

2013 ANNUAL REPORT



102

HUA NAN FINANCIAL HOLDINGS CO., LTD.

2013 Annual Report

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

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Hua Nan Securities Co., Ltd.(HNSC)

Address : 5F, No. 54, Sec.4, Min Sheng E. Rd, Taipei 105,
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Telephone : 886-2-2545-6888

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

South China Insurance Co., Ltd.(SCIC)

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

Telephone : 886-2-2758-8418

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

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

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

Telephone : 886-2-2719-6688

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

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

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

Telephone : 886-2-2500-0622

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

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

Telephone : 886-2-2511-2900

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

Equities Administration Center

Stock-Related Services Dept.,

Hua Nan Securities Co., Ltd.

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

Telephone : 886-2-2718-6425

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

Independent Auditor of the Financial Report

Deloitte & Touche

Address : 12F, No. 156, Sec. 3, Min Sheng East Road,
Taipei 105, Taiwan, R.O.C.

Telephone : 886-2-2545-9988

Website : www.deloitte.com.tw

Credit Rating Agency

Taiwan Ratings Corporation

Address : 49 F, No. 7, Sec. 5, Xin Yi Road, Taipei 105,
Taiwan, R.O.C.

Telephone : 886-2-8722-5800

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

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Financial Highlight

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

Unit: NT \$ thousand

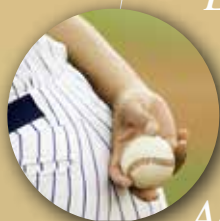
| As of December 31, 2013 and 2012 | 2013 | 2012 |
|--|-----------------------------|---------------|
| Consolidated Statements of Comprehensive Income | | |
| Net interest income | 23,232,367 | 22,326,258 |
| Net revenues other than interest income | 12,269,325 | 11,579,552 |
| Net revenues | 35,501,692 | 33,905,810 |
| Allowance for doubtful accounts and guarantees | (3,874,858) | (3,483,299) |
| Change in provisions for insurance liabilities, net | (117,470) | (259,748) |
| Operating expenses | (19,624,227) | (19,624,578) |
| Net profit before income tax | 11,885,137 | 10,538,185 |
| Net profit income tax expense | (1,833,875) | (1,597,659) |
| Net profit for the year | 10,051,262 | 8,940,526 |
| Other comprehensive income | 309,530 | 1,496,577 |
| Total comprehensive income for the year | 10,360,792 | 10,437,103 |
| Consolidated Balance Sheets | | |
| Total assets | 2,164,728,571 | 2,066,649,295 |
| Total liabilities | 2,029,067,821 | 1,937,036,793 |
| Total equity | 135,660,750 | 129,612,502 |
| Ratio- Consolidated basis | | |
| ROE(after tax) | 7.58% | 7.07% |
| ROA(after tax) | 0.48% | 0.44% |
| Capital Adequacy Ratio | 137.77% | 136.27% |
| Credit Ratings (long/short/outlook) | | |
| Taiwan Ratings | twA+/twA-1/Stable (2014/06) | |



Honesty



Efficiency



Activeness



Responsibility



Teamwork



I | LETTER TO THE SHAREHOLDERS



CHAIRMAN

Teng-Cheng Liu

1. Operating Results

1. The Domestic and International Financial Environment in 2013

In 2013, affected by the sovereign debt crisis in Europe, the tapering of Quantitative Easing and the fiscal stalemate in the US, and the decelerating growth in the emerging economies, the growth rate of global economy was only 2.5%, slowing down slightly from the 2.6% in the previous year. According to the estimates of the Directorate General of Budget, Accounting and Statistics, Executive Yuan, Republic of China, the economic growth rate in 2013 was 2.11%, increasing only slightly from the 1.48% recorded in the previous year. The main reasons for the slow growth were intensifying competition in all industries, weakening export momentum, conservative attitude toward investing at home and limited growth in consumer spending. In addition,

Taiwan's economy is not as strongly tied to the international economy as it once was.

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, and venture capital. To reduce operating costs and effectively improve its performance, HNVC acquired its brother company, Hua Nan Management Consulting (hereafter "HNMC") on December 25, 2013. As of the end of 2013, HNFHC has six subsidiaries and all of them are wholly owned by the HNFHC.



VICE CHAIRMAN
MING-CHENG LIN

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

Our group benefits from the deregulations in the cross-straits financial markets, optimization of asset quality and increases in overseas profits. The overall performance has been stellar, except for securities services, which remained depressed by the low turnover in Taiwan's stock market. With the efforts of all employees, The Group's net income after tax in 2013 was NT\$10.051 billion, a growth of about \$1.1 billion or 12%, marking a new high after the financial crisis and also the second highest record since the Group was incorporated almost ten years ago. The Group's business strategy for 2013 was continuing to improve the business structure and expanding overseas services, in addition to enhancing performance. Major results are explained as follows:

(1) Improve asset quality

At the end of 2013, past-due loan ratio, past-due loan coverage ratio and loan coverage

ratio were, respectively, 0.42%, 292.37%, and 1.29%. Compared to the past-due loan ratio of 0.44%, past-due loan coverage ratio of 218.66% and loan coverage ratio of 1.04% at the end of last year, the asset quality has greatly improved.

(2) Balancing the subsidiaries' profit contributions to the Group

- A. Acquiring Chin Xing Securities: To expand the scale of securities operations and improve operating effectiveness, the Hua Nan Securities (hereafter "HNSC") completed the acquisition of the Chin Xing Securities in Miaoli in March 2014.
- B. To reduce operating costs and effectively improving performance, HNVC acquired HNMC in December 2013.
- C. Group cross-selling synergies: By consolidating sales networks, performing customer relationship management and implementing complex marketing, sales made with cross-selling in 2013 made up about 24% of the sales of all subsidiaries.



PRESIDENT

MAO-SHYAN LIU

(3) **Expand overseas operation**

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

A. Greater China Area

- a. Banking service: The Shenzhen Branch began to offer a full range of Renminbi services in March 2013, and the Baoan sub-branch was opened in December. The second Shanghai Branch in China was approved for operation by regulators in Taiwan and China. It is expected to formally open in the first half of 2014. The application for the third Fuzhou Branch was submitted to the Fuzhou Banking Supervision Bureau in February 2014.
- b. Leasing services: To expand cross-strait services and comply with the revision of operation location expansion and improvement by the State Administration of Taxation in recent times, Hua Nan Commercial Bank (hereafter “HNCB”) has injected NT\$500 Million as in Hua Nan International Leasing in March 2014. .
- c. Securities services: HNSC opened its second office in Beijing in April 2013 that acts as a principal liaison office of the group; the securities subsidiary will continue to contact strategic alliance partners to plan and open a cross-strait joint venture licensed in all aspects of this industry. The company will also evaluate the possibility of creating a financial consulting and advisory company in Shanghai to seize the opportunity when new services are allowed to operate.
- d. Property and casualty insurance services: South China Property and Casualty (hereafter “SCIC”) will respond to the invitation of the MIT Group in China to invest in the newly incorporated Shenzhou Auto Insurance Company. The incorporation process is expected to be completed in 2014.
- e. Investment trust services: Hua Nan Investment Trust (hereafter “HNIT”) was granted the status of QFII by the China Securities Regulatory Commission in July 2013 and a US\$50 million remittance limit by the State Administration of Foreign Exchange in March



2014. The subsidiary is expected to issue a China A-share fund in the first half of 2014 to expand the size of assets under management.

B. Other Overseas Markets

HNCB will apply for the upgrade to a branch for the Hanoi representative office and, in addition, plan to create a Myanmar representative office.

(4) Fulfill social responsibility

A. Caring for disadvantaged groups: The Group has hosted the senior care activity called “Hua Nan is great and never ages” in the northern, central, southern and eastern regions. We have also contributed to the Taiwan U-Life Association, Liver Disease Prevention and Treatment Research Foundation, The First Social Welfare Foundation, and Shanmei Reservation in the Alishan Township of Chiayi County.

B. Supporting beginners’ level baseball sports in Taiwan: The Group has been supporting the development of baseball sport in Taiwan and youth baseball development projects for decades. We not only sponsors world-class competitions but also donates baseball equipment to elementary schools with aboriginal populations in remote regions. HNFHC has received the distinction of “2013 Athletics Contributor Award Sponsor Class Silver Award” from the Sports Administration of the Ministry of Education and the distinction of recognition from the Asia Baseball Association.

C. Sponsoring public interest, academic and artistic activities: HNFHC sponsored the 2013 Taipei Lantern Festival, Invoice Cup Running event, Cross-straits Competitiveness and Global Financial Trend Forum, and YUKA – the ice age mammoth exhibition.

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

The Group’s 2013 consolidated net income after tax was NT\$ 10.051 billion, and the consolidated earnings per share was NT\$1.11. Consolidated return on assets was 0.48%, and the consolidated return on

equity was 7.58%. The following are the summary of results of each subsidiary:

(1) HNCB

Net income in 2013 was NT\$9571 million with earnings per share of NT\$1.52. The return on assets was 0.46%, and the return on equity was 7.55 %.

(2) HNSC

Net income in 2013 was NT\$313 million with earnings per share of NT\$0.39. The return on assets was 1.22%, and the return on equity was 2.78%.

(3) SCIC

Net income in 2013 was NT\$696 million with earnings per share of NT\$3.48. The return on assets was 5.02%, and the return on equity was 21.26%.

(4) HNIT

Net income in 2013 was NT\$32 million with earnings per share of NT\$1.05. The return on assets was 4.06%, and the return on equity was 8.33%.

(5) HNVC

Net loss in 2013 was NT\$94 million with the loss per share of NT\$0.47. The return on assets was -5.03%, and the return on equity was -5.06%.

Remark: HNVC and Hua Nan Management Consulting merged on December 25, 2013, and HNVC was the acquirer.

(6) HNAMC

Net income in 2013 was NT\$85 million with earnings per share of NT\$0.85. The return on assets was 3.30%, and the return on equity was 7.55 %.

5. Status of Research and Development:

(1) HNFHC

HNFHC implements the operations of Analytical CRM, Operational CRM and KPI Systems to

improve the work effectiveness of marketing analysis, sales application and result management. Further, HNFHC improves the “customer product purchase tendency model”.. The company also improves the accuracy of screening target customers in promotion drives and assists subsidiaries to improve the return on activity costs to effectively improve the number of outstanding customers and to add customer value.

Also, the Group is improving the timeliness of information on “high value customer management mechanism” so that employees in sales units can control the business opportunities of high value customers any time. They would then be able to provide the most timely customer service and expand the scale of high value customers and the ratio of investment customers.

(2) HNCB

In terms of research and development, HNCB continues to encourage employees to devote themselves to research and development. In 2013, employee individual research and development proposals totaled 481 projects. Of these, 79 have been adopted.

(3) HNSC

A. 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.

B. Conducted the planning of the following information systems:

- a. Creating associated systems in conjunction with the integration project of the financial holdings sales channel.

- b. Designing and creating an overseas web sub-brokerage platform: The company creates a multi-national order-placing platform so that customers can simultaneously perform transactions and trade on the same platform over multiple instruments. HNSC is also creating a sub-system with a New Taiwan Dollar pricing mechanism to increase the convenience of transaction for customers.

- c. 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.

- d. 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.

- e. Process for special requirements: HNSC assists branches to perform description requirement and analyzes the project system creation for sales channel integration at the financial holding level regarding the information needs of branches .

- f. Trust-type wealth management operation system planning: in order to coordinate with the promotion for future trust-type wealth management business, the support system will be implemented as needed.

- (a) 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.

- (b) Within the structure of parent company, HNFHC, engage in potential merger and acquisition of targeted securities brokerages in order to grow stronger and with sustainability in securities related operations.



- (c) 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.
- (d) Monitor closely with the "Cross-Straits Featured Financial Services Business Plan" and the related "Project on Developing Greater China Region Asset Management and Wealth Management" proposed by the FSC then undertake investment evaluation and anticipate future business growth.
- (e) Monitor the progress of implementation on "Cross-Straits Service Trade Agreement" in the Legislative Yuan.
- (f) Promote trust-type wealth management services and introduce wealth management instruments such as insurance, offering multiple choices for customers. HNSC is also planning to promote instruments denominated in Renminbi.
- (g) HNSC has been authorized to offer Offshore Securities Unit services. In the future, the company will hire talents in this area to promote services in this field and increase our niches.
- (h) 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.

(4) 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 2013, SCIC has developed 203 new products, of which 80 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" five years in a row with insurance professionalism and the innovation of the insurance products, an outstanding performer compared to the peers.

In terms of the risk management structure, by convening risk management and asset-liability management conferences at the general manager level and operating a risk management committee at the Board level, the company continues to implement risk management mechanisms and risk management culture from the bottom up, and create such mechanisms and culture from the top down. By doing so, the company can ensure that risk management operations can match the operating goals and strategies defined by the Board.

In terms of risk management mechanisms, the company improves the linkage mechanism of internal control, risk management and legal compliance. The company introduces risk-adjusted returns on capital (RAROC), which is a risk and return evaluation mechanism and intensifies the linkage of annual risk tolerance and annual budget goals. These measures gradually improve the benefits of corporate management and risk management.

SCIC upholds the guidance of prudent management. In 2013, The company continued to receive the twAA-rating from Taiwan Ratings with "stable" outlook. This rating is a nod of approval to SCIC'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. The A.M. BEST credit rating corporation also gives the company the following rating: "Financial strength: A-(Excellent); Issuing body credit a-; Rating outlook is positive." This fact fully demonstrates that the company has robust capital adequacy in risk-based capital (RBC), outstanding underwriting profits and a continuously growing market share. Furthermore, with the support

from HNFHC in areas such as sales contribution and risk management, the company has been delivering great results time and again and earning the recognition of corporations and the general public.

In 2013, SCIC celebrated its fiftieth anniversary. As we look back on the achievements of our dedication, we are full of joy. As we look into the future, we will stay true to the development goal of “managing both quantity and quality; becoming one of the Top 5 players; entering a new age of international exposure” for the year 2014. Also, we will follow the development trend of revenue growth in recent years. We will continue to plan future development with a new mode of thinking. In terms of operating strategy, improving operational effectiveness is the highest policy. SCIC will continue to improve information integration and management effectiveness, provide comprehensive customer service and fulfill corporate social responsibility. We will march into the future with optimism and deliver amazing results.

(5) HNIT

In 2013, with the continued economic recovery in Europe and the US, investment confidence was pushed higher as a result. The overall size of funds among investment trusts increased by about \$120 billion, compared to the end of last year, to about \$1.97 trillion, with an annual increase of about 6.5%.

As we compile the size data on all types of funds, the funds with the greatest increase in dollar amount for the whole year of 2013 were domestic money market funds, with an annual increase of about \$101.8 billion. The main reason was that, as the Federal Reserve was initiating the tapering of QE, fluctuations in financial markets were significant and the risk awareness of investors increased. The funds with the second highest increase were high yield bond funds, with increase of about \$44.9 billion. These funds have been in the top three in terms of fund size increase for the fourth year in a row. It shows that funds continue to flow to high yield bond funds. The funds with the third highest increase were transnational regular bond funds. Additionally,

the top three classes of funds with the largest decrease in size in 2013 were domestic stock funds, transnational bond composite funds and domestic index stock funds (ETFs), decreasing by about \$24.9 billion, \$22.7 billion, and \$9 billion, respectively.

Because the fund sizes of all types of funds managed by HNIT all decreased compared to the end of last year, the overall fund size was reduced by about \$2.5 billion compared to the end of last year at the end of 2013.

(6) HNVC

By attending industry seminars and training courses, employees can grasp the development trends in the industry. HNVC will improve assessments on investments and improve the professional competence of management after the investment is made. By assisting with operations and financial planning of invested companies, the company will create strategic alliances and partners, so that shares of the investees can be offered to the public and the company can walk away with a profit.

(7) HNAME

HNAME has positioned itself in diversified operations and established three core businesses, namely: “NPL investment and disposal”, “real estate direct investment” and “contracted collecting service”. HNAME 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.

Additionally, to fulfill the responsibility of protecting personal information and to strengthen the personal information protection and management regulations, HNAME passed the tests of BS 10012: 2009 Personal Information Management System (PIMS) in August 2013 and formally received international certification, becoming the first company to receive personal data protection international certification among the AMC peers.



