risk control integration mechanism of the parent company. With the estimation and calculation of indicators such as the risk value, it is able to inspect and adjust current positions in risk-weighted assets. As revenue steadily increases, SCIC can also pay attention to the change in risks to control the potential fluctuation risk of financial assets.
- B. The characteristics of capital in the property insurance industry are different from those of other financial institutions. The capital deployment strategies drafted by SCIC take liquidity and safety as primary consideration. After that, consider the rate of return to boost the ability of paying indemnities and protecting policy holders.





HONESTY



EFFICIENCY



ACTIVENESS



RESPONSIBILITY



TEAMWORK

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

Financial Highlight

Unit: NT \$ thousand

As of December 31, 2012 and 2011	2012	2011
Consolidated Income Statement		
Operating income	244,664	245,109
Operating expense	(194,372)	(176,723)
Net operating income(loss)	50,292	68,386
Non-operating revenue	3,627	2,145
Non-operating expense	(133,071)	(7,219)
Income before tax	(79,152)	63,312
Cumulative effect of change in accounting principles	-	-
Net income	(65,353)	52,218
Consolidated Balance Sheet		
Total assets	793,542	953,112
Total liabilities	419,450	466,670
Total shareholders' equity	374,092	486,442
Ratio		
ROE	-15.19%	21.42%
ROA	-7.48%	5.48%

1. Major Operations:

1. Securities investment trust.
2. Discretionary investments.
3. Futures trust.
4. Other business operations approved by the regulators.

2. Composition of Income by Major Business Segments

Asset type		(%)
Mutual funds	Equity	38.35
	Fixed income	56.80
Private equity		0.31
Discretionary investments		4.29
Fee income		0.25
Total		100.00

3. New Financial Products and Services in the Planning Pipeline

HNIT will offer suitable financial products and diversified, convenient service channels and tools based on market trends and customer demand to fulfill different wealth management needs of the customers.

4. Business Plan for 2013

1. Improve ability in asset management to pursue stable management results.
2. Actively pursue e-commerce to improve customer service and increase the customer base.

3. Improve customer service and relationship maintenance and integrate these goals with brand promotion.
4. Continue to research and develop niche products to substantiate HNIT's product line.
5. Continue to perform employee education and training on the important issues which benefit the company's long-term development and improve service quality.

5. Industry Overview

In 2012, eleven types of funds have increased in size. Those with increases over NT\$10 billion include high yield bonds, international general bonds, international stock indexes, domestic stocks, and international bond combinations. High yield bonds have increased for three years in a row, reflecting the intensity of subscription at the time of issue by the investment trusts and their popularity with investors.

The major event for the investment trust industry in 2012 was the merger between Yuanta Investment Trust and Polaris Investment Trust. The combination of the two companies propelled the size of funds under the management of Yuanta Polaris Investment Trust past NT\$290 billion, ranking first in the industry. Markets of developing nations have become the focus of management among investment trust companies. Some companies, such as Fubon, Cathay, Yuanta, Fuh Hwa, Capital, and Prudential have been developing China theme funds by applying for China's QFII cap, so that they can attract the funds from customers. Besides, Fubon, Yuanta, and SinoPac have set up fund companies in China by joint investment with partners that are Chinese investment firms, so that they can enter the Chinese market to develop mutual fund operations.



6. Research and Development

The research and development of new financial products in the securities investment trust industry depends on the approval and permission from the regulators. Aside from the understanding of the regulators' policies, HNIT also monitor market trends closely and research and develop new financial products when the time is appropriate. The new products developed in the past two years are as follows:

1. On December 27, 2010, HNIT launched the "Hua Nan Small and Mid Capitalization Fund" that invests in small and mid capitalization companies in the Taiwanese stock market.
2. On April 6, 2012, HNIT launched the "Hua Nan BRICS High Yield Bond Fund" that invests in high yield bonds in the six BRICS countries: Brazil, Russia, India, Indonesia, China, and South Africa.

7. Short to Long-term Business Development Plan

1. Short- and mid-term business development plan

- (1) Gradually build a full line of products with customer demand as guide in the issue of products.
- (2) Improve the competence of research team and the long-term management results of the mutual funds to raise HNIT dependability among customers.
- (3) Improve customer service and enhance customer satisfaction.
- (4) Enhance risk management, implement the rationalization of the work process, and increase the service efficiency in all aspects of operation.
- (5) With the support of the resources of the Group and China strategy, as well as follow the deregulation policies of regulators, gradually plan China theme product strategies and evaluation of funds investment projects.

2. Long-term business development plan

- (1) HNIT aim to become the top ten investment trust in terms of the size of assets under management.
- (2) To seek opportunities on discretionary trading of government controlled funds.

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

Financial Highlight



HONESTY



EFFICIENCY



ACTIVENESS



RESPONSIBILITY



TEAMWORK

Financial Highlights (HNVC)

Unit: NT \$ thousand

As of December 31, 2012 and 2011	2012	2011
Consolidated Income Statement		
Operating Income	87,914	59,598
Operating expenses	(41,799)	(35,678)
Net operating income (loss)	46,115	23,920
Non-operating revenue	7,055	4,862
Non-operating expense	(86,414)	(28,665)
Income(loss) before tax	(33,244)	117
Net income (loss)	(36,255)	117
Consolidated Balance Sheet		
Total assets	1,893,505	1,899,263
Total liabilities	2,410	159
Total shareholders' equity	1,891,095	1,899,104
Ratio		
ROE	-1.91%	0.01%
ROA	-1.91%	0.01%

Financial Highlights(HNMC)

Unit: NT \$ thousand

As of December 31, 2012 and 2011	2012	2011
Consolidated Income Statement		
Operating Income	38,228	32,143
Operating expenses	(22,527)	(21,250)
Net operating income	15,701	10,893
Non-operating revenue	483	326
Income before tax	16,184	11,219
Net income	13,433	9,855
Consolidated Balance Sheet		
Total assets	37,391	31,049
Total liabilities	10,636	8,857
Total shareholders' equity	26,755	22,192
Ratio		
ROE	54.89%	53.04%
ROA	39.25%	36.53%



HNVC

1. Major Operations

Venture capital operations.

2. Business Plan for 2012

1. To actively deploy capital, HNVC will dispose of publicly traded investments that are underperforming at appropriate prices so that capital can be deployed more effectively.
2. Closely monitor the non-publicly traded companies with weak financial positions. Offer assistance in a timely manner or recognize impairment losses to fairly present the value of investment.

3. Industry Outlook

According to the data in the Taiwan Venture Capital Yearbook published by the Taiwan Venture Capital Association:

1. Condition of capital formation: Seven new venture capital firms were established between January and October 2012. The paid-in capital of the new firms is NT\$1.898 billion. New capital raised was NT\$3.129 billion. Capital reduction was NT\$9.436 billion. The reduction of capital due to changing company names or changing industries or liquidations was NT\$ 926 million.
2. Condition of investment: Between January and October 2012, there were about 185 investment projects by all venture capital firms, with total investments of NT\$5.818 billion. The number and dollar amount of projects have significantly declined.
3. Industries receiving the investments: In the first half of 2012, the industries receiving the investment were mostly biotech and pharmaceuticals, while in the second half, IT industry were the focus. Investment shares in popular music and digital content have increased in the second half of the year compared to the first half, indicating that the ten major service industries receiving government support have been demonstrating the effects of the policy.
4. Stages of investment: Of the dollar amount invested between January and October 2012, about 77% was in projects that were in the expansion and maturity phases. Early phase investments are still low.
5. Geographical location of the investments: Of the dollar amount invested between January and October 2012, domestic investment was about 55%, and international investment in Asia (including China) has surpassed investment in the US.
6. Investment results: The annual average EPS for venture capital firms was NT\$0.085. While the overall result was better than that during the 2008 global financial crisis, it was still a far cry from the levels in 2009 and 2010. The fluctuation in EPS in firms with larger fund sizes was relatively smaller.

4. Research and Development

The research of HNVC has been outsourced to Hua Nan Management & Consulting Co., Ltd.

5. Short to Long-term Business Development Plan

1. HNVC seek to establish the optimal portfolio, improve the quality of assets, and dispose of investments at the right moment to obtain the greatest return on investment for shareholders.
2. Monitor the changes in industry any moment and seek investment opportunities. Also modify investment strategy on a timely basis to increase the possibility of success in the portfolio.



HNMC

1. Major Operations

1. Venture capital management and consulting.
2. Business management and consulting.
3. Investment advisory.

2. Business Plan for 2012

1. Through in-depth industry trend analysis and active pursuit of cases and professional investment evaluation, HNMC seek to establish portfolios that combine both long- and short-term profit goals for venture capital funds under management.
2. Actively participate in the management consulting and operation guidance of invested companies, with a hope that the investments can grow and effectively reduce investment risks.

3. Industry Outlook

According to the data in the Taiwan Venture Capital Yearbook published by the Taiwan Venture Capital Association, as of the end of October 2012, there were 198 venture capital firms in actual operation throughout Taiwan. Capital under management amounted to NT\$147.875 billion. As of the end of 2011 there were about 103 venture capital management firms.

4. Research and Development

HNMC actively send project management personnel to participate in domestic and international lectures and training courses on relevant industries. Moreover seek to improve the evaluations on investment projects and the professional care after the investments are made. In addition try to assist with the operation and financial planning of the invested companies to form strategic alliances and alliance partners, in hope of achieving successful IPOs and reward the shareholders of the venture capital.

5. Short to Long-term Business Development Plan

1. Seeking the greatest return on investment for the shareholders of the venture capital funds under management.
2. Improving the professional competence and operating result of the management team; continuously seeking opportunities of managing external funds; maintaining sustainable development of the management and consulting company.

HUA NAN MANAGEMENT CO., LTD. (HNAME)

Financial Highlight

Unit: NT \$ thousand

HONESTY

EFFICIENCY

ACTIVENESS

RESPONSIBILITY

TEAMWORK

As of December 31, 2012 and 2011	2012	2011
Consolidated Income Statement		
Operating Income	275,906	202,235
Operating expenses	(148,342)	(128,645)
Net operating income (loss)	127,564	73,590
Non-operating revenue	16,633	30,802
Non-operating expense	(28,296)	(26,829)
Income before tax	115,901	77,563
Net income	103,079	71,368
Consolidated Balance Sheet		
Total assets	2,720,517	3,463,009
Total liabilities	1,592,049	2,373,388
Total shareholders' equity	1,128,468	1,089,621
Ratio		
ROE	9.29%	6.57 %
ROA	3.33%	2.23%

1. Major Operations

1. The management and disposal of non-performing loans purchased according to the definitions under Article 15 of Financial Institutions Merger Act

- (1) Purchasing non-performing loans from financial institutions
- (2) Management and disposal of non-performing loans purchased from financial institutions
- (3) The disposal of assets pledged for non-performing loans purchased from financial institutions.
- (4) Disposal of assets pledged for non-performing loans and transferred from government agencies performing compulsory enforcement on the loans and assets.

2. Disposal of non-performing loans and assets on behalf of financial institutions or corporations

- (1) Disposal of non-performing loans from financial institutions and NPL receivables of corporations according to engagement contracts
- (2) Disposal of assets assumed by financial institutions according to engagement contracts

3. Other operations related to asset management not prohibited or restricted by law

2. Composition of Income by Major Business Segments

Segments	(%)
Disposal of non-performing loans	75.49%
Contracted management of non-performing loans	9.75%
Direct investment in foreclosed and auctioned property	13.98%
Others	0.78%

3. Business Plan for 2013

1. NPL investment and disposal operation

- (1) Accelerate the disposal of assets
 - A. HNAME will divert more resources to the sales platforms in offices in central and southern Taiwan and enhance the effectiveness of the lease or sale of the pledged assets that assumed.
 - B. To accelerate the disposal and recovery of major cases through diversified channel of disposal, continue to evaluate the possibility of contracting an impartial third party (Taiwan Financial Asset Service Corporation) to perform the auction sale of receivables or property in large or unique cases.
 - C. Depending on the circumstances, plan the sale of an entire tranche of unsecured non-performing loans to contribute more to revenue.

(2) Purchasing quality non-performing loans

Due to changes in the NPL market, the sources for purchase are not limited to whole tranches of NPLs sold by financial institutions. HNAME purchases will expand to single large syndicated loan that is past due and the NPL resold from other AMCs.

2. Direct investment and disposal of real estate

- (1) Select retail/office, factory/office, and factory type commercial property that has potential for capital gains and is located in prime subdivisions or where there is a high concentration of industries as primary target of investment and steadily increase the scope of operation.
- (2) Choose the quality retail space, business space, and hotels in metropolitan areas for investment, as well as remodel those properties for lease to create stable source of income.
- (3) Actively use assets and continuously improve the functions of property management to create asset value and receive the greatest benefit.



3. Contracted collecting service

Actively promote “Contracted collection service” to increase the number of clients who would contract HNAMC for such service and the size of debt collection engagement. Seek to increase the effectiveness of collection service to increase the engagement fee and collection incentive fee revenue. At the same time assist SME clients to recover receivables in the shortest time possible to improve their financial structure.

4. Industry Overview

In recent years, the amount of NPL released to the market has been decreasing. After reaching a peak of NT\$236.8 billion in 2007, the amount of NPL released to the market has withered to the NT\$90 billion to NT\$50 billion range as the years go by. The format of the release has turned from whole-tranche secured NPL to single secured NPL and whole tranche unsecured NPL as the norm. The frequency of the sale of NPL by AMCs has been gradually increasing. Based on the statistics, NPL released to the market this year is NT\$53.766 billion, of which unsecured NPL makes up 72.87%, while the rest is secured NPL.

Court auction has been decreasing by the year in the real estate foreclosure and auction market due to the decline in past-due loans in the bank and the rise in real estate prices in recent years. According to the statistics, after 2009, the auction of foreclosed property in the three major metropolitan areas in Taiwan has shrunk rapidly, decreasing by 36% to 62% from the peak in 2009. As a result, the competition is more brutal in the foreclosed real estate auction market, and the targets screened for direct investment declined accordingly.

5. Research and Development

Aside from accelerating the recovery of NPL assets and steadily build operations in direct investment property and property management mechanisms, HNAMC also

commits to develop the management of NPL under contract. In the harsh environment where the supply is deficient, engaged in the evaluation of the auction sale of NPLs in 2012. Although HNAMC have not submitted the bid, the evaluation helped improve the proficiency and quality of pricing for the NPL auctions and due diligence. In the future HNAMC will continue to work hard to promote current business to generate revenue and expand the size of operation to reach an ideal level of profitability.

6. Short to Long-term Business Development Plan

1. Short-term Plan

- (1) Accelerate the sale of NPLs and bid for the quality NPLs, or seek the chance to manage deficient assets under contract.
- (2) Try to increase the targets for mid- and long-term investment to stabilize the source of revenue.
- (3) Depending on the type of targeted real estate, perform a full range of feasibility analysis. Invest in necessary remodeling, renovation, or the change of usage to create added value to the assets and increase revenue.
- (4) After acquiring the ISO27001 information security management certification in 2012, HNAMC have begun to set up mechanisms for the protection of personal information and apply for BS10012 certification. Such initiatives can provide protection and management of personal information and improve internal control mechanism.

2. Long-term Plan

After the operation in receivables collection under contract by corporate clients reaches the economic scale, HNAMC will study the legality, operational feasibility, and investment benefit of receivables buyout for corporate clients.