2. An Overview of the Group's 2014 Operation Plan and Future Development Strategies

Looking to 2014, with developed economies as drivers in the recovery, global economic growth is optimistically estimated at between 3.3% and 3.7%. However, we still have to be aware of potential risks such as the tapering of QE in the US, economic structural adjustments in China and the increase of sales tax in Japan. In terms of domestic economy, as the government accelerates the creation of a free economic zone, implements the opening of markets and deregulation, and creates a business-friendly operational and investment environment, we believe that the economy will be better this year. Our group will aggressively develop the Renminbi offshore service center and become a cash management center for Taiwanese corporations with OBUs and overseas locations, in compliance with economic development policies of the nation. The Group will increase the investments in financial business locations in Asia and execute the development strategy for 2014, which consists of the four following goals: (1) Diversifying sources of revenues; (2) Balancing profit contributions of subsidiaries to the group; (3) Aggressively creating a comprehensive overseas business network; (4) Creating a more healthy operating conditions. The Group will try to meet the expectations of employees, shareholders, customers and society and strive to become an outstanding international-level financial institution in the Asia-Pacific region.

3. Credit Ratings

| Rated institution | Rating Agency | Long-term | Short-term | outlook |
|-------------------|--------------------------|-----------|------------|----------|
| HNHFC | Taiwan Ratings (2014/06) | twA+ | twA-1 | stable |
| HNCB | Taiwan Ratings (2014/06) | twAA | twA-1+ | stable |
| | Moody's (2014/01) | A3 | P2 | stable |
| HNSC | Taiwan Ratings (2014/06) | twA+ | twA-1 | stable |
| SCIC | Taiwan Ratings (2013/12) | twAA- | - | stable |
| | A.M. Best (2014/01) | A- | - | positive |

Chairman

Teng-Cheng Liu

Vice Chairman

Ming-Cheng Lin

President

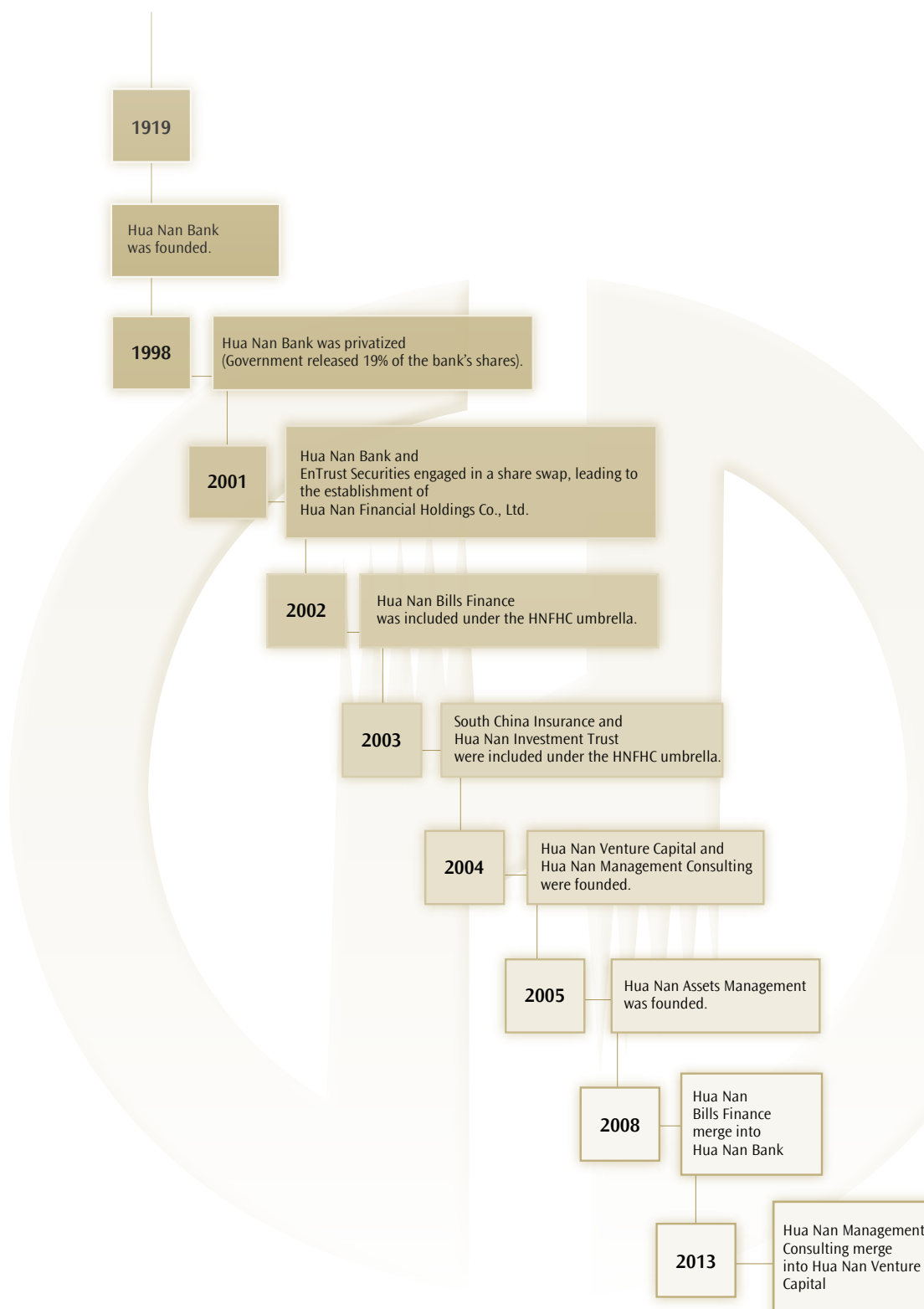
Mao-Shyan Liu

II | COMPANY PROFILE

1. Date of Establishment

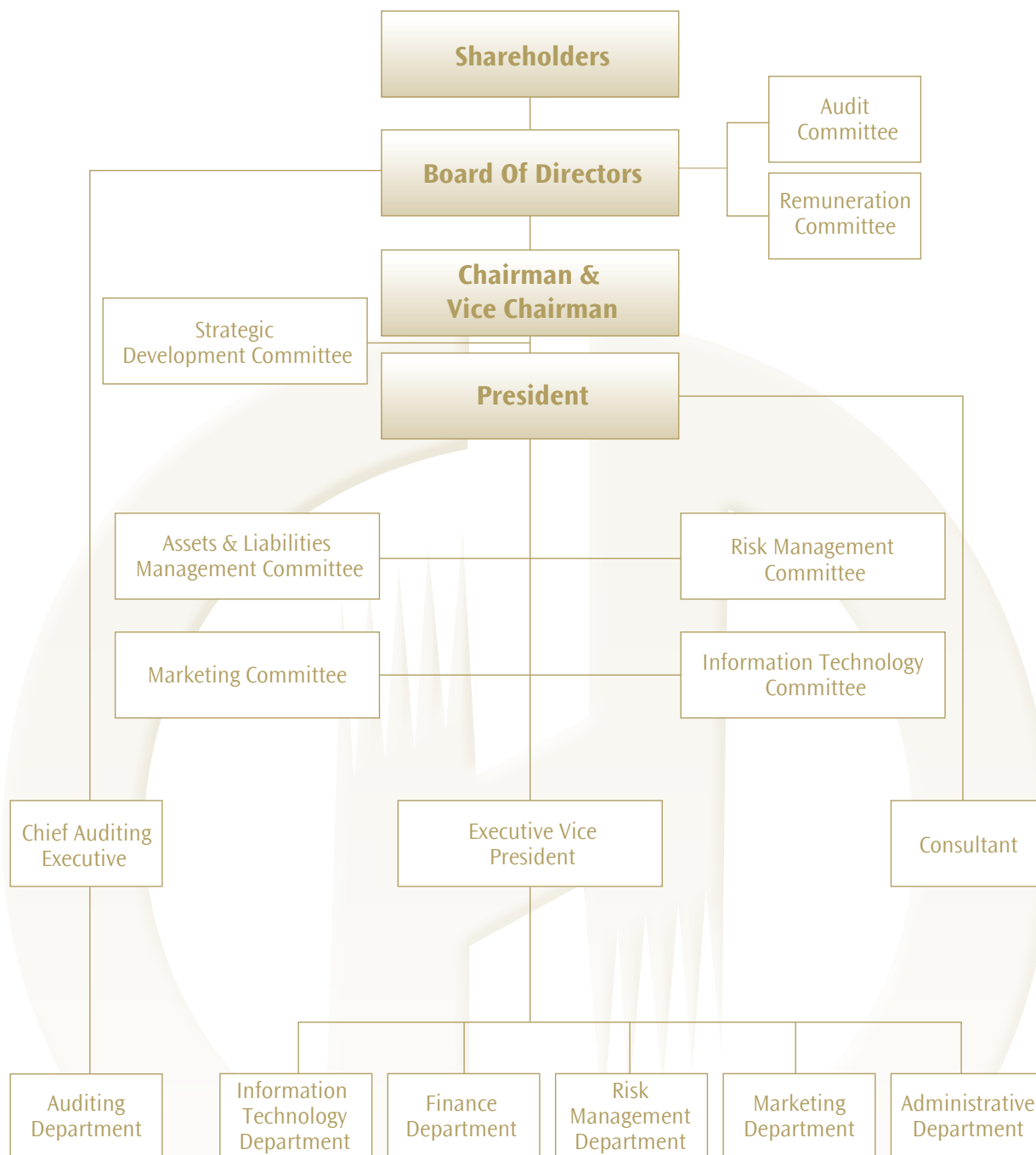
Hua Nan Financial Holdings Co., Ltd. (HNFHC) was established through a share swap between Hua Nan Commercial Bank Ltd. (HNCB) and EnTrust Securities Co., Ltd. (now called “Hua Nan Securities” or “HNSC”) on December 19, 2001.

2. Corporate Milestones

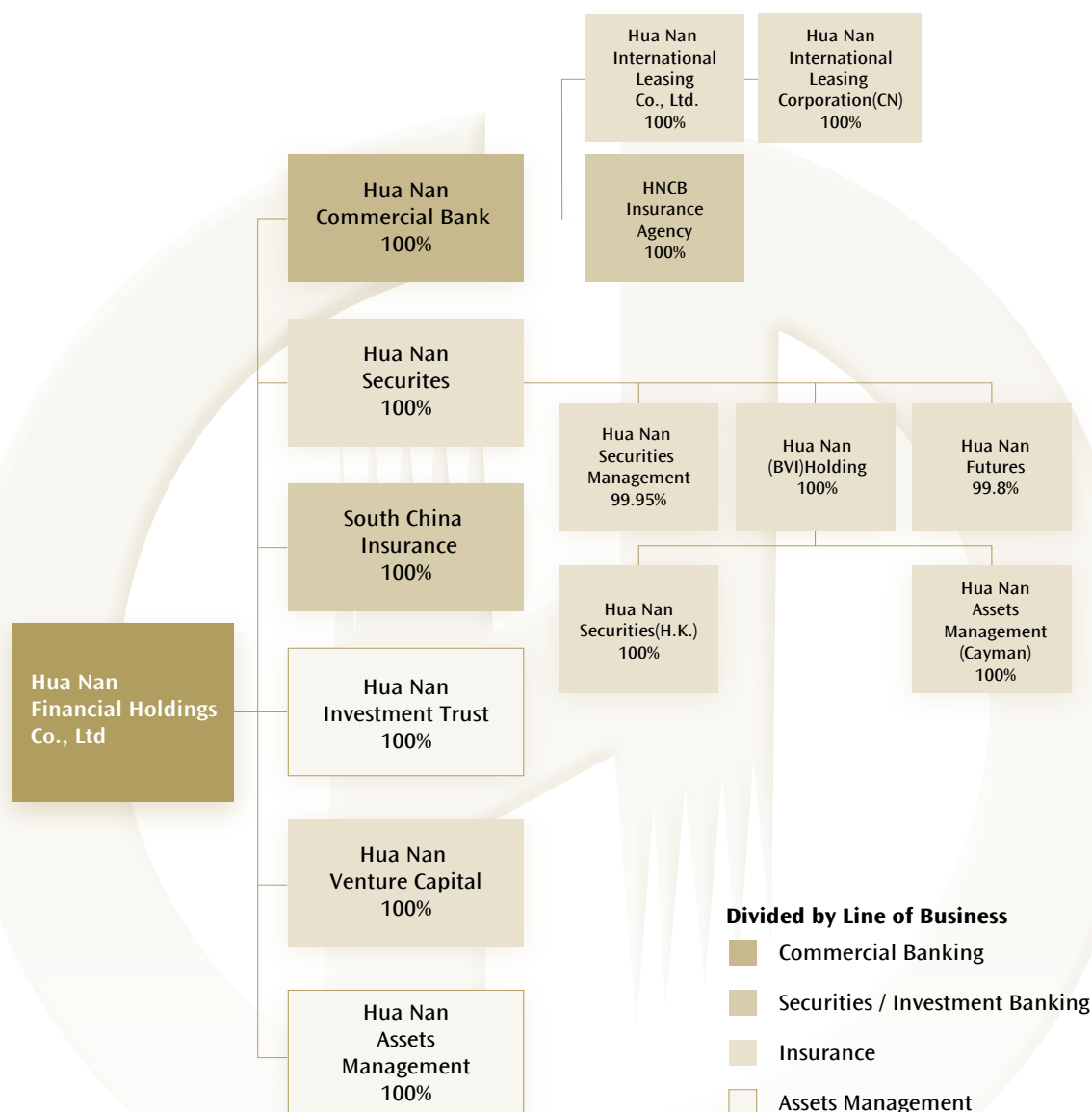


III | CORPORATE GOVERNANCE

1. The Organization Chart



2. Group Organization



3. Board of Directors

Date: 2014/4/22

| DIRECTORS : NAME | CURRENT POSITION | EXPERIENCE | EDUCATION |
|------------------|--|--|--|
| Teng-Cheng Liu | <ul style="list-style-type: none"> Chairman, Hua Nan Financial Holdings Co., Ltd. Chairman, National Credit Card Center of R.O.C. Director, Securities and Futures Institute | <ul style="list-style-type: none"> Chairman, Taiwan Cooperative Holdings and Taiwan Cooperative Bank Chairman, Taiwan Financial Holdings and Bank of Taiwan Administrative Deputy Minister, Ministry of Finance Director-General, National Treasury Administration | <ul style="list-style-type: none"> M.A. in International Business, National Taiwan 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. |
| Yun, Lin | <ul style="list-style-type: none"> Director, Hua Nan Financial Holdings Co., Ltd. Professor, Dept. of Business Administration, Shih-Hsin University | <ul style="list-style-type: none"> Chairman of Finance Dept., National Taiwan University | <ul style="list-style-type: none"> Ph.D. Univ. of Illinois Urbana Champaign, U.S.A. |



| DIRECTORS : NAME | CURRENT POSITION | EXPERIENCE | EDUCATION |
|-------------------------|--|--|---|
| Ai Wei | <ul style="list-style-type: none"> Director, Hua Nan Financial Holdings Co., Ltd. Associate Professor ,Graduate Institute of East Asian Studies, College of International Affair, National Chengchi University | <ul style="list-style-type: none"> Director, Secretariat, National Chengchi 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 Chengchi 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 (TWSE) 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 |
| Teng-Lung Hsieh | <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 |
| Shih-Tien,Chiang | <ul style="list-style-type: none"> Director, Hua Nan Financial Holdings Co., Ltd. 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 |
| 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. |
| 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 |
| 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"> Dept. of Business, National Open University. |
| 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. |
| Vivien, Chia-Ying, Shen | <ul style="list-style-type: none"> Director , Hua Nan Financial Holdings Co., Ltd. | <ul style="list-style-type: none"> Vice President, The Hong Kong & Shanghai Banking Corp. | <ul style="list-style-type: none"> M.B.A. University of Birmingham, U.K. |
| A-Wang,Huang | <ul style="list-style-type: none"> Independent Director , Hua Nan Financial Holdings Co., Ltd. | <ul style="list-style-type: none"> Director General , Bank Inspection Dept , The Central Bank of R.O.C | <ul style="list-style-type: none"> Master of Accounting, National Chengchi 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 Chair of Dept. of Accounting, College of Commerce, National Chengchi University | <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. Director, Taiwan Financial Asset Service Corporation Attorney of Law of Lexpert Law Firm. | <ul style="list-style-type: none"> Attorney of Law Lecturer of Law, Soochow University | <ul style="list-style-type: none"> Master of Law, National Taiwan University. |
| Ching-hsiou Chen | <ul style="list-style-type: none"> Independent Director, Hua Nan Financial Holdings Co., Ltd. Professor of Law, 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 |