2012 *Risk Management Summary*



HONESTY

EFFICIENCY

ACTIVENESS

RESPONSIBILITY

TEAMWORK



1. The Risk Management Organization Structure and Policies of the Financial Holding Company and Its Subsidiaries

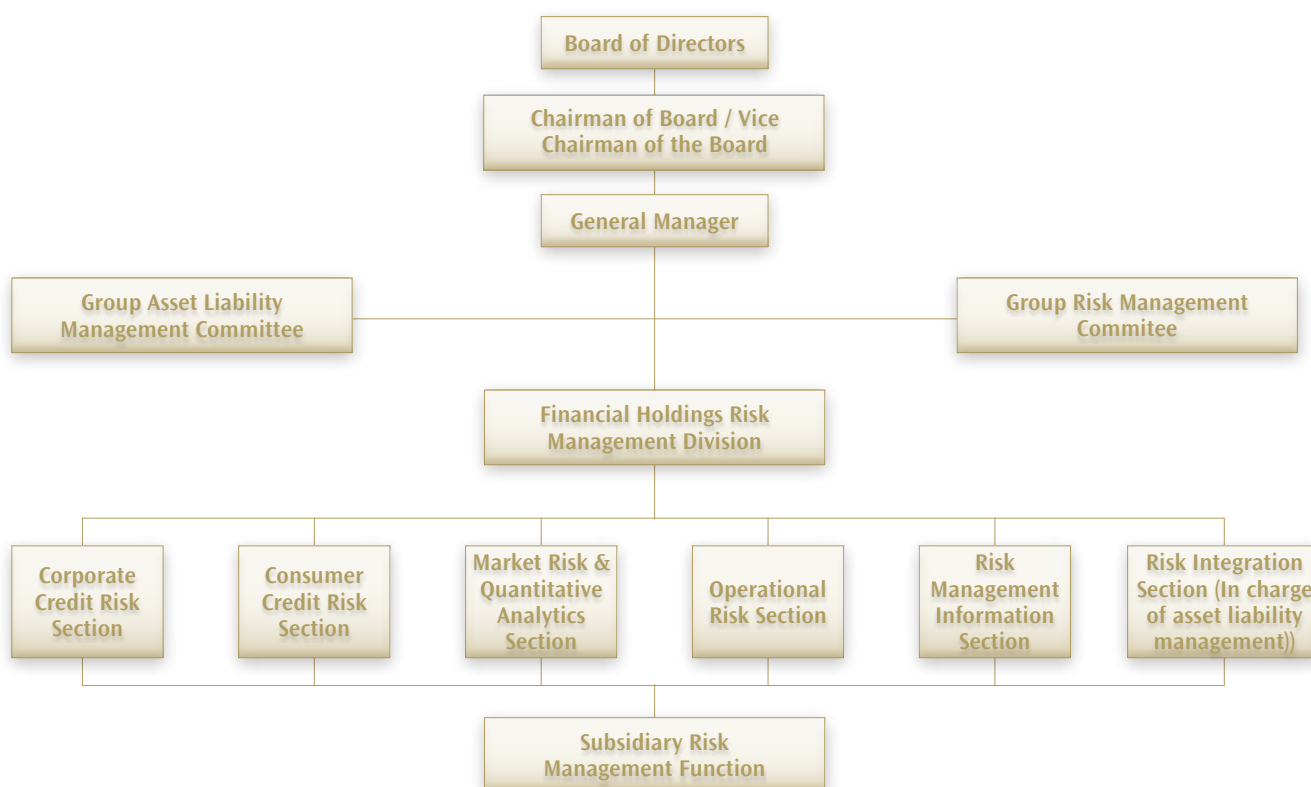
1. Group risk management organization structure

The mission of our company's risk management is to achieve the optimum balance between risks and rewards, and to maintain a high quality risk profile. As the same time, under the target credit ratings determined annually by our company's Board, we are pursuing to help all business units maximize shareholder value. solid pool of employees versed in multiple disciplines.

The important committees with risk management functions in our company include the Board, Group Asset and Liability Committee and Group Risk Management Committee. The Board is responsible for approving group risk management charter and group risk policies in all categories, as well as determining the risk appetite of the group. The Group Asset and Liability Committee is responsible for issues such as the interest rate risk of the group's banking book (non-trading book), liquidity risk, foreign exchange risk, portfolio management, fund transfer pricing and risk-based capital management. The Group Risk Management Committee is a pivotal committee that executes the risk management of the group, handling issues such as market risk, credit risk, operational risk or other risks.

The risk management department in our company is the Risk Management Division, which is responsible for coordinating risk management tasks within the group. Six sections are under the Risk Management Division. They are: Corporate Credit Risk Section, Consumer Credit Risk Section, Market Risk and Quantitative Analysis Section, Operational Risk Section, Risk Management Information Section and Risk Integration Section. Subsidiaries establish independent risk management departments or functions based on the nature and complexity of their business and practical needs. The major risk management functions of the group are:

1. Integrating Group risks.
2. Draft, approve and monitor group risk policies
3. Draft, approve and monitor group risk limits
4. Coordinate and manage risk issues spanning across subsidiaries
5. Approve product programs





2. Risk Management Policy

Our company's risk management policy is to set and implement a standard that is applicable to all members of the Hua Nan Financial Group. With this standard, the management can identify, measure, control, sustain and manage risks, so that we can ensure that all business risks are kept within the acceptable range and reflect the group's business goal and corporate values.

2. Methods of Measuring and Controlling All Risks at a Financial Holding Company and Its Subsidiaries and Quantitative Risk Exposure Information General qualitative disclosure:

1. Credit Risk

(1) Critical control mechanism

A. Critical control mechanism

(a) Corporate Credit Risk

All subsidiaries shall abide by the group corporate credit risk management policies while undertaking corporate operations. In other words, they should take relevant risk factors into consideration, establish corporate credit risk limit, evaluate the credit portfolio on a regular basis (including monitoring credit rating distribution) and all concentration exposures. At the same time, they should establish risk indicators and advanced warning mechanisms and improve operational management mechanisms. When the total risk exposure reaches a certain percentage of quantified limit, subsidiaries must warn management and decide subsequent operational measures.

To further refine current risk control mechanisms, our company has assisted our subsidiary HNCB to build internal credit rating models and verified the model independently. Currently, we have used the models' basic functions such as case review, advanced warning mechanism, limit determination and risk profile review. In the

future, we will use three major parameters – probability of default, loss given default and exposure at default – to construct all quantitative management indicators in terms of credit risks, so that we can create advanced functions such as capital charge calculation, loan pricing and loan portfolio management.

At the same time, in order to let directors, supervisors and top management better understand our company's risk profile so that we can increase our transparency, we will compile a group corporate risk management report. Each quarter, we submit the report to the group risk management committee and the Board. Contents of this report include the amount of exposure, concentration risk, asset quality and profit analyses.

(b) Corporate Credit Risk

We have set up the group consumer credit risk management mechanism. We use the credit cycle (including product planning, credit initiation, account maintenance, collection, write-off and management information system report) as our consumer credit risk management methods. All subsidiaries with consumer credit operations within the group shall follow the group consumer credit risk management guidelines to set up itself's consumer credit risk management policy and mechanism.

Relevant measures in the consideration of the credit cycle depend on consumer management information system report so that the management can effectively monitor and evaluate them. All subsidiaries in the group should gradually compile their consumer management information system report, and our company will also improve the consumer management information system report of the group to facilitate the management of the group's consumer credit portfolio and completely present the risk profile.

Our company is assisting the subsidiary HNCB in the adoption and promotion of product planning procedures. The procedures require that the company carefully consider product characteristics and customer quality, carefully plan activities at each stage of the product credit cycle and draft product plans accordingly so that the company can take care of both profit and risk management.

To comply with relevant regulations of the New Basel Accord internal credit rating, our company will not only help subsidiary HNCB develop and apply the scorecards of personal financial products, but also perform independent tests on such scorecards to ensure their effectiveness.

B. Risk management report

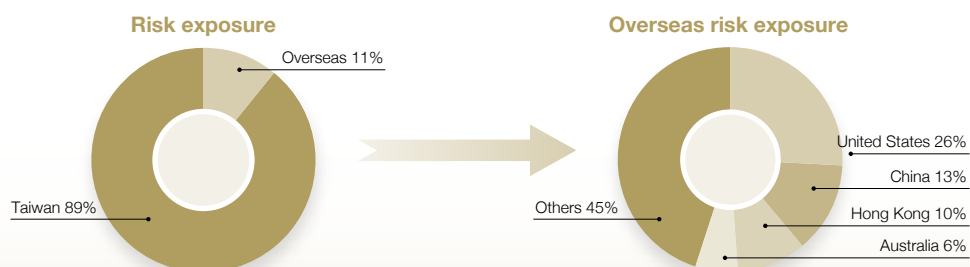
(a) Credit exposure balance

At the end of 2012, our group's total credit exposure approached \$2 trillion. Loans made up 76% of the exposure, while bonds and bills made up 20%, and other operations made up 4% respectively. If we reclassify the nominal principal as the weighted average risk-weighted assets according to the credit risk standardized approach of the Basel Accord II, the credit risk-weighted assets total around \$1.1 trillion. The average risk weight of the total credit exposure was about 56%.

(b) Concentration risk management

Our company has defined seven single-name concentration risk limits in categories such as single person and single corporation, and two portfolio concentration risk limits in categories such as single country and single industry. We monitor these risk limits on a monthly basis.