4. Management Team

| Position | Name | Date of Employment | Other Holding Positions | Experience | Education |
|---|--|--------------------|---|---|--|
| President | Mao-Hsien Liu | 2009.07.01 | <ul style="list-style-type: none"> Managing Director, Hua Nan Commercial Bank; Director, South China Insurance; Supervisor, Commerce Development Research Institute; Director, Taiwan Small Business Integrated Assistance Centre; Director, Financial Executives Institute. | <ul style="list-style-type: none"> Chairman, HNVC; Executive Vice President, HNFHC; Vice President, Trust Department, HNCB; Senior Vice President, Business Operation Department, HNCB; Senior Vice President, Finance Department, HNCB. | <ul style="list-style-type: none"> Master of Dept. of Economics, Chinese Culture University |
| Executive Vice President | David Y.C. Cheng | 2009.07.29 | <ul style="list-style-type: none"> Chairman, Hua Nan Asset Management | <ul style="list-style-type: none"> G.M. of Administrative Department, HNFNC; Director, Hua Nan Management Consulting; Senior Vice President, Los Angeles Branch, HNCB; Senior Vice President, Head Office of HNCB; Senior Vice President, Corporate Banking Dept, HNCB; Vice President, Corporate Credit Department, HNCB. | <ul style="list-style-type: none"> Graduate Institute of Finance, Fu Jen University |
| Executive Vice President & G.M. of Risk Management Department | James H. J. Liu | 2002.03.18 | <ul style="list-style-type: none"> Director, Hua Nan Securities; Director, South China Insurance. | <ul style="list-style-type: none"> Senior Vice President, Finance Dept., China Trust Commercial Bank; Vice President, Global Market Group, Union Bank of California. | <ul style="list-style-type: none"> Economics & Finance, UCLA |
| Executive Vice President & Chief Secretary of the Board | Tai-Yung Hsiung (resigned on November 1, 2013) | 2012.01.16 | N/A | <ul style="list-style-type: none"> Chief Secretary of the Board, Mega Financial Holding; Vice President & General Manager, Taiwan Business Bank. | <ul style="list-style-type: none"> Cooperative Economics Dept., National Chung-Hsing University |
| E.V.P. & Chief Auditor Executive | Chin-Nan Ku | 2009.07.24 | N/A | <ul style="list-style-type: none"> Senior Vice President, Xincheng Branch and Zhongxiao E. Road Branch, HNCB; Senior Vice President, Corporate Loan Management Dept, HNCB | <ul style="list-style-type: none"> Economics Dept., National Taiwan University |
| G.M. of Administrative Department | Chien-Ting Hsu | 2014.02.14 | <ul style="list-style-type: none"> Director, Hua Nan Venture Capital | <ul style="list-style-type: none"> GM. of Economic Research Department, Bank of Taiwan | <ul style="list-style-type: none"> Doctor of Economics, National Chengchi University |
| G.M. of Marketing Department | Tony Jang | 2005.03.22 | <ul style="list-style-type: none"> Executive Vice President, Hua Nan Commercial Bank; Director, Hua Nan Investment Trust; Director, Lian An Service Co., Ltd. | <ul style="list-style-type: none"> Senior Vice President/Chief Secretary of Board, HNCB. | <ul style="list-style-type: none"> Master of Business Administration, National Chengchi University |
| G.M. of Finance Department | King Huo Lu | 2012.08.01 | <ul style="list-style-type: none"> Senior Vice President, Finance and Accounting Department, Hua Nan Commercial Bank; Supervisor, South China Insurance. | <ul style="list-style-type: none"> Vice President & General Manager of Finance & Accounting Dept., HNCB. | <ul style="list-style-type: none"> Department of Accounting, Soochow University |
| G.M. of Information Technology | Michael Duh | 2008.03.01 | <ul style="list-style-type: none"> Senior Vice President, Information Planning and Development Department, Hua Nan Commercial Bank; Director, Development International Investment Co., Ltd. | <ul style="list-style-type: none"> Senior V.P. & G.M of IT of Taishin International Bank | <ul style="list-style-type: none"> Master of Electrical Engineering Dept., National Taiwan University |



5. Remunerations to Directors

| Position | 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 |
| Chairman | Ministry of Finance | | | | | | | | |
| | Teng-Cheng Liu (102.7.1 on board) | | | | | | | | |
| Chairman | Bank of Taiwan | | | | | | | | |
| | Rong-Jou Wang (102.6.30 resigned, end of tenure) | | | | | | | | |
| Vice Chairman | Memorial Scholarship Foundation to Mr.Lin Hsiung Chen | | | | | | | | |
| | Ming-Cheng Lin | | | | | | | | |
| Director | Bank of Taiwan (102.1.1~102.6.30) | | | | | | | | |
| | Ministry of Finance (102.7.1~102.12.31) | | | | | | | | |
| Director | Mao-Shyan Liu | | | | | | | | |
| | Bank of Taiwan | | | | | | | | |
| Director | Shih-Tien Chiang | | | | | | | | |
| | Bank of Taiwan | | | | | | | | |
| Director | En-Shiang Tai | | | | | | | | |
| | Bank of Taiwan | | | | | | | | |
| Director | Teng-Lung Hsieh | | | | | | | | |
| | Bank of Taiwan | | | | | | | | |
| Director | Yun Lin | | | | | | | | |
| | Bank of Taiwan | | | | | | | | |
| Director | Ai Wei | | | | | | | | |
| | Bank of Taiwan | | | | | | | | |
| Director | Ming-Jui Hsieh | | | | | | | | |
| | Memorial Scholarship Foundation to Mr.Lin Hsiung Chen | | | | | | | | |
| Director | Tom Lin | | | | | | | | |
| | Memorial Scholarship Foundation to Mr.Lin Hsiung Chen | | | | | | | | |
| Director | Chih-Yang Lin (102.6.30 resigned, end of tenure) | | | | | | | | |
| | Shin Kong Life Foundation | | | | | | | | |
| Director | Rung-Fu Hsieh | | | | | | | | |
| | Hsiang-Yu Co., Ltd. (102.1.1~102.6.30) | | | | | | | | |
| Director | Memorial Scholarship Foundation to Mr.Lin Hsiung Chen (102.7.1~102.12.31) | | | | | | | | |
| | Hui-Jan Yen | | | | | | | | |
| Director | Entrust Foundation | | | | | | | | |
| | An-Lan Hsu Chen | | | | | | | | |
| Director | Entrust Foundation | | | | | | | | |
| | Yuan-Jen Hsu | | | | | | | | |
| Director | China Man-Made Fiber Corporation | | | | | | | | |
| | Chia-Ying Shen (102.7.1 on board) | | | | | | | | |
| Indenpent Director | Jia-Dong Shea (102.6.30 resigned, end of tenure) | | | | | | | | |
| Indenpent Director | A-Wang Huang (102.7.1 on board) | | | | | | | | |
| Indenpent Director | Ching-Hsiou Chen | | | | | | | | |
| Indenpent Director | Chung-Yuan Hsu | | | | | | | | |
| Indenpent Director | Chun-Pin Chen | | | | | | | | |
| Total | | 10,856 | 27,228 | 3,021 | 4,257 | 81,414 | 81,414 | 5,880 | 8,849 |

Unit : in NT\$ thousand

[illegible]



6. 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、Shih-Tien Chiang、En-Shiang Tai、En-Shiang Tai、Teng-Lung Hsieh、Yun Lin、Ai Wei、Ming-Jui Hsien、Tom Lin、Chih-Yang Lin、Rung-Fu Hsieh、Hui-Jan Yen、Yuan-Jen Hsu、An-Lan Chen Hsu、Chia-Ying Shen、Jia-Dong Hsu、A-Wang Huang、Ching-hsiu Chen、Chung-Yuan Hsu、Chin-Pin Chen | Mao-Shyan Liu、Shih-Tien Chiang、Teng-Lung Hsieh、Yun Lin、Ai Wei、Ming-Jui Hsien、Tom Lin、Chih-Yang Lin、Rung-Fu Hsieh、Hui-Jan Yen、Yuan-Jen Hsu、Chia-Ying Shen、Jia-Dong Hsu、A-Wang Huang、Ching-hsiu Chen、Chung-Yuan Hsu、Chin-Pin Chen | Ming-Cheng Lin、Shih-Tien Chiang、En-Shiang Tai、Teng-Lung Hsieh、Yun Lin、Ai Wei、Ming-Jui Hsien、Tom Lin、Chih-Yang Lin、Rung-Fu Hsieh、Hui-Jan Yen、Yuan-Jen Hsu、An-Lan Chen Hsu、Chia-Ying Shen、Jia-Dong Hsu、A-Wang Huang、Ching-hsiu Chen、Chung-Yuan Hsu、Chin-Pin Chen | Shih-Tien Chiang、Teng-Lung Hsieh、Yun Lin、Ai Wei、Ming-Jui Hsien、Tom Lin、Chih-Yang Lin、Rung-Fu Hsieh、Hui-Jan Yen、Chia-Ying Shen、Jia-Dong Hsu、A-Wang Huang、Ching-hsiu Chen、Chung-Yuan Hsu、Chin-Pin Chen |
| 2,000,000 (inclusive) ~ 5,000,000 | Teng-Cheng Liu、Shin Kong Life Foundation、Hsiang-Yu Co., Ltd.、China Man-Made Fiber Corporation | Teng-Cheng Liu、Shin Kong Life Foundation、Hsiang-Yu Co., Ltd.、China Man-Made Fiber Corporation | Teng-Cheng Liu、Shin Kong Life Foundation、Hsiang-Yu Co., Ltd.、China Man-Made Fiber Corporation | Teng-Cheng Liu、Yuan-Jen Hsu、Shin Kong Life Foundation、Hsiang-Yu Co., Ltd.、China Man-Made Fiber Corporation |
| 5,000,000 (inclusive) ~ 10,000,000 | Rong-Jou Wang、Entrust Foundation | Rong-Jou Wang、En-Shiang Tai、An-Lan Hsu Chen、Entrust Foundation | Rong-Jou Wang、Mao-Shyan Liu、Entrust Foundation | ong-Jou Wang、Mao-Shyan Liu、En-Shiang Tai、An-Lan Hsu Chen、Entrust Foundation |
| 10,000,000 (inclusive) ~ 15,000,000 | Ministry of Finance | Ming-Cheng Lin、Ministry of Finance | Ministry of Finance | Ming-Cheng Lin、Ministry of Finance |
| 15,000,000 (inclusive) ~ 30,000,000 | 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 |
| 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 | 29 | 29 | 29 | 29 |

7. Remunerations to Supervisors

Unit : in NT\$ thousand

| Position | Name | Remunerations to Suupervisors | | | | | | | | 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 | |
| Supervisors | Ministry of Finance | | | | | | | | | | | |
| | Sou-Shan Wu (102.3.21 resigned) | | | | | | | | | | | |
| Supervisors | Ministry of Finance | | | | | | | | | | | |
| | Li-Chien Kuo (102.6.30 resigned, end of tenure) | | | | | | | | | | | |
| Supervisors | Ministry of Finance | | | | | | | | | | | |
| | Tzu-Hsin Wu (102.6.30 resigned, end of tenure) | | | | | | | | | | | |
| Supervisors | Fu Chuan Enterprises Co., Ltd. | | | | | | | | | | | |
| | Hsu-Hsueh Chang (102.6.30 resigned, end of tenure) | | | | | | | | | | | |
| Supervisors | China Main-Made Fiber Co., Ltd. | | | | | | | | | | | |
| | Chia-Yíng Shen (102.6.30 resigned, end of tenure) | | | | | | | | | | | |
| Total | | 0 | 0 | 0 | 0 | 9,045 | 9,045 | 525 | 624 | 0.10 | 0.10 | 0 |

8. 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 |
| Below 2,000,000 | Sou-Shan Wu Li-Chien Kuo Tzu-Hsin Wu Hsu-Hsueh Chang Chia-Ying Shen | Sou-Shan Wu Li-Chien Kuo Tzu-Hsin Wu 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 | Ministry of Finance | Ministry of Finance |
| 10,000,000 (inclusive) ~ 15,000,000 | | |
| 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 | 8 | 8 |

IV | SHARE & DIVIDEND

1. Source of Share Capital

Unit : in share; in NT\$

| Date | Issue Price | Authorized capital stock | | Paid-in capital stock | | Notes |
|---------|-------------|--------------------------|-----------------|-----------------------|----------------|--|
| | | Shares | Dollar amount | Shares | Dollar amount | Source of share capital |
| 2001.12 | \$10 | 10,000,000,000 | 100,000,000,000 | 4,146,799,357 | 41,467,993,570 | Share swap 41,467,993,570 |
| 2002.08 | \$10 | 10,000,000,000 | 100,000,000,000 | 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 | 10,000,000,000 | 100,000,000,000 | 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 | 10,000,000,000 | 100,000,000,000 | 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 | 10,000,000,000 | 100,000,000,000 | 5,970,208,636 | 59,702,086,360 | Capital incress of 390,574,396 shares out of earnings |
| 2008.08 | \$10 | 10,000,000,000 | 100,000,000,000 | 6,089,612,808 | 60,896,128,080 | Capital incress of 119,404,172 shares out of earnings |
| 2009.09 | \$10 | 10,000,000,000 | 100,000,000,000 | 6,272,301,192 | 62,723,011,920 | Capital incress of 182,688,384 shares out of earnings |
| 2010.08 | \$10 | 10,000,000,000 | 100,000,000,000 | 6,617,277,757 | 66,172,777,570 | Capital incress of 344,976,565 shares out of earnings |
| 2011.09 | \$10 | 10,000,000,000 | 100,000,000,000 | 7,014,314,422 | 70,143,144,220 | Capital increase of 3,970,366,650 shares out of earnings |
| 2011.12 | \$10 | 10,000,000,000 | 100,000,000,000 | 8,214,314,422 | 82,143,144,220 | \$12,000,000,000 |
| 2012.09 | \$10 | 10,000,000,000 | 100,000,000,000 | 8,625,030,143 | 86,250,301,430 | Capital increase of 4,107,157,210 shares out of earnings |
| 2013.09 | \$10 | 10,000,000,000 | 100,000,000,000 | 9,056,281,650 | 90,562,816,500 | Capital increase of 4,312,515,070 shares out of earnings |

2. Type of Shares

| Type of Shares | Authorized capital stock | | | Notes |
|----------------|--------------------------|-----------------|----------------|---------------|
| | Outstanding shares | Unissued shares | Total | |
| Common stock | 9,056,281,650 | 943,718,350 | 10,000,000,000 | Listed stocks |

3. Shareholder Structure

Unit : share : Data : 2014/4/22

| Shareholder structure Quantity | Government agencies | Financial institutions | Other institution | Individuals | Foreign institution and Individuals | Total |
|-----------------------------------|---------------------|------------------------|-------------------|---------------|-------------------------------------|---------------|
| Persons | 13 | 40 | 586 | 182,417 | 600 | 183,656 |
| Shares held (shares) | 222,593,718 | 3,239,266,288 | 2,018,679,850 | 2,180,605,444 | 1,395,136,350 | 9,056,281,650 |
| Shareholding ratio(%) | 2.46 | 35.77 | 22.29 | 24.08 | 15.40 | 100.00 |

4. Distribution of Equity

Data : 2014/4/22

| Shareholding category | Number of shareholders | Shares held (shares) | Shareholding ratio (%) |
|-----------------------|------------------------|----------------------|------------------------|
| 1 ~ 999 | 65,894 | 14,633,640 | 0.16 |
| 1,000 ~ 5,000 | 63,894 | 155,230,333 | 1.71 |
| 5,001 ~ 10,000 | 18,411 | 131,108,344 | 1.45 |
| 10,001 ~ 15,000 | 10,807 | 131,233,226 | 1.45 |
| 15,001 ~ 20,000 | 4,621 | 80,287,108 | 0.89 |
| 20,001 ~ 30,000 | 6,451 | 156,038,697 | 1.72 |
| 30,001 ~ 40,000 | 3,031 | 104,151,940 | 1.15 |
| 40,001 ~ 50,000 | 1,963 | 87,843,478 | 0.97 |
| 50,001 ~ 100,000 | 4,478 | 307,876,572 | 3.40 |
| 100,001 ~ 200,000 | 2,339 | 315,442,300 | 3.48 |
| 200,001 ~ 400,000 | 857 | 233,850,022 | 2.58 |
| 400,001 ~ 600,000 | 284 | 138,404,149 | 1.53 |
| 600,001 ~ 800,000 | 141 | 97,917,929 | 1.08 |
| 800,001 ~ 1,000,000 | 87 | 76,991,172 | 0.85 |
| above 1,000,001 | 398 | 7,025,272,740 | 77.57 |
| Total | 183,656 | 9,056,281,650 | 100.00 |