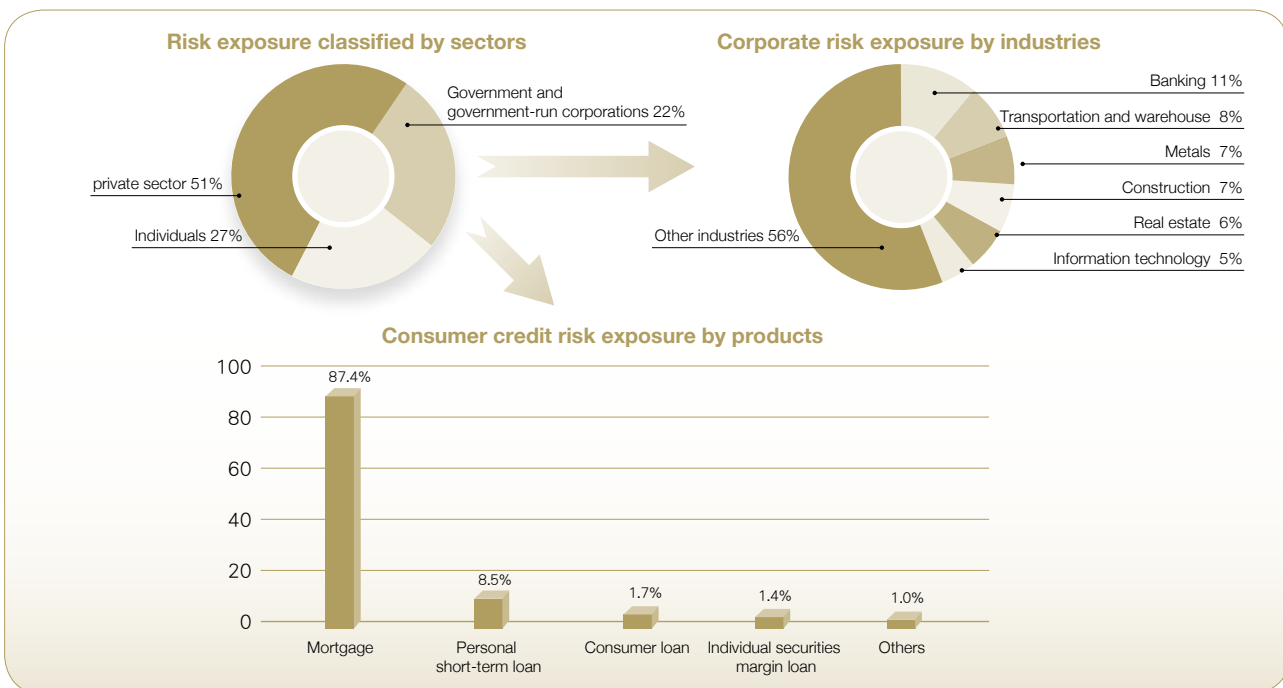
Classified by countries, 89% of our company's credit exposure comes from Taiwan and 11% from abroad. The top four foreign countries are the United States, China, Hong Kong, and Australia. Together they make up 55% of our foreign exposure, while other individual countries make up less than 5% each.



Classified by sectors, 51% of our company's credit exposure comes from the private sector, 27% from individuals and 22% from the government and government-run corporations.

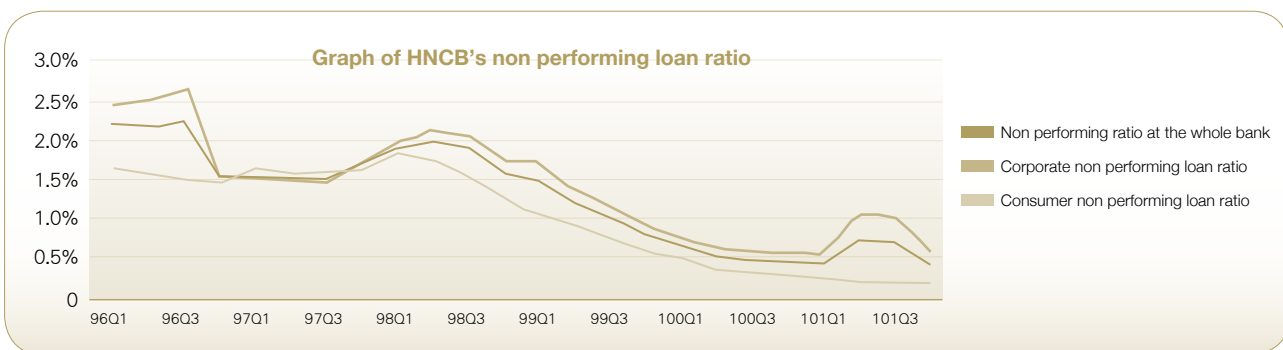
The top six industries in the private sector are banking, transportation and warehouse, metals, construction, real estate and information technology. Altogether, they make up 44% of the private sector, while each one of the other industries makes up less than 5%.

In the individuals' sector, mortgage is the biggest component at 87.4%. After that, personal short-term loans make up 8.5%, consumer loans make up 1.7%, individual securities margin loans make up 1.4%, and each of the other types of operations makes up less than 1%.



(c) Loan portfolio quality

The quality of our subsidiary HNCB's loan portfolio can be evaluated by analyzing past-due loans, credit rating distribution, and M2+ ratio change. Take past-due loans for example: HNCB's past-due loans ratio has been trending lower and lower in recent years. At the end of 2012, past-due loan ratio for the whole bank was 0.44%, the best in recent years.



2. Market Risk

Our company has codified group market risk management policies and notices for all market risk management. Their goal is to contain the exposure of group market risk within a range acceptable to the group's capital.

(1) Critical control mechanisms

Critical control mechanisms of market risk include control before transactions and risk control after transactions.

A. Control before transactions: the approval of new financial products

Before subsidiaries in the group initiate the trading of new financial products, they must all submit the new financial product to the management for review and engage in transactions after their risks can be identified.

B. Risk control after transactions: control over limit

To contain the market risk or loss within the acceptable range of the trading book positions of all subsidiaries and prevent excessive impact of these positions on group capital. Subsidiaries in the group have defined market risk limits as required by annual budget procedure and monitor these limits on a daily basis.

(2) Risk management report

Due to the rapid changes in the capital market, the Financial Holding Company also summarizes the exposure of the group trading book in addition to the daily monitoring of subsidiaries. Whenever there is a discrepancy, the group takes necessary measures. Additionally, each week the company presents the limit control of the group market risk to the vice general manager of the Financial Holding Company. Each month, the group presents the group market risk management report and limit control to the general manager of the Financial Holding Company and the Chairman of the Board. Each quarter, the group presents said report and control to the group risk management committee and the Board of the Financial Holding Company.

A. Our group's trading book position risk profile in 2012

Our group adopts the Value at Risk (VaR) as the tool for evaluating trading book position market risk.

B. Value at Risk, VaR

Value at Risk is the estimate of the greatest loss that could occur in a certain holding period (for example, from 1 to 10 days), under a certain confidence level (for example, 99% or 95%) and under normal market circumstances based on observation of past historical data. Its function is primarily the risk measurement and limit control of financial products. For example, if the VaR of a certain subsidiary at 99% confidence level for 1 day is \$30 million, it means in 100 business days, we expect there will be 1 day in which the loss will exceed \$30 million, while the expected daily loss will be less than \$30 million in the remaining 99 days.

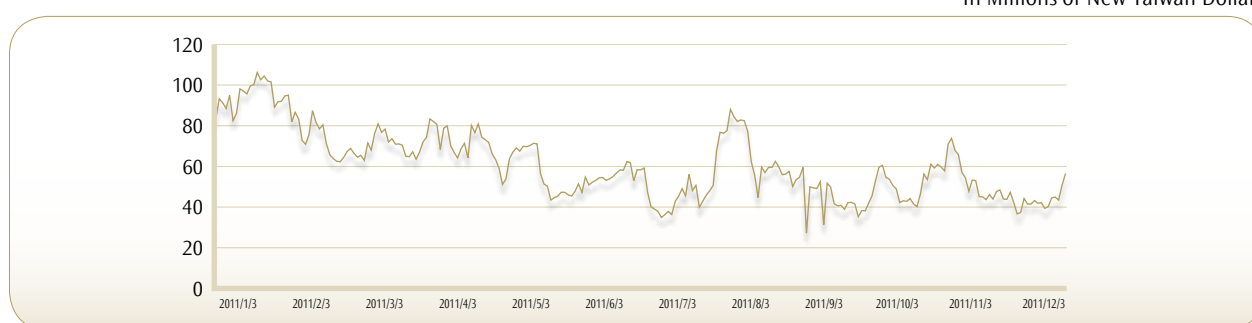
C. The methodology and parameter setting that our group has adopted in the calculation of VaR is as follows:

- c.1 "Methodology": Historical simulation approach.
- c.2 "Confidence level": 99% confidence level.
- c.3 "Duration of holding period": The greatest possible loss that could occur in the next day.
- c.4 "Length of historic data": Observing historic data from the past year (about 250 trading days).

D. Group trading book position VaR fluctuation trend in 2012

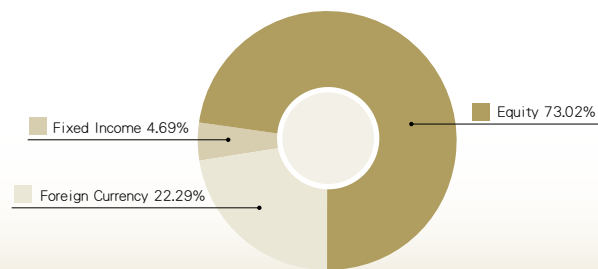
In 2012, our group's trading book position registered a minimum VaR of \$38 million and a maximum VaR of \$115 million, with an average VaR of \$70 million.

In Millions of New Taiwan Dollars



E. Summary of our group's trading book position VaR at year-end 2012

Our group's trading book position VaR at year-end 2012 is \$38 million. Classified by risk factors, risks are concentrated in equity products, whose VaR made up 73.02% of the group's VaR, followed by 22.29% from foreign exchange products and 4.69% from fixed income products.



F. Comparison of our group's trading book position VaR at year-end 2012 and 2011

The VaR of our group's trading book position at year-end 2012 is \$38 million, a \$19 million decrease compared to the 2011 figure of \$57 million.

G. Back Testing

Back testing is a tool used to test VaR models. To improve the accuracy and reliability of VaR measurements, our group performs back testing regularly.

3. Asset and Liability Management, ALM

Focusing on the Group's developing plan, ALM is the ongoing process of formulating, implementing, measuring and monitoring the strategies of assets and liabilities allocations, given its risk tolerances and other constraints. By adjusting the allocation of non-trading assets and liabilities, the Group's on and off-balance sheet non-trading interest rate risk, liquidity risk and foreign exchange risk is controlled.

The Company gathers the related information from subsidiaries, and submits the report of asset and liability management to the Group Asset and Liability Committee and the Board periodically.

Subsidiaries can modify the risk management framework and measurement tools based on its size, scope, and business nature. In addition, risk limits are also set up to monitor and manage the exposures of ALM.

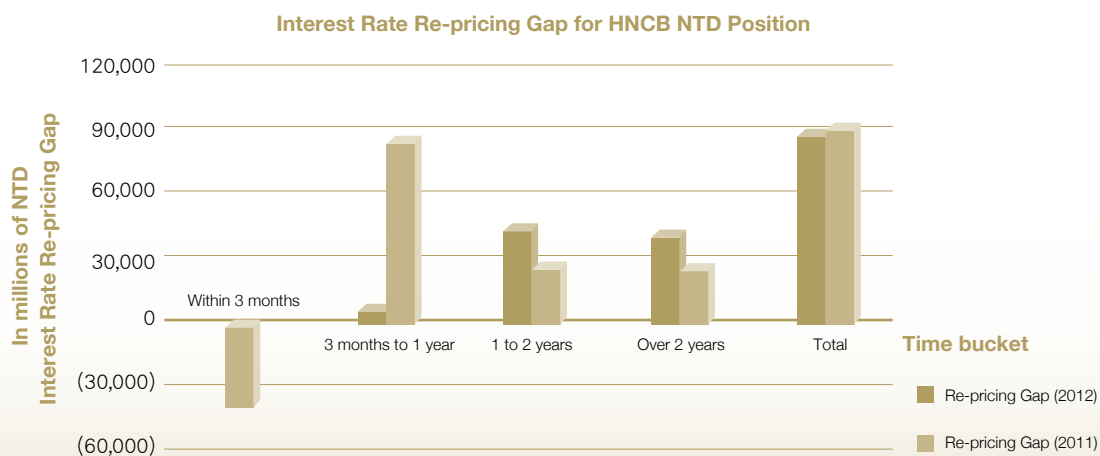
(1) Non-Trading Interest Rate Risk Management

Considering the business nature and the impact of interest rate changes on the balance sheets for each subsidiary, the non-trading interest rate risk management framework is only applicable to Hua Nan Commercial Bank (HNCB).

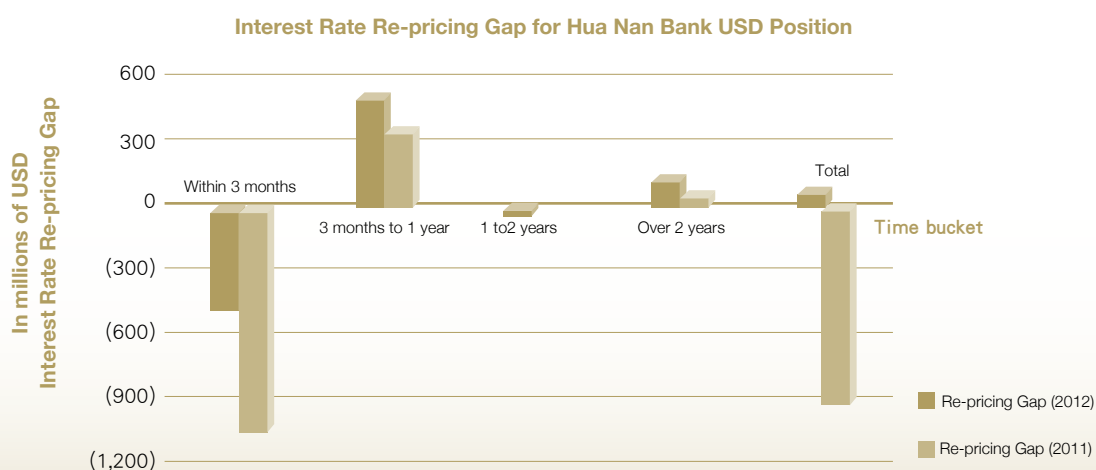
The tools that HNCB adopts to measure the non-trading interest rate risk include interest rate re-pricing gap analysis, and sensitivity analysis of net interest income and economic value of equity. Limits of the aforementioned indicators have been set, and changes on these indicators are monitored regularly. Meanwhile, the bank adjusts the structure of balance sheet through non-trading investment portfolio, derivatives, and internal fund transfer pricing mechanism to effectively manage the exposure of non-trading interest rate risk.

As of December 31, 2012, HNCB's cumulative interest rate re-pricing gap within one year for NT dollar positions was a positive NT\$4,961 million, which was a decrease of NT\$37,094 million comparing to the aforementioned re-pricing gap of NT\$42,055 million at the end of 2011.





As of December 31, 2012, HNCB's cumulative interest rate re-pricing gap within one year for US dollar positions was a negative US\$16 million, which was a increase of US\$728 million comparing to the aforementioned re-pricing gap of negative US\$744 million at the end of 2011.