5. List of Major Shareholders (Top 10 shareholders or shareholding ratio above 1%)

Data : 2014/4/22

| Major shareholders | Shares | Shares held(shares) | Shareholding ratio(%) |
|--|--------|---------------------|-----------------------|
| Bank of Taiwan | | 1,922,761,905 | 21.23 |
| Shin Kong Life Insurance Co. Ltd | | 416,495,770 | 4.60 |
| Bank Taiwan Life Insurance Co. Ltd | | 347,997,168 | 3.84 |
| Ta-Yung Hsing Yeh Co. Ltd | | 301,573,258 | 3.33 |
| First Commercial Bank | | 221,125,817 | 2.44 |
| Taiwan Tobacco & Liquor Co. Ltd | | 198,539,750 | 2.19 |
| Yuan Ding Investment Co. Ltd | | 196,867,599 | 2.17 |
| Yoong Cai Investment Corporation | | 174,377,241 | 1.93 |
| Memorial Scholarship foundation to Mr. Lin Hsiung Chen | | 159,940,552 | 1.77 |
| Ministry of Finance | | 153,944,265 | 1.70 |
| Standard Chartered managed Vatican garde emerging markets stock index fund account | | 122,187,022 | 1.35 |
| Yung-Zei Investment Co. Ltd | | 111,942,819 | 1.24 |
| Fubon Life Insurance Co., Ltd. | | 103,566,991 | 1.14 |



6. Market Value, Net Value, Earnings, and Dividends Per Share During the Most Recent Two Years

| Item | | Year | 2013 | 2012 | Ending 2014/3/31 |
|------------------------------|------------------------------------|-----------------------------------|-----------|-----------|---------------------|
| Market value per share(NT\$) | Highest | | 17.90 | 17.80 | 17.55 |
| | Lowest | | 15.95 | 15.00 | 16.75 |
| | Average | | 17.07 | 16.62 | 17.18 |
| Net value per share(NT\$) | Before distribution | | 14.98 | 15.03 | 15.34 |
| | After distribution | | - | 14.31 | - |
| EPS(NT\$) | Weighted average number of shares | | 9,056,282 | 8,625,030 | 9,056,282 |
| | EPS | | 1.11 | 1.03 | 0.33 |
| Dividends per share(NT\$) | Cash dividend | | 0.70 | 0.50 | - |
| | Stock dividend | Out of earning | 0.30 | 0.50 | - |
| | | Out of additional paid-in capital | N/A | N/A | - |
| | Cumulative Undistributed Dividends | | N/A | N/A | - |
| ROI analysis | P/E ratio | | 15.38 | 16.14 | 13.02 |
| | P/D ratio | | 24.39 | 33.24 | - |
| | Cash dividend yield | | 4.10% | 3.01% | - |

7. Dividend Policy and Implementation

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

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

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

- (3) Shareholder dividends are determined based on the undistributed profit from the previous fiscal year, and a decision in this regard must be passed at the shareholders' meeting. Shareholder dividends are decided based on the Company's operational plans, and dividends may be paid in cash and/or stock. Cash dividends must comprise no less than 10% of the total dividend to be issued. When the cash dividend is less than NT\$0.1 based on this formula, the dividend will not be paid unless resolved otherwise at a shareholders' meeting
2. Shareholders' meeting resolution concerning the distribution of dividends : A cash dividend of NT\$0.7 per share, and Stock dividend NT\$0.3 per share.

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

| | | 2014 (estimated) |
|--|--|---|
| Paid-in capital, beginning of the year-NT\$ in thousands | | 90,562,816,000 |
| Stock and cash dividends distribution | Cash dividend per share-NT\$ | 0.7 |
| | Stock dividend per share from capitalization of retained earnings-shares | 0.03 |
| | Stock dividend per share from additional capital surplus | - |
| Change of operational performance | Operating Income | NA (note) |
| | Percentage change in operating income | |
| | Net Income | |
| | Percentage change in net income | |
| | Earnings per share | |
| | Percentage change in earnings per share | |
| | Average annual return on investment (the reciprocal of average annual P/E ratio) | |
| Pro forma EPS and P/E ratio | If stock dividends from capitalization of retained earnings were all replaced by cash dividends | Pro forma EPS |
| | | Pro forma average annual return on investment |
| | Had there been no capitalization of capital surplus | Pro forma EPS |
| | | Pro forma average annual return on investment |
| | Had there been no capitalization of capital surplus and stock dividends from capitalization of retained earnings been replaced by cash dividends | Pro forma EPS |
| | | Pro forma average annual return on investment |

Note: There was no published financial forecast for the Company in year 2014. 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 | 2012 First Unsecured Corporate bonds |
| Date issue | 2013/1/21 |
| Face value | NT\$10,000,000 |
| Place of issuance and exchange | Taiwan |
| Issue price | The bond is issued at full face value |
| Total amount | Total issued amount :NT\$9.9 Billion. A Issue: NT\$5 Billion; B Issue: NT\$4.9 Billion. |
| Coupon rates | A Issue :1.23% p.a. at fixed rate. B Issue: 1.55% p.a. at fixed rate. |
| Duration | A Issue: 5 years matured in 2018/01/21. B Issue: 7 years matured in 2020/01/21. |
| Priority of repayment | A Issue: Same as other unsecured debtors. B Issue: Subordinated. |
| Guaranteeing institution | None |



| | | |
|--|--|--|
| Trustee | | Yuanta Commercial Bank |
| Underwriting institution | | None |
| Certifying attorney | | Chan Kang-Jung Attorney Office Kang-Jung Chan |
| Independent auditing firm | | 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. |
| Outstanding principal balance | | NT\$9.9 Billion |
| Terms of redemption or early repayment | | N/A |
| Restrictive term | | 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 | | B Issue only |
| Credit Rating | | Taiwan Ratings Corp Date:2012/11/15 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 |
| Name of commissioned custodial institution for objects exchanged | | None |

10. 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

Unit : NT\$ thousands

| 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, Current Ratio boosts from 1.9% in December 2012 to 138.7% in end of second quarter 2013.

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 2013 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 2013 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 2013

1. 2013 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 five years. The sponsorship into cultural development in the society can bring the Group closer to the general public. The 2013 Lantern Festival activity took place at the Taipei Expo Park “Fine Arts and Yuanshan Park areas.” The Group sponsored the “Student Lantern Area” lantern foundations and printed 20,000 Year of the Snake lanterns for the general public.

2. 2013 Global Financial Trend Forum

This event was hosted by the Commercial Times. Liu Ming-Kang, former Chairman of China Banking Regulatory Commission, was invited to be the keynote speaker of this conference, and gave two speeches with the titles “The Evaluation and Analysis of Global Financial Trend” and “Opportunities and Challenges of the Asian Financial Industry.” The following individuals were also invited to the event: Vincent Siew, Honorable Chairman of Cross-Straits Common Market Foundation; Lee Sush-der, Chairman of Taiwan Stock Exchange; and Lee Jih-Chu, Chairwoman of Chung Hwa Post. The forum drew the participation of more than 800 financial industry elites and created new opportunities for dialogue among high-level financial leaders.

3. 2013 Turnaround Management Tenth Anniversary International Seminar

The Turnaround Management Association was created in 2003 and formally became the Taiwanese chapter of the International Turnaround Management Association in 2006. Since 2011, Group has been participating in and contributing cash to the international seminar hosted by that association. 2013 was the tenth anniversary of the association, and it hosted the “2013 Turnaround Management Tenth Anniversary International Seminar.” As practiced, the Group contributed cash to the event.

4. Dream fulfillment baseball classroom

The Group rolled out brand-new activities for “One Baseball Fulfills One Dream,” which is a baseball development project among aboriginal communities.

The company hosted six “dream fulfillment baseball classrooms” around Taiwan. The schools that were selected and received assistance could not only receive baseball equipment but also training sessions from professional baseball players on baseball techniques. The purpose is to create a learning platform between professional players and young players and allows professional players to pass their own experiences to players of the next generation. Young players can also see the styles of professional players in person and learn the methods of their predecessors.

5. 2013 Hua Nan Financial Holdings Group National Senior League Baseball Game

By naming the national senior league baseball games, the Group carries on the care for young baseball players and engenders the linkage between the corporate world and baseball. We contributed NT\$3,500,000 to the games. The Chinese senior league team that represented Taiwan, the Hsin Ming Junior High School of Taoyuan County, was selected from those games. The team won the 2013 LLB 15U Baseball World Cup championship with six straight wins and earned the first world champion trophy for Taiwan in 2013. We hosted a recognition dinner party for the Chinese Taipei senior league athletes and provided cash rewards as a token of appreciation.

6. 2013 Hua Nan Financial Holdings Employee Table Tennis and Badminton Competition and Social Care Carnival

The goals of the activity are as follows: Caring for the health of employees; encouraging athletic activities and health awareness; creating closer interaction within the group; enhancing employee identification with the company; implementing care for the disadvantaged; and fulfilling corporate social responsibility. The theme was “Creating a future with joint effort; Happiness is boundless.” The company coordinated internal athletic games, fairs and public interest activities within the company and donated funds to HONDAO Senior Citizen’s Welfare Foundation. The company also honored the hard work and devotion of volunteer teams of the Group in this occasion.

7. Chen-Chieh Chang Cello Recital

Invited by the Xinsheng Elementary School of Taipei City, the Group sponsored the “Chen-Chieh Chang Cello Recital” to raise funds for artistic activities of that school.

8. Cross-straits Corporate Leader Summit

The Group was invited to join the “Cross-straits Corporate Leader Summit.” The chairman of that summit is Vincent Siew, the former Vice President. The purpose of the conference was to promote cooperation between corporations across the straits and to engage in cross-straits economy and trade strategic dialogue to promote mutual benefit and shared prosperity for the economy in Taiwan and China.

9. 2013 International Seminar on Financial and Economic Challenges after the Financial Crisis

The Group was invited to contribute cash to the “2013 International Seminar on Financial and Economic Challenges after the Financial Crisis” hosted by the Management Institute of National Taiwan Normal University. The conference introduced new ideas and instigated new strategy by discussions and research outcomes through discussions and presentations of research in the industry, government and academe. This conference will help industries in Taiwan to gain an advantage after the financial crisis.

10. IBAF Little League World Championship

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



Chairman Teng-Cheng Liu (Left) presented NT\$200,000 reward to the head coach Mr. Wei-Jhih Huang (Right) of the 2013 LLB Junior League World Series champion – The Hsin Ming Junior High School of Taoyuan County.

11. Athletic Sponsor Award

In 2012, the Group donated cash to the “IBAF Little League World Championship Asia Pacific Region” and “The 26th Asia Baseball Championship.” The Group also named and hosted a game known as the “Hua Nan Financial Holdings Group National Senior League Championship” and was recognized with the “2013 Athletics Contributor Award Sponsor Class Silver Award” from the Sports Administration of the Ministry of Education.

12. Cross-straits Peace and Wealth Creation Forum

Want Newspaper hosted the Cross-straits Peace and Wealth Creation Forum with support from the Chung-Hua Institute for Economic Research, Taiwan External Trade Development Council and the Taiwan Financial Services Roundtable. The theme was “Encouraging Chinese companies to invest in Taiwan – Changing the trend of cross-straits finance and trade in the year of the snake.” The conference invited important leaders in the industry, government and academe on both sides of the



Winner of the 2013 Hua Nan Financial Holdings Cup National Youth Baseball Championship – The Hsin Ming Junior High School of Taoyuan County.



President Mao-Shyan Liu (Right) accepted the “2013 Athletics Contributor Award Sponsor Class Silver Award” .



Taiwan Straits to exchange ideas and contributed to cross-straits exchange. The Group donated funds for this purpose.

13. Fourth Cross-Straits Competitiveness Forum

The purpose of “The Fourth Cross-Straits Competitiveness Forum,” hosted by Taiwan Competitiveness Forum, was to promote cross-straits exchanges, creating dialogues between think tanks in Taiwan and China and improving competitiveness on both sides of the straits. The Group contributed cash to the event for these reasons.

14. Ministry of Finance, 2013 Uniform Invoice Cup Marathon Event

To comply with the policy to develop public interest activities among corporations with government interest, the Group jointly hosted the “Ministry of Finance 2013 Invoice Cup Taoyuan Running Event” along with the Ministry of Finance and the National Taxation Bureau of the Northern Area. The event was held in Taoyuan Chung Cheng Arts and Culture Zone Plaza on September 8, 2013 (Sunday).

15. Master Think Tank Forum – 2014 Global Economy First Look

The 2013 Master Think Tank Forum “2014 Global Economy First Look” that was jointly hosted by the Economic Daily News, the Chung-Hua Institute for Economic Research, and the German think tank “ifo Center for Economic Studies.” The event took place on October 3, 2013 at the international conference center of the National Taiwan Hospital. Chairman Sinn of the “ifo Center for Economic Studies” and authoritative economic scholar “Mr. Yen” Eisuke Sakakibara gave keynote addresses and hosted roundtable forums on global economic trends and predictions for 2014. The Group contributed cash to the event for these reasons.



2013 Uniform Invoice Cup Marathon Event (Taoyuan) by Ministry of Finance.

16. Hua Nan Cares for the Elderly

To care for senior citizens living alone in remote regions and lacking resources, the Group formed teams with volunteers and volunteers of the HONDAO Senior Citizen's Welfare Foundation to host four “Huanan is great and never ages” events in Taitung, Hualien, Taichung and New Taipei City from October 2013 to January 2014. The services provided by the event included free hair cutting, free healthcare, donation of materials, dream-fulfillment experience and a senior dinner party.

17. Mammoth YUKA Exhibition

The Group sponsored the “Mammoth YUKA Exhibition,” provided by China Times Group's Media Sphere Communications between November 16, 2013 and March 2, 2014 at Chiang Kai-Shek Memorial Hall. The company also helped in hosting the VIP Night and public interest exhibition. The exhibition not only displayed “the most completely frozen mammoth Yuka” but also displayed the “wooly rhinoceros” that appeared before the public for the first time. The exhibition was informative and educational, invoking environmental consciousness among the Taiwanese people



Chairman Teng-Cheng Liu (Right) in Hua Nan Cares for the Elderly event.



Former-Chairman Rong-Jou Wang of HNFHC (Right) and Chairman Ming-Cheng Lin of HNCB (Left) opens 2013 Hua Nan Financial Holdings Employee Table Tennis and Badminton Competition and Social Care Carnival.

Honesty



Efficiency



Activeness



Responsibility



Teamwork



VI | OPERATING RESULTS - HNFHC

1. Scope of Operations

1. Major Operations

- (1) 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.
- (2) According to Article 36 of the Financial Holding Company Act, the Group is allowed to invest in the following businesses:
 - A. Financial holding companies
 - B. Banking
 - C. Bills finance
 - D. Credit card
 - E. Trust
 - F. Insurance
 - G. Securities
 - H. Futures
 - I. Venture capital
 - J. Foreign financial institutions which have been approved for investment by the regulator; and
 - K. Other businesses which the regulator determines to be financially related.
- (3) 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 representatives 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

| Item \ Year | 2013 | | 2012 | |
|------------------------------------|------------|------|-----------|------|
| | Amount | % | Amount | % |
| Operating Income | | | | |
| Long term equity investment income | 10,603,285 | 100 | 9,404,554 | 100 |
| HNCB | 9,570,913 | 90 | 8,723,628 | 93 |
| HNSC | 313,263 | 3 | 145,810 | 2 |
| SCIC | 696,031 | 7 | 518,697 | 5 |
| HNIT | 32,496 | - | (65,217) | (1) |
| HNVC | (94,128) | (1) | (21,485) | - |
| HNAMC | 84,710 | 1 | 103,121 | 1 |

3. Plans for New Financial Products and Services

The Group performs integrated packaging of product resources at our subsidiaries, through planning, review and management mechanism of the product integration, in tune with the financial market trends and product information around the world. The Group also analyzes the attributes of customers by using Customer Relationship Management (CRM) system and rolls out marketing campaigns that include CRM, complex products and virtual channels to provide comprehensive financial services for all customers in the entire Group.

2. Business Plan for 2014

In 2014, the Group's operating plan will emphasize the following four dimensions: Diversifying sources of revenues; Balancing profits contributions of subsidiaries; Aggressively creating a comprehensive overseas business network; and Creating a more stable operating condition. Substantive explanations are as follows:

1. Diversifying sources of revenues: Increasing the weighting of non-interest revenues

- A. Improving wealth management services by increasing the quantity and improving the quality of the financial planners.
- B. Implementing segment marketing to effectively prospect for new customers and increase spending on credit card and clearing services.
- C. Facilitating trading securities and foreign exchange to increase investment income.
- D. Embracing the trend of new payment modes (mobile payment, third-party payment and so on); creating new electronic finance services to derive revenue streams.
- E. Improving the ability of cross-selling and coupled selling to raise the overall contribution from customers.

2. Balancing profit contributions of the subsidiaries by increasing profit contributions of 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 by increasing the number of overseas branches and profit contributions:

- A. Greater China Area:
 - a. Banking : HNCB is aggressively developing Renminbi services at the Shenzhen Branch and Shenzhen Baoan Sub-branch and will also accelerate its pace in the application for Shanghai Branch. HNCB is planning for the establishing a third branch.
 - b. Leasing: HNCB's subsidiary, Hua Nan International Leasing Corporation in Shenzhen will explore business opportunities along with HNCB Shenzhen branch.
 - c. Other finance related businesses: The Group evaluates the feasibility and best timing to

enter the Chinese market by closely monitoring the deregulation process by the FSC.