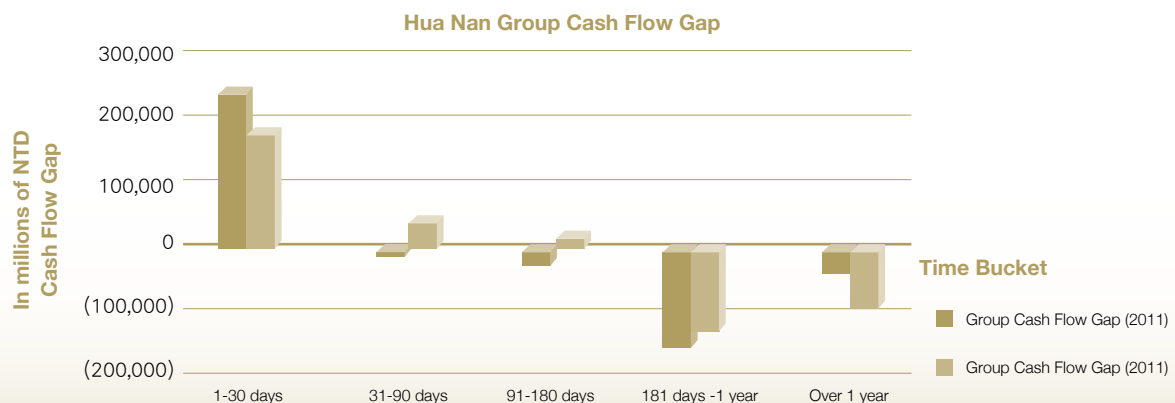


(2) Liquidity Risk Management

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 over 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 company and subsidiaries conduct liquidity stress test under different crisis scenarios on a regular basis, and analyze the incremental and cumulative cash flow gap for each time bucket to plan the responsive strategies or funding sources in advance.

The Group's 1 to 30 days cash flow gap as of Dec. 31, 2012 stood at NT\$236,816 million, which was an increase of NT\$61,011 million from the 1 to 30 days cash flow gap at the end of 2010 of NT\$175,805 million.



(3) Non-trading Foreign Exchange Risk Management

The Group's non-trading foreign exchange risk is measured by the impact of unfavorable foreign exchange rate changes on the net non-trading foreign exchange exposures. Considering the business nature, there are currently three subsidiaries (HNCB, HNSC, SCIS) applicable to the framework of non-trading foreign exchange risk management.

4. Insurance risk management

We have codified appropriate management mechanisms for the risks related to product design and pricing, underwriting, reinsurance, catastrophe and reserve in the aspect of insurance. Our company has helped subsidiary SCIC complete the codification of its insurance risk management policies, put in place a complete management procedure and monitor an advanced warning mechanism over underwriting risks, reserve risks and re-insurance risks, in the hope that we can contain insurance risk within a tolerable range and maximize risk-adjusted returns.

(1) Critical Control Mechanisms

Approval of new insurance products: We require that subsidiaries shall carefully consider insurance product characteristics and targeted customers and carefully plan the control procedure at each stage of the insurance product life cycle before promoting an insurance product. Based on this process, the subsidiary will draft an insurance product plan and present it to the group's risk management committee for approval to accomplish its profit and risk management goals.

Limit management: To contain the insurance risk within a tolerable range and avoid excessive impact on the group's capital, we have established the following risk management indicators and use the observed value at a 95% confidence level as advanced warning value based on the experienced data of all indicators from previous years.

- A. Underwriting risk management: Such as new insurance product approval procedure and underwriting risk advanced warning management indicators.
- B. Reserve risk management: such as reserve risk advanced warning management indicators.
- C. Re-insurance risk management: such as net retention/per risk/retention loss limit and re-insurance risk advanced warning management indicators.

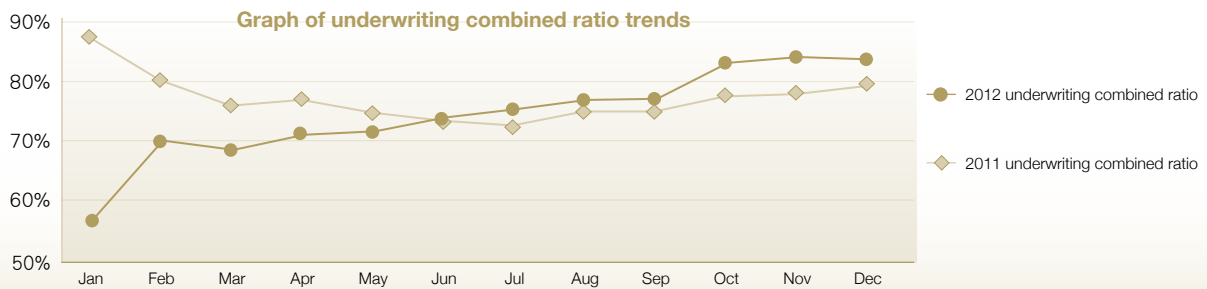
Once the indicators reached the advanced warning level, relevant business units will submit action plans to management. Also, while the indicator may not have reached the advanced warning level, but the risk management unit believes that there is a deviation from the norm, the relevant business units should also alert the management.

(2) Insurance risk report

We present our insurance risk report to the group risk management committee and disclose the insurance risk profile and limit control status.

A. Underwriting risk management

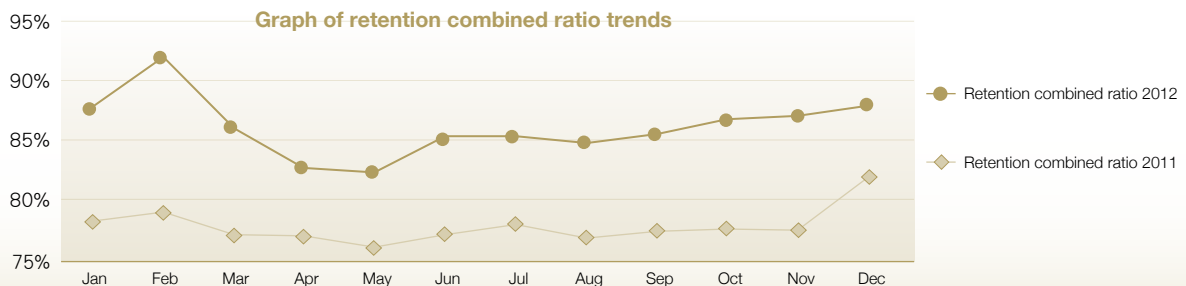
The underwriting loss in 2012 increased compared to 2011, therefore the underwriting combined ratio also increased slightly. Based on our evaluation, this ratio is still within the tolerable range.



Note: the calculation of the indicator in the chart above does not include compulsory automobile liability insurance, nuclear insurance and Residential earthquake insurance.

B. Re-insurance risk management

Due to the increase in retention loss in 2012, the retention combined ratio increased relative to its level in 2011. Based on our assessment, we believe it is within the tolerable range.



Note: the calculation of the indicator in the chart above does not include compulsory automobile liability insurance, nuclear insurance and Residential earthquake insurance.

5. Operational risk

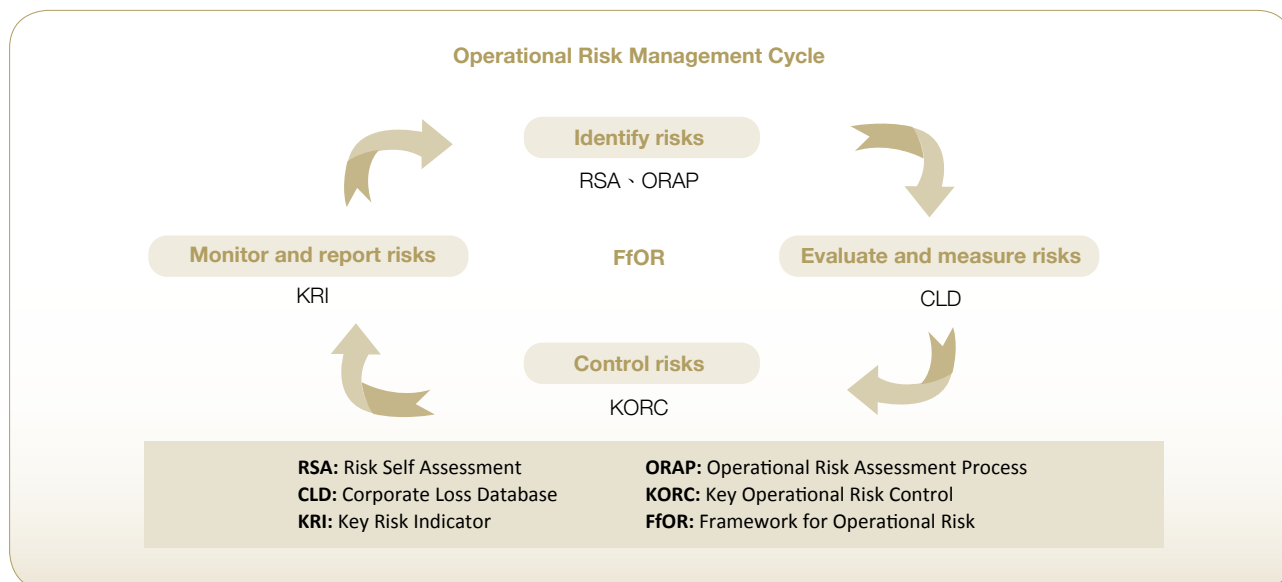
Our company has group-wide operational risk management policy and relevant guidelines. The main purpose is to establish a consistent operational risk management framework and mechanism within the group. However, while implementing and executing these policies in our subsidiaries, we must also be aware of the industry practice and size of subsidiaries so that we can help subsidiaries adjust execution procedures with flexibility by customized processes.