- d. Equity investment: Seeking targets for equity investment that are of investment value.
- e. Securities, Property and Casualty Insurance, and Investment Trust: HNSC will seek a chance to incorporate a joint-venture securities company with a full line of licenses; SCIC will look for a chance to invest stakes in a property and casualty insurance company in China; HNIT will apply for a QFII quota in order to launch a Greater China fund.

B. ASEAN region:

- a. Committed to upgrading HNCB representative office in Hanoi, Vietnam to a branch.
- b. HNCB is positively evaluating the possibility of establishing a presence in Cambodia and Myanmar.
- c. Improving OBU and overseas branch operating performance.

4. Creating a more stable operating condition: Maintaining good asset quality, capital adequacy ratio and protecting the interests of customers.

- A. The Group will improve risk management functions and achieve asset quality at a level that is above the standards of its peers.
- B. While complying with laws and regulations, the Group will maintain proper capital adequacy ratio and improve capital deployment.
- C. The Group will intensify customer service orientation, emphasizing the suitability of product sales and simplify the operating process to improve customer satisfaction.
- D. Ensuring legal compliance; implementing corporate governance; fulfilling corporate social responsibility.

3. Industry Overview:

1. Finance

As United States and Europe accelerate their pace of economic recovery, the global economic outlook is optimistic. In terms of domestic economy, as the government accelerates the deregulation of banking laws, participates in regional economic integration and continues to open cross-straits



financial transactions, this is beneficial to the banking and finance industry to develop diverse wealth management products and Renminbi offshore service centers, as well as to improve the international competitiveness of OBU and OSU and hence enhancing footprint in Asia.

The securities market was hampered by the capital gains tax and second generation health insurance and therefore the trading volume continued to be depressed. However, at the end of last year, as the government allowed day trading of stocks, short-selling below the previous closing price and allowing securities proprietary trading firms to buy and sell stocks at the upper and lower trading limits, the trading volume is expected to grow significantly this year.

Overall, the operating conditions of the banking and finance industry have turned for the better, and profits continue to climb. As policies offer incentives and more deregulation, this condition will help the development of the industry. On the downside, the government is increasing the financial business (sales) tax and this measure will add to taxation costs and impact on profits.

2. Marketing

Domestic banking environment has been in a state of excessive competition and high homogeneity in the development of financial instruments for a long time, making it impossible for financial institutions to change the situation of competing with price and compressing profit. Although we encountered daunting challenges, our Group continues to integrate channels, products, customers and manpower among our subsidiaries to promote business in an effective manner to fully make use of our advantages and create the greatest operational synergy. With the development of Renminbi services and the signing of the “Cross-Strait Service Trade Agreement,” we can see signs that indicate the opening of cross-straits finance transactions will continue to progress. Laws and restrictions will be further deregulated. Especially noteworthy is the fact that the Renminbi is freely circulating in Taiwan. We predict that the Renminbi will create enormous and astounding business opportunities in the future.

To seize this opportunity and to maintain our lead, our Group not only offers services and instruments such as deposits, loans, remittances and investment-linked insurance policies denominated in Renminbi, but our subsidiary, HNIT, also offers domestic funds denominated in Renminbi to seize business opportunities in cross-straits finance and improve the bottom line profits.

4. Research and Development:

1. Marketing

- (1) To strive for customers adhesion and to enhance customer value, our Group will continue to devote energy to the following three dimensions – Customer Management Strategy, Business Intelligence Analysis and Customer Management System:

A. Customer Management Strategy:

Our Group will take “increasing the size of high-value customers” and “raising the average number of products traded for overall customers” as the two main strategies in customer relationship management. We will segregate the customers into “high-value customers,” “potential-rich customers” and “regular customers,” so that we can effectively distribute marketing resources and prospect for investment customers that generate fee revenues for us.

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, HNHC 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.

For high value customers, our Group creates a proprietary “High-Value Customer Asset Connections Model” and generates customer

management overview information on those customers, so that employees in the sales units can better control business opportunities generated by the high-value customers and provide the Next Product Offer (NPO) for customers. This way, the Group can increase the percentage of products invested by customers.

C. Customer Management System:

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

- (2) In the future, the Group will not only continue to execute and fortify existing policies and systems, but also create a Group Employee Sales Integration Platform to record, transmit and process sales opportunities within one subsidiary and between subsidiaries. This system will allow us to quickly and consistently process the needs of the customers, improve customer satisfaction and exert Group marketing synergy across industries. In addition, with the revolutions in information technology, mobile technology and cloud computing have created fundamental changes to the financial industry. In the future, the company will study the application of new data computing and analytical techniques. From such technology, the company will unearth more refined business intelligence analytical information so that sales staff can control the condition of customer management on a real-time basis and allow customers to receive more instant and customized services.

2. Risk Management Summary

- (1) Research on Governance, Risk Management, and Compliance (GRC)

To improve the interactions between internal controls and internal audit, risk management and compliance units, also avoid duplicated and siloed operations, we propose to reinforce the exchange of information and communications between these units and try to build up a common information sharing platform. By the end of 2013, we made the first step to

integrate internal controls, risk and compliance self-assessments.

- (2) Business Process Management (BPM) Project

Our insurance subsidiary introduced the Business Process Management project to standardize the operating processes, which is a preparation for the core system transformation in the near future. During the project, we will do research into integrating the principles and methodology of BPM into operational risk management so that the depth and breadth in the execution of operational management tools can be expanded. Furthermore, we can then help to refine the process design, efficiency and effectiveness for business units.

- (3) Attaining Balance between Risk and Return

To achieve the goal of balancing risk and return, HNFHC plans to adopt “Risk-Adjusted Return on Capital” (RAROC) to evaluate the profitability of all business units after taking risks into consideration. Accordingly, the Group can draft a suitable business development strategy in advance and measure the risk-adjusted performance afterwards to improve the efficiency of capital allocation.

- (4) 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.

- (5) Control of Trading Counterparties’ Credit Risks

HNFHC will enhance the management reports on the counterparty credit risk, and 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 future changes in the capital markets (such as the continued devaluation of Japanese Yen) on the credit risks of the Group’s trading counterparties.



(6) Market Risk Capital in the Trading Book

HNHFC 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.

(7) Management of Non-Financial Risks

To follow the international trend and meet the expectations of international regulators, HNHFC will emphasize the research and management of other special areas in non-financial risks aside from operational risks, such as business conduct risk, information security risk, etc. By doing so, we can understand a holistic risk profile within our group.

Regarding business conduct risks, aside from the subsidiaries' product reviewing mechanisms on new products in the wealth management and asset management segments, HNHFC also has a group product committee that aims to provide suitable and value-generating products to the customers. The Group performs social responsibilities to protect the customers' rights and the Group's reputation. Besides, 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 continuously promotion, and implementation of the concept "Governance, Risk & Compliance." HNHFC will align the risk management, compliance, and internal audit units among members of the Group to control related risks effectively while pursuing revenue targets.

(8) Setting the Risk Appetite of SCIC

The purpose of setting a Risk Appetite level is to ensure that SCIC has sufficient capital to absorb unexpected losses. During the process of setting the Risk Appetite level, business 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 to decide the optimal business strategy.

Currently, SCIC uses the extent of earnings volatility to assess risks in all types of insurance underwritten. For investments, the company considers the allocation of its positions under future strategies and the historic trend of risk factors involved to measure the risks that it is facing. The company also considers the maximum risk SCIC can tolerate to set the risk limit.

(9) Using big data analysis

With the rapid growth of internet information, the traditional analysis of structured data cannot meet the requirements of real-time disclosure and management. Big data analysis arises as a result.

Aside from structured data such as traditional asset quality evaluation, market price, trading volume and economic data, big data also uses unstructured data to perform analysis, such as the quantity and frequency of keywords in postings on social networks, news media and keywords of online searches. The major features of big data are large volume, wide variety and high velocity.

In the future, the company will plan to apply concepts of big data to risk management of the group, such as forecasting future trends of the housing market and creating advanced warning mechanisms to control the quality of the mortgage portfolio. The company can also create risk management advanced warnings on risk management issues, such as early warning on countries, industries or individual stocks.

5. Short to Long-term Business Development Plan:

1. Financial Management

(1) Short-term plan

- A. Diversifying sources of revenues
- B. Balance profits contributions among the subsidiaries within the Group.
- C. Expand overseas operation.
- D. Creating healthier and stable operating conditions.

(2) Long-term plan

Aside from organic growth within the Group and expanding the investment opportunities in the Greater China market, the company does not rule out the possibility of acquisition or consolidation with financial institutions which is outstanding or with complementary benefits in light of an oversaturated domestic financial market. In turn we hope to expand the scope of operations, improving international competitiveness and march toward the vision of becoming an outstanding global financial institution in the Asia-Pacific region.

2. Marketing

(1) Short-term Business Development Plan:

We will help the subsidiaries to reach operational goals with its enormous resources in product, channel and customer base:

A. Helping subsidiaries integrate their products and launch composite marketing campaigns

Based on market trends, customers' demand and each subsidiary's business and channel attributes, We help subsidiaries to integrate their products and launch composite marketing campaigns over a platform of planning, review and management and the company also combines products and channels of subsidiaries to launch group-level composite marketing campaigns to increase the number of the group products owned by customers and foster group marketing synergy.

B. Helping employees attain cross-selling related certificates

We assists subsidiaries to provide employees professional training and commit more resources to help employees attaining cross-selling related certificates by passing relevant exams. The company also convenes regular conferences on earning joint-selling and joint-promotion certifications. The company oversees the execution of license exam taking projects to improve the joint-selling professional capacity and achieve the goal of selling by all employees.

C. Integrating marketing resources of the Group

The Group continues to integrate marketing resources, packaging products, and launching marketing campaigns. We will also use advertisement to promote featured products, building brand images and product name recognition of subsidiaries. The Group also plans Virtual Points Collection projects from the perspective of long-term customer management. When customers purchase specific products from subsidiaries or transactions over a certain dollar amount, the customer can then receive corresponding virtual points. By integrating resources of subsidiaries, We offer more valuable rewards to customers and improve the relationship between customers and each subsidiary.

D. Improving operational effectiveness of virtual channels

We continue to improve the operational effectiveness of virtual channels of the entire Group, such as comprehensive banking mobile marketing and social media by paying attention to the needs of the younger groups over the internet. In order to help subsidiaries manage social media, we plan to launch complex marketing drives that are tied to public-interest group. We will be able to bring younger generations to join public-interest activities of our Group and become loyal customers over the long term.

E. Promoting integrated marketing of our Group's corporate banking services.

We comprehensively raise corporate banking integrated marketing sales volume with the enormous and outstanding channels and customer resources owned by subsidiaries, and HNCB in particular, and with a case tracking management system of "cross-industry marketing platform" and the power of "corporate banking integrated marketing team" that spans across subsidiaries. We also plan to develop mobile banking Apps for institutional customers to provide useful banking information or to provide cash



management functions, to fulfill user needs among them.

F. Customer segmentation:

Based on the importance and value of customers, we will segregate the customers into “high value customers,” “potential-rich customers,” and “regular customers”, and moreover we will use the information from business intelligence analysis to arrange the order of contact in terms of priority to help subsidiaries effectively distribute marketing resources and create the highest returns.

(2) Long-term Business Development Plan:

A. Improving cross-selling marketing services:

HNHFC 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.

B. Improve customer structure:

HNHFC will attract outstanding new customers and younger customer with the prudent and reliable corporate image of our Group, as well as clear product design and marketing appeals. We will analyze product purchase behavior of new customers and extend their good relationship

with our Group over the long term to improve the overall customer structure and the overall profit quality of customers.

C. Integrating virtual and physical channels

The Group should exceed the customers’ expectations and actively introduce new technology or provide innovative integrated services to satisfy the need for virtual channels among different customers. By doing so, we can improve customer usage satisfaction and gain market share. We can also exert collaborations between virtual and physical channels as substitute and complementary, this in turn reduces transaction costs effectively and gaining the greatest synergy for the Group.

D. The application of business intelligence:

Due to the proliferation of mobile devices and social media, the ways of contacting customers are becoming more diversified. Customer data derived as a result are also accumulated at incredible scales. In the future, We will devote resources to study new data computing and application methods of analytical technology. Aside from extracting more valuable business intelligence and capture behavioral patterns or lifestyles of customers, We intend to apply faster and more refined business intelligence analytical information on sales management to improve management effectiveness.

Financial Highlight

HUA NAN COMMERCIAL BANK (HNCB)

Unit : in NT\$ thousand

| As of December 31, 2013 and 2012 | 2013 | 2012 |
|--|------------------------------|---------------|
| Consolidated Statements of Comprehensive Income | | |
| Net interest | 22,786,504 | 21,804,711 |
| Net revenues other than interest | 8,406,291 | 7,848,183 |
| Net revenues | 31,192,795 | 29,652,894 |
| Allowance for doubtful accounts and guarantees | (3,799,503) | (3,251,006) |
| Operating expenses | (16,179,493) | (16,224,483) |
| Net profit before income tax | 11,213,799 | 10,177,405 |
| Income tax expense | (1,642,886) | (1,453,777) |
| Net profit | 9,570,913 | 8,723,628 |
| Other comprehensive income | 369,704 | 1,398,080 |
| Total comprehensive income for the year | 9,940,617 | 10,121,708 |
| Consolidated Balance Sheets | | |
| Total assets | 2,117,674,253 | 2,023,364,343 |
| Total liabilities | 1,986,980,348 | 1,900,590,104 |
| Total equity | 130,693,905 | 122,774,239 |
| Ratio | | |
| ROE | 7.55% | 8.07% |
| ROA | 0.46% | 0.44% |
| Tier I ratio | 9.03% | 9.36% |
| Capital adequacy ratio | 12.72% | 13.04% |
| NPL ratio | 0.42% | 0.44% |
| Coverage ratio | 292.37% | 218.66% |
| Credit Ratings (long/short/outlook) | | |
| Taiwan Ratings | twAA/twA-1+/Stable (2014/06) | |
| Moody's Ratings | A3/P2/Stable (2014/01) | |

Honesty

Efficiency

Activeness

Responsibility

Teamwork



1. Scope of Operations

1. Major Operations:

- (1) All types of deposits: checking accounts, demand deposits, time deposits, and savings deposits. Issuing financial bonds.
- (2) Loans.
- (3) 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 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 trust funds invested in securities.
- (47) Consulting service for investments, property management, and real estate development.

2. Composition of Income By Business Segments in the Past Two Years:

In Millions of New Taiwan Dollars

| Segments | Year | | 2013 | | 2012 | | Change | |
|-----------------------------|---------------|-------------|---------------|-------------|--------------|-----------|--------|---|
| | Amount | % | Amount | % | Amount | % | Amount | % |
| Corporate Banking | 12,605 | 29% | 12,579 | 30% | 26 | 0% | | |
| Consumer Banking | 12,173 | 28% | 11,835 | 29% | 338 | 3% | | |
| Financial Trading | 4,707 | 11% | 4,221 | 10% | 486 | 12% | | |
| Foreign Exchange | 9,491 | 22% | 8,937 | 22% | 554 | 6% | | |
| Trust and Wealth Management | 2,604 | 6% | 2,219 | 5% | 385 | 17% | | |
| Others | 1,658 | 4% | 1,450 | 4% | 208 | 14% | | |
| Total | 43,238 | 100% | 41,241 | 100% | 1,997 | 5% | | |

Note:

1. Income includes the interests, fees, financial assets/liabilities, exchanges and gains on investment properties.
2. Consumer banking includes credit cards and cash cards. Foreign exchange includes income generated from overseas branches and Overseas Banking Unit.

3. New Financial Products and Services in the Planning Pipeline

- (1) HNCB is planning to create a cross-border online transit payment service between Taiwan and China and capture online shopping business opportunities across the border.
- (2) In compliance with government policies, HNCB is planning to provide one card for cross-strait transactions.
- (3) With the government's promotion of creative industries, encouragement of innovation among SMEs and promotion of international development among businesses, HNCB is planning to offer policy-mandated preferential loans.
- (4) HNCB is creating an English interface for the foreign exchange service section of the online bank to provide comprehensive online banking services.

- (5) Responding to the rise of emerging markets in ASEAN countries, HNCB is applying to upgrade the Hanoi representative office to a branch and evaluating the establishment of business locations in ASEAN countries to serve local Taiwanese businesses, thus participating in local economic growth and increase the profits of the bank.
- (6) HNCB will issue COMBO LIFE cards as a Visa Signature Card and YOHO card as a Master Titanium Card. The bank will approach firms in other industries with competitiveness or leading channels to offer new co-brand cards to introduce new credit card customers and increase spending amount and market share.
- (7) With the revision of laws, HNCB will adjust product strategy, as needed, and launch trust instruments that are comprehensive and possess specific niches.
- (8) HNCB will utilize innovative investment models and plan stand-alone management operations, to offer new services to the customers.
- (9) 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.

2. Business Plan for 2014

- (1) HNCB will offer a wider range of methods for investment deduction for the gold passbook to increase competitiveness and expand the market share of gold passbooks.
- (2) 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.
- (3) HNCB will continue to promote cross-marketing with securities brokerage, property and casualty insurance and investment trust funds, increase the ratio of cross-selling contributions as a percentage of other services and increase fee revenues.



- (4) HNCB monitors national spatial planning policies of the government and the dynamics of business area changes in countries and cities to perform operational performance analysis on business units in all regions. Then the bank can adjust branch locations to improve the channel performance of our bank.
- (5) Overseas branches will offer and create online banking in conjunction with our bank to provide electronic financial services unconstrained by geography.
- (6) HNCB will improve mobile banking capability to expand its clientele, deepening customer relationships.
- (7) HNCB will promote electronic banking network to increase revenues and reduce operating costs.
- (8) 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.
- (9) The bank will continue to build SME services, make better use of SME Credit Guarantee Fund, expand the scale of corporate loans and adjust the corporate loan structure. The bank will continue to promote factoring and online electronic financing to improve self-liquidating financing services and seek business opportunities in supply chain financing.
- (10) HNCB will actively seek syndicated loan projects in which the bank is fit to act as a lead lender or joint lender. The bank will work harder to participate in international syndicated loans with other financial firms to increase our bank's market share in syndicated loans and increase fee revenues.
- (11) With the opening of cross-straits financial policies, HNCB is promoting cross-border financial services to satisfy customers' needs and seize business opportunities. Our bank's three branches in the Pearl River Delta – Shenzhen, Hong Kong and Macao – have gained plenty of experience in serving Taiwanese companies. The branches in Shanghai and Fuzhou that are about to be formed will be able to serve customers in the Yangtze Delta and the west side of the Taiwan Straits, offering comprehensive financing solutions.
- (12) HNCB will expand and intensify its investments in business locations in the Greater China market. Aside from the Shenzhen Baoan Sub-branch that opened in December 2013, our bank has gained approval from the FSC to establish a Fuzhou Branch and the Banking Regulatory Commission of China has approved the creation of a Shanghai Branch. The bank will be working on the creation of said locations to expand the operational map of our bank in the Greater China market.
- (13) HNCB has signed Memoranda of Understanding (MOU) with Chinese banks such as the Fujian Straits Bank, Bank of China, Bank of Communications, China Merchants Bank, China Guangfa Bank, and China Construction Bank over the years. Our bank will continue to explore business cooperation opportunities and increase profits.
- (14) HNCB will execute the “Going Beyond Mortgage Project” to upgrade the mortgage joint selling mechanism and increase the contribution of mortgage customers. The bank will also focus on mortgage customers with stable income and habits of investment and offer “wealth management mortgage.” The bank will use credit guarantee facilities to explore business opportunities on loans for sole proprietorships, partnerships and franchisees.
- (15) HNCB will use its comprehensive channel network and joint-selling capacity, exert its advantages in branch channels and work with firms in other industries and online retailers to expand and consolidate distribution network resources. The bank will also follow through segment marketing to deepen customer relationship to increase customer adhesion and profits from the products sold.

- (16) HNCB will continue to seek superior products and introduce funds denominated in multiple currencies offered by domestic investment trusts, ETFs, foreign bonds, accounts with full discretion and instruments available for professional investors. The bank will continue to promote foreign exchange derivatives offered by our bank.
- (17) 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.
- (18) HNCB will manage high contribution customers in customized ways and hold investment seminars (funds or insurance) from time to time for customers with interest in investment and potential to increase the penetration rate of wealth management customers.
- (19) HNCB will devote more resources to the standardization of trust instruments and create a comprehensive channel sales network. The bank will integrate channel resources on a larger scale to exert channel advantage and expand the size of operation.
- (20) HNCB will properly adjust the allocation of New Taiwan Dollar surplus current assets and raise the return of current funds.
- (21) With the change in international financial situations, HNCB will improve the trading of equity securities and increase capital gains and dividend income.
- (22) HNCB will facilitate trade FX Swap net positions to increase the gains of the entire bank.
- (23) HNCB will continue to promote treasury marketing unit (TMU) services and try to focus on customers that are larger and free of credit risks who need hedging services the first and financial trading the second. The bank will promote

services of Renminbi derivatives to fulfill overall needs of customers and increase the gains of the bank.

3. Industry Overview:

Based on the information of the Banking Bureau, Financial Supervisory Commission, as of the end of 2013, there are 39 domestic banks and 31 foreign banks (including Taiwan branches of China's banks) in Taiwan. The number of banks is high and the competition among them is fierce. Because the growth from domestic profit sources is limited, banks aggressively invest in the Greater China market. As we analyze the broad financial market in China, we see that Chinese banks focus more on large corporates and is conservative on making loans to SMEs. Taiwanese businesses in China need Taiwanese banks to provide funding and they are a potential source of corporate loans. Both sides can benefit. However, the business environment in China is changing and becoming unfavorable to export-oriented corporations. Companies begin to relocate to Southeast Asian countries for development. The future growth in emerging economies is still high and there is widespread demand for capital. Domestic banks are also assessing other regions with development potential in the Asia-Pacific region, such as Southeast Asia, to establish business presence and accelerate the pace of investment to increase profits.

4. Research and Development:

A total of 188 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.



5. Short to Long-term Business Development Plan:

1. Short-term Business Development Plan:

- (1) HNCB will continue to act as a wholesale agent and prize claiming agent for public lotteries and intend to increase the number of branches acting as agencies. The bank will seek opportunity to be prize claiming agents for sports lotteries.
- (2) HNCB will develop new electronic services to improve the competitiveness of our bank.
- (3) HNCB will increase the quantity and quality of financial planners and supervisors and improve the joint selling ability of tellers so that every employee is a sales person.
- (4) By using a wide variety of advertising and segment marketing for customers of different attributes, the bank will improve the brand image and name recognition of Hua Nan's wealth management service. The bank can increase the affinity to our bank's wealth management brand among the general public and increase the public's willingness to use our service.

2. Long-term Business Development Plan:

- (1) With the government's National Spatial Planning Policy as reference, HNCB continues to analyze Taipei City, New Taipei City, Taoyuan County, 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.
- (2) HNCB will ride the trend of global logistics for corporations and personal payment and develop globalized electronic cash management services.
- (3) By expanding the sales team, improving the sales system and building a stronger relationship with customers, the bank will increase wealth management fee revenues across the board.

Financial Highlight

HUA NAN SECURITIES CO., LTD. (HNSC)

Unit : in NT\$thousand

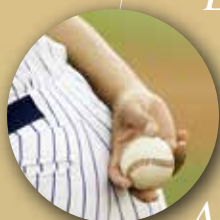
| As of December 31, 2013 and 2012 | 2013 | 2012 |
|--|----------------------------|------------|
| Consolidated Statements of Comprehensive Income | | |
| Revenue | 1,971,878 | 1,977,512 |
| Expense | 1,887,508 | 1,923,629 |
| Income before tax | 378,017 | 187,208 |
| Cumulative effect of change in accounting principles | - | - |
| Net income | 313,263 | 145,810 |
| Other comprehensive income | (156,321) | 19,514 |
| Total comprehensive income for the year | 156,942 | 165,324 |
| Consolidated Balance Sheets | | |
| Total assets | 27,787,324 | 23,684,170 |
| Total liabilities | 16,503,237 | 12,454,429 |
| Total shareholders' equity | 11,284,087 | 11,229,741 |
| Ratio | | |
| ROE | 2.78% | 1.30% |
| ROA | 1.22% | 0.59% |
| Capital adequacy ratio | 421% | 491 % |
| Credit Rating (long/short/outlook) | | |
| Taiwan Ratings | twA+/twA-1/Stable (2014/6) | |



Honesty



Efficiency



Activeness



Responsibility



Teamwork



VI | OPERATING RESULTS - HNSC

1. Scope of Operations

1. Major Operations:

- (1) Brokering securities transactions in centralized securities exchange market.
- (2) Brokering securities at its business locations.
- (3) Trading securities in centralized securities exchange market.
- (4) Trading securities at its business locations.
- (5) Underwriting securities.
- (6) Securities transfer agency.
- (7) Margin and short sale of securities.
- (8) Brokerage of overseas securities.
- (9) Operating securities related futures trading auxiliary businesses.
- (10) Securities related futures business as a supportive business.
- (11) Wealth management.
 - A. Advisory and consultation such as asset allocation or financial planning or sale of financial instruments
 - B. Executing asset allocation for customers in the form of trusts
- (12) Other securities related business approved by regulators.

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

(1) Brokerage

In 2013, the daily average dollar volume in the overall stock market was about \$95.569 billion, increasing by about 1.25% from \$94.390 billion in 2012. The average market share for the whole year was 2.78%, increased by 1.83% from 2.73% in 2012. Brokerage revenues declined to \$1.772 billion from \$1.929 billion in 2012 was due to the decline in securities lending revenues. However, operating expenses were still controlled within annual budget, therefore the 2013 brokerage operating income grew from the level of last year.

(2) Underwriting

In 2013, HNSC entered into 9 agreements as lead underwriter (including SPO lead underwriter), 6 agreements as IPO lead and supportive underwriter, and performed 35 underwriting engagements (including IPO lead underwriter, SPO lead underwriter, and other supportive underwriter and financial consulting engagements) and acted as the share registra for 94 companies. Overall, underwriting revenues in 2013 grew to \$91 million from \$86 million in 2012, representing an increase of 5.81%.

(3) Trading

In 2013, Taiwan's stock market rose 912.01 points, showing an increase of 11.85% from the level in 2012. In 2013, the company's proprietary trading revenues (including financial instruments and futures proprietary trading) grew from \$38 million in 2012 to \$63 million. In terms of options services, with consideration for market demand, the number of options written increased from 442 in 2012 to 513.

2. Composition of Income by Major Business Segment in the Past Two Years:

Unit : NT\$ thousand

| Segment | Year | 2013 | | 2012 | |
|--------------|------|-----------|--------|-----------|--------|
| | | Amount | % | Amount | % |
| Brokerage | | 1,768,953 | 89.29% | 1,815,360 | 86.19% |
| Underwriting | | 91,216 | 4.60% | 85,942 | 4.08% |
| Trading | | 121,017 | 6.11% | 205,025 | 9.73% |
| Total | | 1,981,186 | 100% | 2,106,328 | 100% |

3. New Financial Products and Services in the Planning Pipeline

With the deregulation of securities and banking 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. For this year, HNSC will comply with the legislative progress on bills proposed by regulators and follow the progress of implementation of “Cross-Straits Service Trade Agreement” at the Legislative Yuan. HNSC will perform the evaluation and planning on the following new instruments and related services:

- (1) HNSC will promote trust-type wealth management services and introduce wealth management instruments such as insurance, offering multiple choices for customers. HNSC is also planning to promote instruments denominated in Renminbi.
- (2) HNSC will actively promote a full range of investment banking operations: With the government-provided incentives 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 incentives from the government that encourages overseas Taiwanese companies to conduct public offerings in Taiwan, the underwriting department will actively pursue overseas Taiwanese companies through channels such as the branch office in Hong Kong, law firms, and accounting firms to assist the listing these corporation’s stocks on the exchange or OTC.
- (7) Propose to promote new Offshore Securities Units (OSU) to increase the flexibility of operation.
- (8) Staying current on the evolution of laws pertaining to Formosa bonds issued in Taiwan and T-shares issued by Taiwanese companies in China. Maintaining effort to build relationship with Chinese companies for possible future underwriting opportunities.

2. Business Plan for 2014

Fueled by a high level of money supply in the US, Europe, and Japan, major stock markets in the world closed much higher for 2013. They made “historic highs” one after another. Developed markets were the biggest winners. Markets in the US, Europe, and Japan broke records together. In 2013, Dow Jones in the US made historic highs 51 times; the Japanese stock market rose 56% for the whole year, marking the greatest surge in 41 years; and European stocks also recovered grounds lost in the European debt crisis. The Taiwanese stock market also soared like a dragon toward the end of the year, posting an 11.85% gain for the entire year. Regrettably, the trading volume was still deficient, as it was depressed by the capital gains tax and second generation health insurance. 2013 Annual Report 061

This year, as QE in the US will taper off, global funds will return to the US on a great scale and stock markets in emerging markets may wither because funds could be withdrawn and momentum could be lacking. Developed markets in the US and Europe will continue to climb. As consumer spending increases, Taiwan’s foreign trade may gradually



revive. In the beginning of 2014, the Taiwanese stock market also received a boost from the FSC with policies such as day trade with stocks settled with cash “in the buy first sell later” fashion. With the six-in-one election at the end of 2014, the government is clearly mandating bullish measures. The volume at GTSM is growing, and small and medium stocks are soaring. The Taiwanese stock market is more bullish than ever.

2014 is a year in which the government rolls out economic incentives. The “Cross-Straits Service Trade Agreement” that is crucial to the westward expansion of the banking and securities industry is expected to take effect, and the cross-straits good trade is also expected to be signed. The government has formed a task force to negotiate a chance to join the “Trans-Pacific Partnership” (TPP) and the “Regional Comprehensive Economic Partnership” (RCEP). The government will also promote cross-straits services and strive for free finance transactions, globalization and institutionalization. The goal is expanding the capital markets, broadening the scope and adopting global standards. Cross-straits regulations will come into effect at a faster and faster pace. HNSC operational goals are as follows:

1. Develop and recruit talents 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. With the laws coming into effect, HNSC will promote new services such as overseas securities unit (OSU) services and trust-type wealth management.

3. 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

| Year | Item | Total Number of Securities Dealers | | |
|------|------|------------------------------------|---------------|-------|
| | | Head Office | Branch Office | Total |
| 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 |
| 2013 | | 147 | 998 | 1,145 |

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. **The government allows securities dealers to offer international securities service and foreign exchange service, creating a trend that leads Taiwan's securities markets towards globalization and deregulation**

In the past, securities dealers had a hard time developing securities services related to foreign currencies in Taiwan due to regulations and the lack of tax incentives. They could only use their overseas subsidiaries to offer such services. However, because those subsidiaries did not have sufficient capital and credit rating, it was hard for them to compete for business such as large international underwriting, bonds denominated in foreign currencies and derivatives. Therefore, high-asset customers in Taiwan opened accounts in Singapore and Hong Kong for such investments. After securities dealers began to offer international securities services and foreign exchange services, this condition will help draw overseas funds back to Taiwan, expand the size of Taiwan's capital markets and boost economic development.

With the theme of developing wealth and asset management services in Taiwan, the FSC is allowing securities dealers to create Offshore Securities Units (OSU) that are independent in terms of accounting to offer international securities service in the fashion of Offshore Banking Units (OBU). The FSC is also providing tax incentives and the offering of such services is exempted from the Securities and Exchange Act and the Foreign Exchange Regulation Act, so that Taiwan can compete with other offshore financial center globally. The FSC is incorporating

OBU and OSU into the Free Economy Zone and allowing them to become major sales channels, offering all kinds of financial instruments and services to non-residents and domestic professional investors. The FSC is also planning to grant massive freedom to domestic professional institutional investors. As for investors other than professional institutional investors, the FSC will gradually grant them freedom with both industry development and investor protection in mind.

In the future, the FSC will continue to deregulate and grant freedom to raise the international competitiveness of securities dealers while taking the nature of the finance industry into consideration, using oversight policies of other nations and regions as reference, and taking care of both industry development and investor protection. The goal is developing Taiwan into a regional financial center and achieving the policy goal of "a wealth management platform that is based in Taiwan for its citizens."

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

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 2013, seventy-seven securities dealers have offered electronic trading. For the whole year, electronic (including internet and voice) transaction volume has increased to NT\$18.3327 trillion, and its share of total transaction volume has dramatically increased from 36.0% to 38.2%.

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 2013, market share in electronic trading grew from 2.98% to 3.07%.

4. Research and Development:

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) Creating associated systems in conjunction with the integration project of the financial holdings sales channel.
 - (2) Designing and creating an overseas web sub-brokerage platform: HNSC creates a multi-national order-placing platform so that customers can simultaneously perform transactions and trade on the same platform over multiple instruments. HNSC is also creating a sub-system with a New Taiwan Dollar pricing mechanism to increase the convenience of transaction for customers.
 - (3) 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.
 - (4) 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.
 - (5) Requirement management for special requirements: HNSC assists branch companies to perform requirement description and analyzes the project system creation for sales channel integration at the financial holding level regarding the information needs of branch companies.
 - (6) Wealth management trust operation system planning: in order to coordinate with the promotion for future wealth management trust business, the support system will be implemented as needed arise.
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, HNFHC, 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. **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.