Our company's operational risk management policy and relevant guidelines focus on improving the awareness and culture of risk management. At the same time, we will design corresponding management tools and assist management at all levels to control the operational risk in their daily operational activities, control risk exposure and track the progress of risk management improvements so that we can effectively control operational risks and increase shareholder value.

(1) Critical control mechanism

A. Risk Self Assessment (RSA)

Through interviews and meetings between the Risk Self Assessment facilitator and personnel in all business units, we can help the business units identify and evaluate the operational risks of current operations and review the relevant controls. When necessary, action plans should be further planned and tracked to improve the quality of internal controls.



B. Operational Risk Assessment Process (ORAP)

Operational Risk Assessment Process is a process to identify operational risks (including legal risks) and reputational risks, research risk mitigation plans and finally evaluate residual risks when new or significant modifications on products, processes, systems or organizational structure (including outsourced business) are launched or occurred.

C. Corporate Loss Database (CLD)

The Corporate Loss Database is an integrated database that provides systemic gathering of operational risk loss data within the group to facilitate the analysis and control of operational risks for all levels of management and, at the same time, prepare for the calculation of economic capital. The database formally went online in Q4 2007, allowing all members of the group to submit operational risk loss data. Beginning in Q3 2008, we began collecting external data for use in internal management and subsequent simulation and analysis.

D. Key Operational Risk Control (KORC)

Key Operational Risk Control provides an overview of relevant operational risks and controls in the critical operation processes within the group to meet the minimum basic requirements of internal control. It also serves as a point of reference for other operational risk management tools.

E. Key Risk Indicator (KRI)

Key Risk Indicator performs the earning warning purpose by detecting potential changes in the group operational risk profile. This tool provides trend analyses and activates relevant actions to mitigate operational risks.

(2) Risk management report

By executing operational risk management tools or mechanisms, any business unit finds vulnerability should perform a review and seek remedies and regularly report the improvements made. Our company regularly drafts reports on the results of the group implementation outcome of all operational risk management tools and presents the reports to the Board and the group risk management committee.





6. Risk integration

Our company actively integrates all types of risks produced by different businesses of all subsidiaries in the group. We plan to measure and consolidate the necessary charge capital needed to counter all types of risks, such as credit risk, market risk and operational risk by adopting economic capital models. We will also evaluate our businesses with “Risk-Adjusted Return on Capital (RAROC)”. By doing so, we can draft a suitable business development strategy beforehand, improve the efficiency of capital distribution and better measure risk-adjusted result evaluation afterwards so that we can maximize shareholder value.

Additionally, due to the sub-prime loans in the US that caused the financial crises, our company is also evaluating the impact of stress scenarios on all businesses, such as corporate and consumer credit, financial trading, investment positions and even operational risks, under the stress scenario of negative changes of various macro-economic data (such as GDP growth and unemployment rates). This way, we can evaluate our group’s ability to sustain significant losses and adopt the necessary steps to reduce risks and preserve capital.

2012 *Consolidated Financial Statements*



HONESTY

EFFICIENCY

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, 2012 and 2011, 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, 2012 and 2011, 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 25, 2013

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, 2012 AND 2011

(In Thousands of New Taiwan Dollars)

ASSETS	2012	2011	Percentage of Variation %
	Amount	Amount	
Cash and cash equivalents (Notes 4 and 33)	\$ 39,816,404	\$ 42,741,787	(7)
Due from the Central Bank and other banks (Notes 5 and 33)	127,619,967	105,296,645	21
Financial assets at fair value through profit or loss, net (Notes 2, 6 and 33)	42,284,898	35,808,671	18
Bonds and bills purchased under resale agreements (Note 2)	632,486	964,902	(34)
Receivables, net (Notes 2, 3, 7 and 33)	50,755,959	55,788,110	(9)
Discounts and loans, net (Notes 2, 3, 8 and 33)	1,374,118,631	1,309,124,120	5
Available-for-sale financial assets, net (Notes 2, 9, 17 and 33)	70,816,750	70,643,572	-
Held-to-maturity financial assets, net (Notes 2, 10 and 17)	283,161,524	288,449,565	(2)
Investments accounted for by the equity method (Notes 2 and 11)	81,050	85,359	(5)
Other financial assets, net (Notes 2, 12 and 17)	25,860,366	20,909,388	24
Investments in real estate, net (Notes 2 and 13)	869,701	603,097	44
Property and equipment, net (Notes 2, 14 and 17)	32,102,525	30,735,789	4
Intangible assets, net (Notes 2 and 15)	432,660	510,395	(15)
Other assets, net (Notes 2, 16 and 17)	13,460,368	13,364,494	1
TOTAL	\$ 2,062,013,289	\$ 1,975,025,894	4
LIABILITIES AND STOCKHOLDERS' EQUITY	2012	2011	Percentage of Variation %
	Amount	Amount	
Due to the Central Bank and other banks (Notes 18 and 33)	\$ 89,799,416	\$ 82,357,240	9
Commercial paper issued, net (Note 19)	5,965,865	2,659,514	124
Financial liabilities at fair value through profit or loss (Notes 2, 6 and 3)	23,318,866	27,907,823	(16)
Bonds and bills sold under repurchase agreements (Notes 2, 6, 9, 10, 12, 20 and 33)	26,310,065	23,915,984	10
Payables (Note 21)	42,003,153	46,058,537	(9)
Deposits and remittances (Notes 22 and 33)	1,663,974,327	1,595,488,062	4
Bonds and bank debentures payable (Note 23)	43,350,000	38,350,000	13
Other borrowings (Note 24)	1,733,000	3,826,000	(55)
Accrued pension liability (Notes 2 and 28)	2,383,594	2,016,551	18
Other financial liabilities (Note 25)	10,860,037	9,476,095	15
Reserves for operations (Notes 2 and 26)	9,633,688	9,080,406	6
Other liabilities (Notes 2, 14 and 27)	9,900,929	8,374,174	18
Total liabilities	1,929,232,940	1,849,510,386	4
STOCKHOLDERS' EQUITY (Notes 2 and 29)			
Common stock	86,250,301	82,143,144	5
Capital surplus	17,758,993	20,528,236	(13)
Retained earnings			
Legal reserve	7,636,447	6,782,026	13
Special reserve	265,804	265,804	-
Unappropriated earnings	13,939,571	14,137,300	(1)
Total retained earnings	21,841,822	21,185,130	3
Other equity			
Unrealized revaluation increments	9,284,516	5,689,980	63
Cumulative translation adjustments	(230,406)	(72,574)	-
Unrealized losses on financial instruments	(2,126,305)	(3,959,827)	-
Total other equity	6,927,805	1,657,579	318
Total parent stockholders' equity	132,778,921	125,514,089	6
MINORITY INTEREST	1,428	1,419	1
Total stockholders' equity	132,780,349	125,515,508	6
TOTAL	\$ 2,062,013,289	\$ 1,975,025,894	4

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

HUA NAN FINANCIAL HOLDINGS CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2012 AND 2011