7. HNSC follows the progress of implementation on “Cross-Strait Service Trade Agreement” in the Legislative Yuan.
8. HNSC will promote trust-style wealth management services and introduce wealth management instruments such as insurance, offering multiple choices for customers. HNSC is also planning to promote instruments denominated in Renminbi.
9. HNSC has been authorized to offer Offshore Securities Unit services. In the future, HNSC will hire talents in this area to promote services in this field and increase our niches.
10. 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 companies for possible future underwriting opportunities.

5. 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.

Financial Highlight

SOUTH CHINA INSURANCE CO., LTD. (SCIC)

Unit : in NT\$thousand

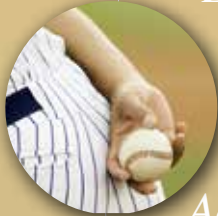
| As of December 31, 2013 and 2012 | 2013 | 2012 |
|---|------------------------|--------------|
| Statements of Comprehensive Income | | |
| Operating income | 5,456,207 | 4,901,453 |
| Operating cost | (3,417,093) | (3,253,958) |
| Gross income from operations | 2,039,114 | 1,647,495 |
| Operating expense | (1,220,402) | (1,054,931) |
| Net operating income | 818,712 | 592,564 |
| Non-operating revenue | 6,093 | 22,256 |
| Non-operating expense | (14,028) | (1,253) |
| Income before tax | 810,777 | 613,567 |
| Income Tax | (114,746) | (94,870) |
| Net income | 696,031 | 518,697 |
| Other comprehensive income | 78,118 | 52,228 |
| Total comprehensive income for the year | 774,149 | 570,925 |
| Balance Sheet | | |
| Total assets | 14,171,245 | 13,538,928 |
| Total liabilities | 10,605,879 | 10,556,980 |
| Total shareholders' equity | 3,565,366 | 2,981,948 |
| Ratio | | |
| ROE | 21.26% | 18.94% |
| ROA | 5.02% | 3.99% |
| Capital adequacy ratio | 540.60% | 502.84% |
| Credit Ratings (long/outlook) | | |
| Taiwan Ratings | twAA-/Stable (2013/12) | |
| A.M. Best Ratings | A- /Positive (2014/01) | |



Honesty



Efficiency



Activeness



Responsibility



Teamwork



VI | OPERATING RESULTS - SCIC

1. Scope of Operations

1. Major Operations:

- (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/Fishing Boat 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
 - Travel liability insurance

3. New Financial Products and Services in the Planning Pipeline

In 2014 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:

- (1) Automobile liability insurance criminal litigation legal counsel fee reimbursement clause
- (2) Home comprehensive insurance daily life liability insurance clause
- (3) Public accident liability insurance educational institution liability clause
- (4) Chain store all risks insurance
- (5) Product liability insurance product recall expense clause
- (6) Pharmacist and pharmacist's assistant practice liability insurance
- (7) Personal injury insurance (standard) accident outpatient surgery medical insurance reimbursement 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 in the Past Two Years:

Unit : NT\$ thousand

| Item | 2013 | | 2012 | |
|--|-----------|--------|-----------|--------|
| | Amount | % | Amount | % |
| Gross written premium | 7,047,700 | 95.26 | 6,509,881 | 94.91 |
| Fire insurance | 1,333,409 | 18.02 | 1,283,429 | 18.71 |
| Flood insurance | 518,074 | 7.00 | 561,029 | 8.18 |
| Automobile insurance | 4,182,788 | 56.54 | 3,673,832 | 53.56 |
| Accident insurance | 599,211 | 8.10 | 625,045 | 9.11 |
| Health and accidental injury insurance | 414,208 | 5.60 | 366,546 | 5.35 |
| Reinsurance revenue | 350,686 | 4.74 | 349,061 | 5.09 |
| Total | 7,398,386 | 100.00 | 6,858,942 | 100.00 |

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

2. Business Plan for 2014

1. Expanding market share: SCIC will continue to develop and improve our cooperation with bank and life insurance channels. The company will provide customized products to satisfy the needs of all channel customer group, create new services and improve our performance.
2. Improving the ability to manage and use information: SCIC will perform corporate process reformulation, plan the new core information system, integrate the application system of all insurance types, improve customer service and information safety and improve the operational efficiency of selling, underwriting, reinsurance and claims.



3. More intensive legal compliance and risk management: SCIC will follow through with the consensus of legal compliance and implement internal control and internal audit regulations to comply with various regulations. The company will continue to promote transparency of risk management information and implement loss report operating mechanism to meet the goal of risk management.
4. Improving and implementing management of personal data: The company will draft “Personal data management policy” to comply with applicable laws such as “Personal Information Protection Act” and implement the protection and management of personal information.
5. Invest in the Chinese market and develop talent: SCIC will implement the rotation mechanism that sends (adds) employees to work in the Chinese market and seek cooperation opportunities in the Chinese market. The company will incorporate the Shenzhou Auto Insurance Company with shareholders such as MIT Group in China.
6. A stable and flexible fund allocation strategy: SCIC will pay attention to changes in the investment environment around the world, steadily adjust asset allocation, focus on fixed income and continue to evaluate the scale and return on investment of positions managed by external parties. The company will adjust the fund application ratio as needed and increase returns on investment.
7. Fulfilling corporate social responsibility: SCIC will continue to focus on the education issues of school children in remote regions and actively participate in “Tso Tribe Elite Student Academic Sponsorship Project” so that good students can continue to go to school. The company can fulfill corporate social responsibility by developing the future generation well.

3. Industry Overview:

The gross written premium for the property and casualty insurance as a whole in 2013 was NT\$124.22888 billion, representing a 3.67% growth over 2012, and insurance premium increased by

NT\$4.4 billion. The gross written premium at SCIC in 2013 was NT\$7.04470 billion, representing a 8.26% growth over 2012, and insurance premium increased by NT\$537.82 million. Moreover, SCIC market share increased to 5.67%.

4. 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 |
|--|
| 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 |
| 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 |

Note: 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. New products

planned are: Automobile liability insurance criminal litigation legal counsel fee reimbursement clause; Home comprehensive insurance daily life liability insurance clause; Public accident liability insurance educational institution liability clause; Chain store all risks insurance; Product liability insurance product recall expense clause; Pharmacist and pharmacist's assistant practice liability insurance; and Personal injury insurance (standard) accident outpatient surgery medical insurance reimbursement clause. The company will also improve the integration of information systems and raise the returns on e-commerce marketing.

5. Short to Long-term Business Development Plan:

1. Operating guideline

- (1) Maintaining a good business structure; carefully controlling accumulated risks.
- (2) Creating a new core operating system; improving the benefit of information integration.
- (3) Adding service locations; improving the competence of sales agents.
- (4) Raising the competence of the professional team; developing a new generation of leaders.
- (5) Focusing on legal compliance; implementing risk management mechanism.
- (6) Using diverse and steady investment strategies; increasing long-term stable income.
- (7) Continuing to participate in public interest activities; creating the corporate image of the company.

2. Operational Objective

Premium revenue at SCIC in 2013 was NT\$7.398 billion, including gross written premium of NT\$7.048 billion and reinsurance premium of NT\$351 million. The average indemnity ratio of all types of insurance is 51.92%.

Revenue of SCIC in 2013 was NT\$5.406 billion, which included retained contract expiry premium revenue of NT\$4.532 billion, net investment revenue of NT\$264 million, and other revenue of NT\$660 million. Operating cost was NT\$3.417

billion, including retained indemnity and payment of NT\$2.408 billion, liability reserve net change NT\$2 million, and other operating cost of NT\$1007 million. Operating expenses were NT\$1.22 billion, and operating income was NT\$819 million. Net non-operating loss was NT\$8 million. Pre-tax net profit was NT\$811 million. Net profit after income tax expense was NT\$696 million. Earnings per share were NT\$3.48. Return on assets was 5.02%. Return on equity was 21.26%. SCIC achieved 139.21% of 2013 budgeted goal.

3. Key Operational Policies

(1) Business development:

- A. Continuing to develop and invest in channels; integrating channels to promote new projects; adding nationwide insurance brokerage/agency services; expanding the scale of business cooperation and sales growth and developing and expanding B2B and B2B2C online transaction platform partners; increasing online selling competitiveness and gaining greater business opportunities.
- B. SCIC will expand business locations and the number of agents. For the need of business development, the company continues to promote the strategy of adding business locations and direct selling headcounts. The company also wants to increase the professional and marketing competence of the sales employees.
- C. SCIC continues to improve the function of project services at the customer service centers. Depending on business needs, the company convenes project requirement evaluation meetings whenever necessary to control service resources.
- D. SCIC invests in and positions itself for the Chinese market. The company continues to help employees to acquire insurance licenses in China and create a talent pool for business development in China.
- E. Participated in "Insurance Faith, Hope, Love Award" competition. SCIC has been recognized by "Insurance Faith, Hope,



Love Award” five years in a row in terms of “Insurance Profession” and “Insurance Product Innovation.”

(2) Risk management:

- A. SCIC intensifies the linkage between annual risk tolerance and operating strategy and introduces annual budget flows to reflect the risk management culture and operating style of SCIC in risk tolerance.
- B. SCIC creates a risk and return evaluation mechanism and discloses the risk-adjusted returns on capital (RAROC) on each business line (five major insurance types and investments) to gain proper balance between risk and return.
- C. SCIC promotes the integration of internal audit, legal compliance and risk management functions. The company improves the method of risk self-assessment (RSA) to effectively reduce the risk of legal compliance and increase the effectiveness of internal controls.

(3) Expense control:

- A. With the remodeling and repair of all business locations, the company switched to light bulbs that use less power to reduce electricity expenses and cut costs.
- B. SCIC strictly enforce annual expense budget management policy 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 prove that SCIC achieved excellent result on the control of expenses, the expense ratio from 2011 to 2013 has been 29.48%, 28.68%, and 29.89% respectively.

(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 cooperates with the risk control integration mechanism of HNFHC. 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.

Financial Highlight

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

Unit : in NT\$thousand

| As of December 31, 2013 and 2012 | 2013 | 2012 |
|--|------------|------------|
| Statements of Comprehensive Income | | |
| Operating income | 206,015 | 244,650 |
| Operating expense | (166,499) | (194,194) |
| Net operating income(loss) | 39,516 | 50,455 |
| Non-operating revenue | 3,039 | 3,627 |
| Non-operating expense | (3,793) | (133,071) |
| Income before tax | 38,762 | (78,988) |
| Cumulative effect of change in accounting principles | - | - |
| Net income | 32,496 | (65,217) |
| Other comprehensive income | (11) | (691) |
| Total comprehensive income for the year | 32,485 | (65,908) |
| Balance Sheet | | |
| Total assets | 806,978 | 793,546 |
| Total liabilities | 400,420 | 419,473 |
| Total equities | 406,558 | 374,073 |
| Ratio | | |
| ROE | 8.19% | -15.19% |
| ROA | 4.08% | -7.48% |

Honesty

Efficiency

Activeness

Responsibility

Teamwork



VI | OPERATING RESULTS - HNIT

1. Scope of Operations

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 in the Past Two Years:

| Asset type | | Percentage (%) |
|---------------------------|--------------|----------------|
| Mutual funds | Equity | 39.58 |
| | Fixed income | 49.73 |
| Private equity | | 3.16 |
| Discretionary investments | | 7.22 |
| Fee income | | 0.31 |
| 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.

2. Business Plan for 2014

1. Improve ability in asset management to pursue stable management results.
2. HNIT continues to develop a diverse range of fund products to provide more choices to customers and substantiate the product line of the company.
3. Actively pursue e-commerce to improve customer service and increase the customer base.
4. Improve customer service and relationship maintenance and integrate these goals with brand promotion.
5. Continue to perform employee education and training on the important issues which benefit the company's long-term development and improve service quality.

3. Industry Overview:

Among the 20 fund types, 11 of them grew in size in 2013. Fund types with increases of over \$10 billion are the domestic money market fund and high-yield bond funds. Overall, the large investment trust companies remain large. The one with the largest fund size is Yuanta Investment Trust at about \$29.79 billion. Investment trust companies with fund sizes over 100 billion include Capital, Fuh Hwa, Eastspring, Morgan, and Cathay. Seven of the ten largest investment trust companies are domestic investment trust companies and they are generally investment trust companies within financial holding groups. The other three are foreign investment trust companies. This fact shows that with the support of

resources from the financial holding group, domestic investment trust companies are becoming more and more competitive.

4. 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 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.
2. On July 8, 2013, HNIT launched the first multi-currency fund that is a new offering – the "Hua Nan Renminbi High Yield Bond Fund," including pricing classes in New Taiwan Dollars and Renminbi.

5. Short to Long-term Business Development Plan:

1. Short-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 aims 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.

Financial Highlight

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

Unit : in NT\$thousand

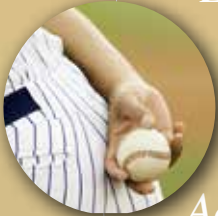
| As of December 31, 2013 and 2012 | 2013 | 2012 |
|---|-----------|-----------|
| Statements of Comprehensive Income | | |
| Operating Income | 24,637 | 89,413 |
| Operating expenses | (25,216) | (26,264) |
| Net operating income (loss) | (579) | 63,149 |
| Non-operating revenue | 6,634 | 7,538 |
| Non-operating expense | (96,460) | (86,414) |
| Income(loss) before tax | (90,405) | (15,727) |
| Net income (loss) | (94,128) | (21,485) |
| Other comprehensive income | 20,896 | 28,254 |
| Total comprehensive income for the year | (73,232) | 6,769 |
| Balance Sheet | | |
| Total assets | 1,812,867 | 1,932,464 |
| Total liabilities | 9,563 | 14,245 |
| Total shareholders' equity | 1,803,304 | 1,918,219 |
| Ratio | | |
| ROE | -5.06% | -1.12% |
| ROA | -5.03% | -1.11% |



Honesty



Efficiency



Activeness



Responsibility



Teamwork



VI | OPERATING RESULTS - HNVC

1. Scope of Operations

1. Major Operations:

- (1) Venture capital businesses;
- (2) Investment advisory;
- (3) Management consulting.

2. Composition of Income in the Past Two Years:

| Item | Percentage% |
|-------------------|-------------|
| Investment income | 100 |

2. Business Plan for 2014

1. Adjusting portfolio in response to changes in the environment.
2. Effectively grasp good projects.
3. Improving the assessment depth of investment projects.
4. Exactly implementing the stop-loss mechanism.

3. Industry Overview:

According to the data of the Venture Capital Association, as of the end of 2013, about 199 venture capital companies among all venture capital firms in Taiwan were actually in operation. Their total capital under management was about NT\$147.861 billion. Because it was hard to raise capital, newly incorporated venture capital firms tend to be small.

As we analyze the investments of Taiwan's venture capital industry, we can see that the location of investment is still focused on Taiwan, about 70% was in projects that were in the expansion and maturity phases. The industries receiving the

investment are mostly in the semiconductor and photonic industries. With increasing investment risk and shattered investment confidence, the total investment dollar amount and project count significantly declined from the level of previous years.

The government is promoting emerging industries, smart industries and key service industries. These industries will drive the transformation and further upgrade of relevant industries and help the expansion of the investment business.

4. Research and Development:

By attending industry seminars and training courses, employees can grasp the development trends in the industry. HNVC will improve assessments on investments and improve the professional competence of management after the investment is made. By assisting with operations and financial planning of invested companies, the company will create strategic alliances and partners, so that shares of the investees can be offered to the public and the Company can walk away with a profit.

5. Short to Long-term Business Development Plan:

1. HNVC seeks 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.

Financial Highlight

HUA NAN ASSETS MANAGEMENT CO., LTD. (HNAME)

Unit : NT\$thousand

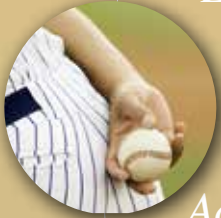
| As of December 31, 2013 and 2012 | 2013 | 2012 |
|---|------------|------------|
| Statements of Comprehensive Income | | |
| Operating Income | 201,478 | 259,145 |
| Operating expenses | (188,062) | (242,513) |
| Net operating income (loss) | 13,416 | 16,632 |
| Non-operating revenue | 87,274 | 127,632 |
| Non-operating expense | (15,342) | (28,296) |
| Income before tax | 85,348 | 115,968 |
| Net income | 84,710 | 103,122 |
| Other comprehensive income | 1,684 | (260) |
| Total comprehensive income for the year | 86,394 | 102,861 |
| Balance Sheet | | |
| Total assets | 2,416,799 | 2,721,232 |
| Total liabilities | 1,298,200 | 1,596,257 |
| Total shareholders' equity | 1,118,599 | 1,124,975 |
| Ratio | | |
| ROE | 7.55% | 9.31% |
| ROA | 3.30% | 3.33% |



Honesty



Efficiency



Activeness



Responsibility



Teamwork



VI | OPERATING RESULTS - HNAME

1. Scope of Operations

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
 - A. Purchasing non-performing loans from financial institutions
 - B. Management and disposal of non-performing loans purchased from financial institutions
 - C. The disposal of assets pledged for non-performing loans purchased from financial institutions.
 - D. 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
 - A. Disposal of non-performing loans from financial institutions and NPL receivables of corporations according to engagement contracts
 - B. 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. Business Plan for 2014

1. NPL investment and disposal

- (1) Investment strategy
 - A. HNAME will continue to focus on the dynamics of new issues into the domestic delinquent receivables market. The source of purchase is expanding to single-transaction large syndicated receivable and receivables sold by other AMC firms.
 - B. HNAME will maintain good relationship with other firms in the same industry. With our experience in actually managing delinquent receivables on behalf of industry peers with foreign capital, and the management

advantage of regional allocation by existing disposal employee, the company fights for the business of managing delinquent receivables on behalf of our peers.