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

	2012	2011	Percentage of Variation %
	Amount	Amount	
INTEREST INCOME, NET(Notes 2 and 33)			
Interest income	\$ 34,739,314	\$ 32,386,931	7
Interest expense	(13,091,130)	(12,135,909)	8
Total interest income, net	21,648,184	20,251,022	7
NET INCOME EXCLUDING INTEREST INCOME			
Service fee and commission income, net (Notes 2 and 33)	5,773,727	6,570,469	(12)
Income from insurance premiums, net (Note 2)	2,096,670	1,930,583	9
Gains or losses on financial assets and liabilities at fair value through profit or loss (Notes 2 and 6)	(1,368,005)	1,778,556	(177)
Realized gains on available-for-sale financial assets (Notes 2 and 29)	436,771	239,500	82
Losses from investments accounted for by the equity method (Notes 2 and 11)	(4,309)	(3,239)	33
Income from investments in real estate (Note 2)	30,275	67,314	(55)
Foreign exchange gains or losses, net (Note 2)	3,474,327	(1,041,342)	434
Impairment losses (Notes 2, 12, 13 and 16)	(82,267)	(32,513)	153
Recovered bad debts and overdue accounts	2,224,380	3,031,766	(27)
Income from financial assets carried at cost	424,886	386,495	10
Other non-interest income, net (Note 2)	654,926	855,858	(23)
Total net income excluding interest income	13,661,381	13,783,447	(1)
NET REVENUES	35,309,565	34,034,469	4
BAD-DEBT EXPENSES (Notes 2, 3, 7 and 8)	(5,613,441)	(4,783,582)	17
PROVISIONS FOR INSURANCE RESERVES,NET	(259,748)	(86,360)	201
OPERATING EXPENSES (Notes 30 and 33)			
Personnel	(12,261,564)	(12,055,715)	2
Depreciation and amortization	(1,034,882)	(1,100,507)	(6)
Other general and administrative expenses	(5,687,785)	(5,604,113)	1
Total operating expenses	(18,984,231)	(18,760,335)	1

(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)

	2012	2011	Percentage of Variation %
	Amount	Amount	
CONSOLIDATED INCOME BEFORE INCOME TAX	10,452,145	10,404,192	-
INCOME TAX EXPENSE (Notes 2 and 31)	(1,581,097)	(1,859,935)	(15)
CONSOLIDATED NET INCOME	<u>\$ 8,871,048</u>	<u>\$ 8,544,257</u>	4
ATTRIBUTABLE TO			
Parent company	\$ 8,871,006	\$ 8,544,207	4
Minority interest	<u>42</u>	<u>50</u>	(16)
	<u>\$ 8,871,048</u>	<u>\$ 8,544,257</u>	4

	2012		2011	
	Pretax	After-tax	Pretax	After-tax
BASIC EARNINGS PER SHARE (Note 32)	<u>\$ 1.21</u>	<u>\$ 1.03</u>	<u>\$ 1.40</u>	<u>\$ 1.15</u>

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

(Concluded)



HUA NAN FINANCIAL HOLDINGS CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2012 AND 2011
(In Thousands of New Taiwan Dollars)

	Common Stock	Additional Paid-in Capital	Capital Surplus			
			Treasury Stock	Donated Assets Received	Others	Total
BALANCE, JANUARY 1, 2011	\$ 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
Appropriation of 2011 earnings (Note)						
Legal reserve	-	-	-	-	-	-
Cash dividends	-	-	-	-	-	-
Stock dividends	4,107,157	-	-	-	-	-
Net income for the year ended December 31, 2012	-	-	-	-	-	-
Reclassification of unrealized revaluation increments from additional paid-in capital	-	(2,769,243)	-	-	-	(2,769,243)
Equity adjustments on investments accounted for by the equity method	-	-	-	-	-	-
BALANCE, DECEMBER 31, 2012	<u>\$ 86,250,301</u>	<u>\$ 17,702,383</u>	<u>\$ 52,349</u>	<u>\$ 2,936</u>	<u>\$ 1,325</u>	<u>\$ 17,758,993</u>

Note: The remuneration to directors and supervisors amounting to \$76,898 thousand and \$54,732 thousand and employees bonus amounting to \$6,412 thousand and \$5,473 thousand had been deducted from earnings of 2011 and 2010, 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		
\$ 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
6,782,026	265,804	14,137,300	21,185,130	5,689,980	(72,574)	(3,959,827)	1,419	125,515,508
854,421	-	(854,421)	-	-	-	-	-	-
-	-	(4,107,157)	(4,107,157)	-	-	-	(33)	(4,107,190)
-	-	(4,107,157)	(4,107,157)	-	-	-	-	-
-	-	8,871,006	8,871,006	-	-	-	42	8,871,048
-	-	-	-	2,769,243	-	-	-	-
-	-	-	-	825,293	(157,832)	1,833,522	-	2,500,983
<u>\$ 7,636,447</u>	<u>\$ 265,804</u>	<u>\$ 13,939,571</u>	<u>\$ 21,841,822</u>	<u>\$ 9,284,516</u>	<u>(\$ 230,406)</u>	<u>(\$ 2,126,305)</u>	<u>\$ 1,428</u>	<u>\$ 132,780,349</u>



HUA NAN FINANCIAL HOLDINGS CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2012 AND 2011

(In Thousands of New Taiwan Dollars)

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Consolidated net income	\$ 8,871,048	\$ 8,544,257
Adjustments to reconcile consolidated net income to net cash (used in) provided by operating activities		
Depreciation	838,716	885,341
Amortization	217,487	239,352
Bad-debt expenses	5,613,441	4,783,582
Compensation cost of employee stock options	-	115,382
Provisions for insurance reserves	259,748	86,360
Impairment losses	82,267	32,513
Losses from investments accounted for by the equity method	4,309	3,239
Gains on disposal of investment in real estate	(6,638)	(24,686)
Gains on disposal of property and equipment	(649)	(650)
Gains on disposal of non-operating assets	(17,186)	(35,386)
Losses on disposal of collaterals assumed, net	49,036	1,663
Accrued pension liability	369,140	171,679
Deferred income tax	(11,949)	(198,221)
Unrealized deferred credits	-	100,871
Realized deferred credits	(98,584)	(1,660)
Net changes in operating assets and liabilities		
Increase in financial assets at fair value through profit or loss	(6,459,817)	(6,424,129)
Decrease (increase) in receivables	4,869,275	(10,845,850)
Securities brokerage accounts, net	107,337	(158,488)
Decrease in prepayments	540,232	1,063,763
Decrease in financial liabilities at fair value through profit or loss	(4,583,192)	(9,839,738)
(Decrease) increase in payables	(4,023,167)	5,409,470
Net cash provided by (used in) operating activities	6,620,854	(6,091,336)
CASH FLOWS FROM INVESTING ACTIVITIES		
(Increase) decrease in due from the Central Bank and other banks	(22,323,322)	119,167
Decrease in bonds and bills purchased under resale agreements	332,416	1,018,910
Increase in discounts and loans	(70,291,161)	(67,691,953)
Decrease (increase) in available-for-sale financial assets	1,707,845	(7,295,265)
Proceeds from matured held-to-maturity financial assets	2,025,030,795	1,469,762,783
Increase in held-to-maturity financial assets	(2,019,741,649)	(1,453,642,723)
Increase in bonds investments with no active markets	(4,631,225)	(7,941,495)
Increase in investments in real estate	(527,488)	(479,638)
Proceeds from disposal of investments in real estate	46,608	148,543
Acquisition of property and equipment	(946,228)	(616,850)
Proceeds from disposal of property and equipment	16,086	1,392
Increase in intangible assets	(88,918)	(98,758)
Acquisition of non-operating assets	(19,381)	(1,021)
Acquisition of collaterals assumed, net	(10,611)	-
Proceeds from disposal of non-operating assets	65,756	188,172
Proceeds from disposal of collaterals assumed, net	169,005	45,076
Increase in other financial assets	(598,500)	(274,112)
(Increase) decrease in other assets	(364,801)	1,639,613
Net cash used in investing activities	(92,174,773)	(65,118,159)
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in due to the Central Bank and other banks	7,442,176	38,719,018
Increase (decrease) in commercial paper payable	3,306,351	(3,245,153)
Increase in bonds and bills sold under repurchase agreements	2,394,081	229,562
Increase in deposits and remittances	68,486,265	34,621,302
Increase in bonds and bank debentures payable	5,000,000	2,350,000
Decrease in other borrowings	(2,093,000)	(1,935,000)
Increase in other financial liabilities	1,383,942	1,611,983
Increase in other liabilities	1,042,572	500,178
Issuance of common stock for cash	-	20,004,000
Cash dividends	(4,135,116)	(1,977,637)
Net cash provided by financing activities	82,827,271	90,878,253
EFFECT OF EXCHANGE RATE CHANGES	(198,735)	143,918
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(2,925,383)	19,812,676
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	42,741,787	22,929,111
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 39,816,404	\$ 42,741,787
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid	\$ 13,180,601	\$ 11,883,149
Income tax paid	\$ 2,839,013	\$ 925,180

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

(Concluded)



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