(2) Disposal strategy

- A. By auctioning collaterals, negotiating with the secured party and selling receivables, HNAME accelerates the disposal of delinquent receivables.
- B. The priority is acquiring collaterals with development potential or in good locations to earn rent income and future appreciation gains.

2. Real estate direct investment service

(1) Investment strategy

- A. Depending on conditions such as the marketability of the project and future development, HNAME bids in the auctions of foreclosed properties in the Taichung and Kaohsiung metropolitan areas to expand the range of investment and increase asset size.
- B. HNAME selects commercial real estate such as retail/office, factory/office and factories with capital gains potential in industry clusters as major investments. The company also bids for residential houses in prime locations and land zoned for construction, which are investments with residential demand and convenient life mechanism to expand the operation size.

(2) Disposal strategy

- A. HNAME continues to improve property management functions and accelerate the promotion of rental and sale services to increase revenue.
- B. HNAME increases holding investments with future development potential. The company can stabilize the source of revenue with rent income and balance regular revenues and expenditures. In the mid- to long-term, the company can earn capital gains.
- C. HNAME is making active use of assets. By investing in part of the resources, the company can create asset value to earn the greatest benefit.



3. Contracted collecting service

- (1) HNAMC is developing other project sources, such as outsourced collection for medium and large corporations, contracted collection of delinquent receivables for small and medium banks without their own AMC subsidiaries.
- (2) Through the collaborations of cross-selling channels of the Group, the HNAMC develops new business called the “Past-due receivable collection services under contract” (also referred to as “corporate collection services”).

3. Industry Overview:

The Financial Supervisory Commission revised “Notifications on the Sale of Delinquent Receivables by Financial Institutions” in March 2013. The sale of delinquent receivables by financial institutions is governed by the policy that is “collection by the company itself, in principle; sale is allowed as exceptions.” This rule caused a shortage of receivables sold in the market. In 2013, financial institutions only sold about \$10.9 billion of delinquent receivables, which was about 20.26% of the total \$53.8 billion sold in the entire year of 2012. 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 27% to 51% 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.

With the changes in the market described earlier, financial holding companies and AMCs owned by banks are all facing the issue of transformation to cope with the unfavorable condition that is the sharp drop of delinquent assets in the market and to increase revenues.

4. 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 2013. 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.

5. Short to Long-term Business Development Plan:

1. Short-term Plan

- (1) HNAMC will improve the selling of existing delinquent receivables. The company will bid for delinquent receivables sold by financial institutions or other AMCs and fight to take the management of delinquent assets under contract from peers.
- (2) HNAMC will increase the holding of mid- and long-term real estate to increase stable rental income.

2. Long-term Plan:

- (1) After the corporate collection service volume reached the economy of scale, HNAMC will study the possibility of offering the service in receivable factoring without recourse.
- (2) HNAMC will study the delinquent receivables market in China and investigate investment opportunities in delinquent assets or receivables overseas.

Honesty



Efficiency



Activeness



Responsibility



Teamwork



VII | RISK MANAGEMENT SUMMARY

1. Risk management organizational structure and policy of the financial holding company and its subsidiaries

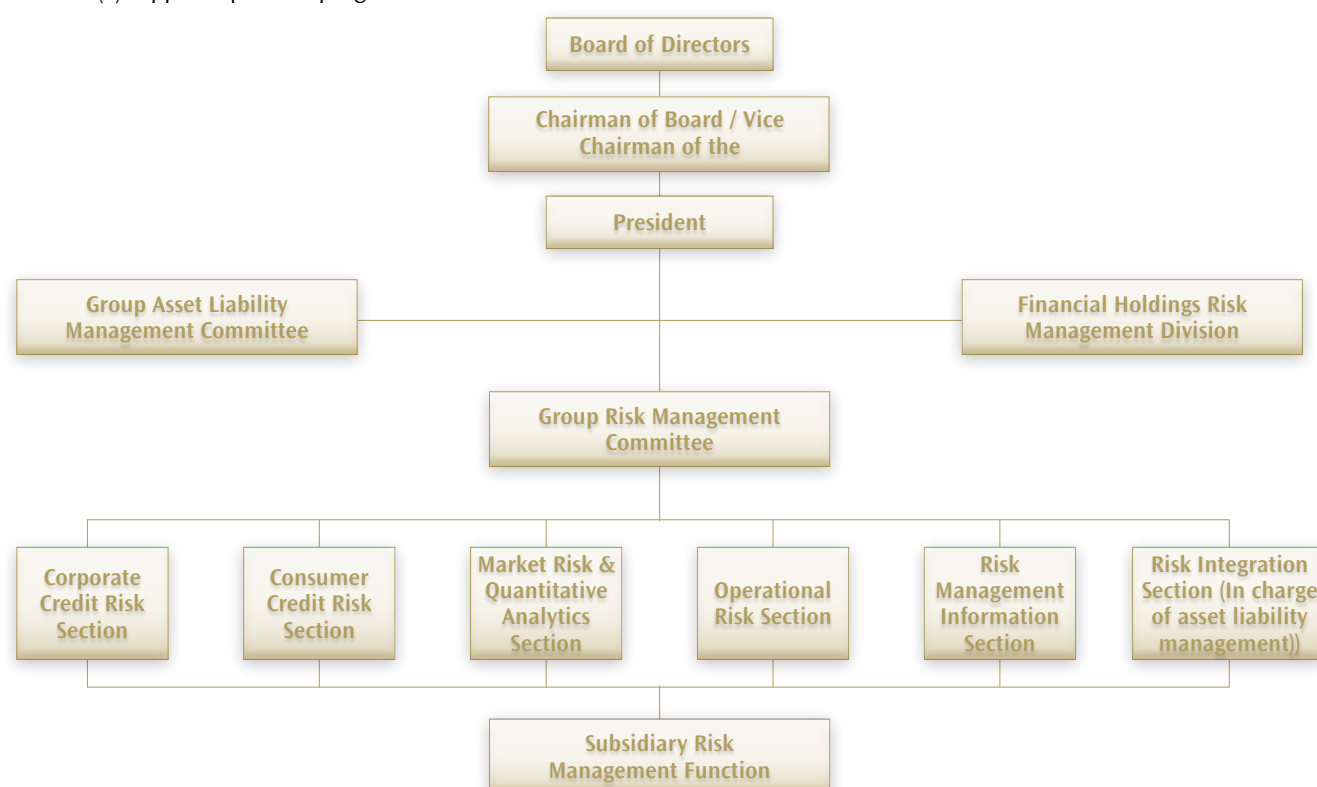
1. Group risk management organization structure

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. The method of measuring and controlling risks and risk exposure quantitative information, by the financial holding company and its subsidiaries

1. Regular qualitative disclosure: The company has to disclose the risks faced by subsidiaries in each risk area (including credit risks, market risks, operation risks and other risks) and describe its risk management goal and policy, including the following:

- (1) Strategy and process.
- (2) The organization and structure of applicable risk management systems.
- (3) The range and features of the risk report and measuring system.
- (4) The policy of hedging and offsetting risks, and the strategy and process of monitoring the continued effectiveness of the hedging and offsetting instruments.

(1) Credit Risk

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 limits, 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 group corporate risk management report each month. 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. Consumer Credit Risk

The company regularly presents consumer credit risk management report to the Group Risk Management Committee and the Board. The report fully displays and monitors the group's consumer credit risk exposure and asset quality. The report jointly review each portfolio's performance with leading indicators (30 days-plus delinquency ratio), coincident indicators (new non-performing loan ratio), and lagging indicator (non-performing loan ratio). The company applies macroeconomic indicators, such as GDP growth rate and unemployment rate, to decision-making's reference.



B. Risk management report

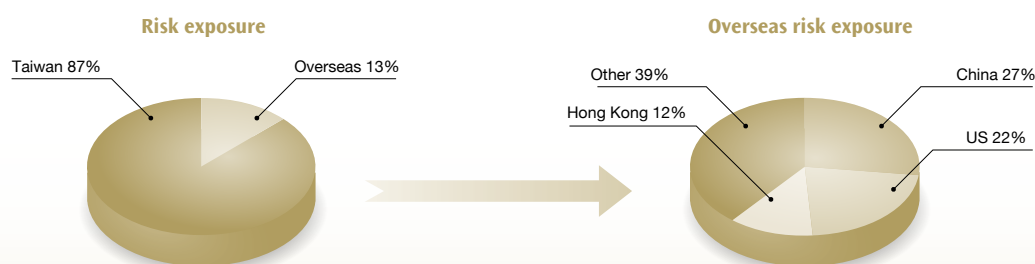
a. Credit exposure balance

At the end of 2013, our group's total credit exposure approached \$2.1 trillion. Loans made up 73% of the exposure, while bonds and bills made up 22%, and other operations made up 5% 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 \$1.2 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.

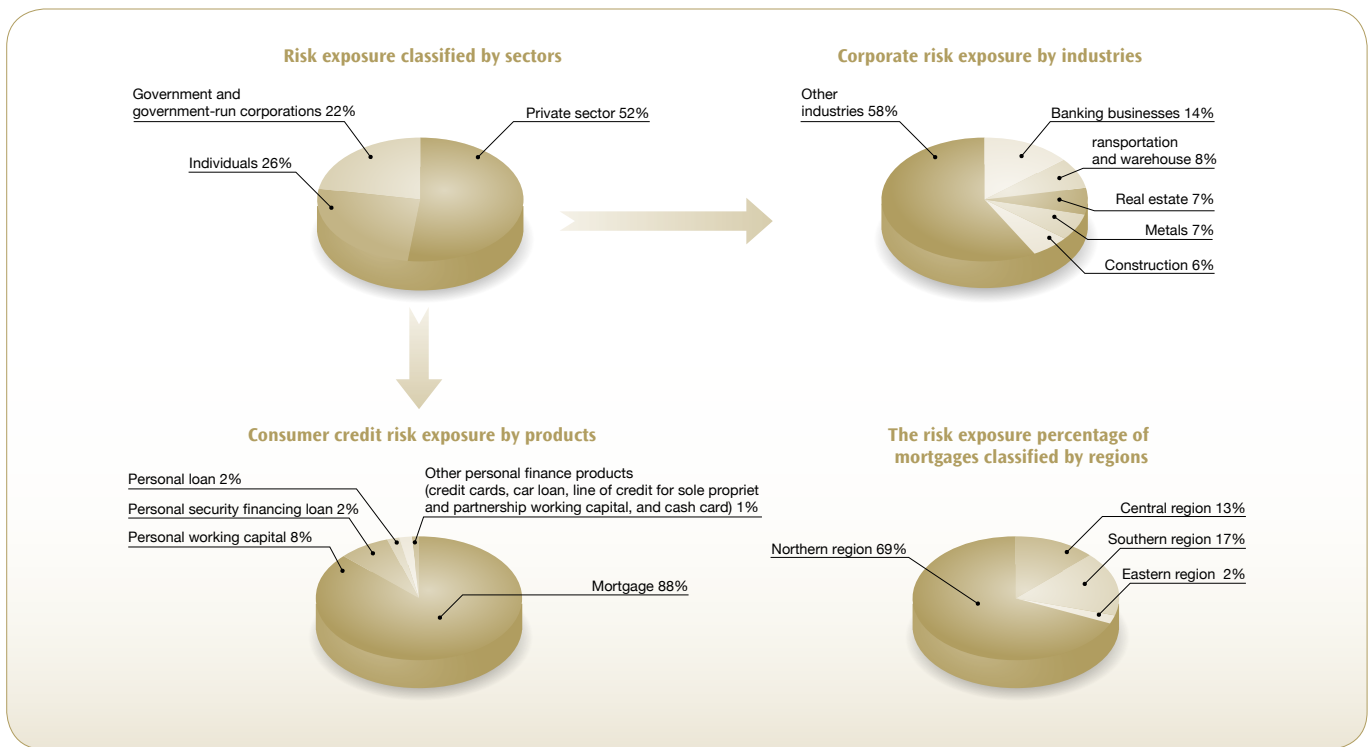
Classified by countries, 87% of our company's credit exposure comes from Taiwan and 13% from abroad. The top three foreign countries are the China, United States and Hong Kong. Together they make up 61% of our foreign exposure, while other individual countries make up less than 5% each.



Classified by sectors, 52% of our company's credit exposure comes from the private sector, 26% from individuals and 22% from the government and government-run corporations.

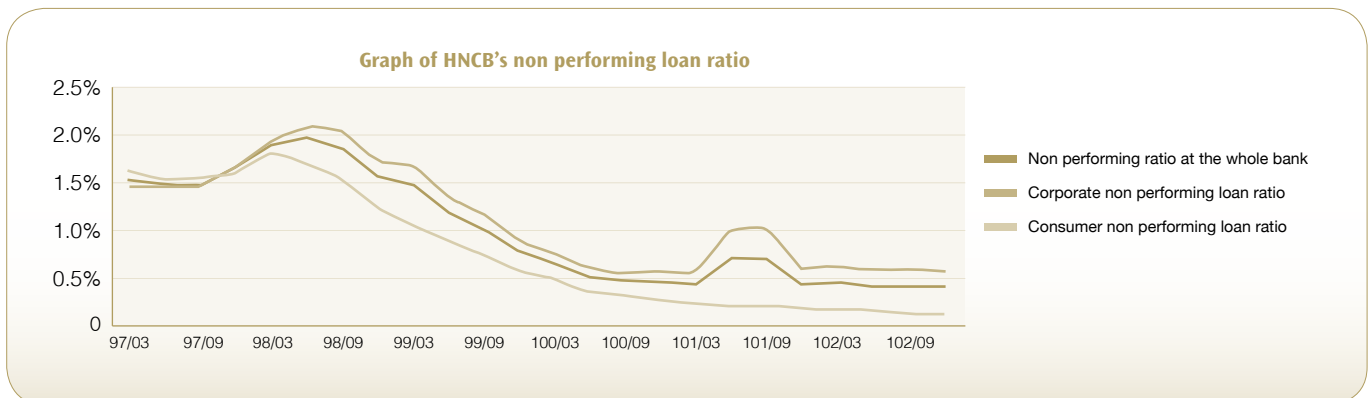
The top five industries in the private sector are banking, transportation and warehouse, real estate, metals, and construction. Altogether, they make up 42% of the private sector, while each one of the other industries makes up less than 5%.

The mortgage loan is the largest component of consumer credit risk, with a ratio of 88%. The next is personal working capital at 8%, and the personal loan at 2%, and personal security financing at 2%. The other consumer credit products (including credit card, car loan, sole propriet and partnership working capital, and cash card) make up about 1%. The mortgage loan exposure classified by regions indicates 69% comes from the northern region and 17% comes from the southern region (including Kinmen and Matzu).



(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 2013, past-due loan ratio for the whole bank was 0.42%, 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.

A. Critical control mechanism

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: limit management

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.

B. 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 2013

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 2013

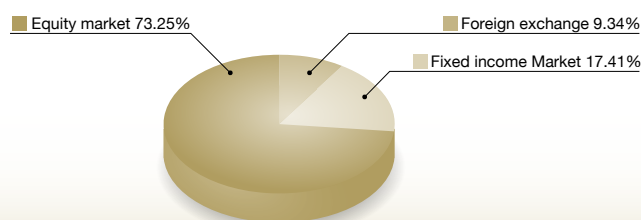
In 2013, our group's trading book position registered a minimum VaR of \$23 million and a maximum VaR of \$72 million, with an average VaR of \$39 million.

In Millions of New Taiwan Dollars



e. Summary of our group's trading book position VaR at year-end 2013

The trading book position of our group has a risk value of \$38 million at the end of 2013. This value is 0.03% of the net assets of the group at the end of 2013 and it is within the acceptable range of the group. When classified by risk factors,



the concentration is in equity instruments, whose risk value is 73.25% of the group's risk value. After that come the risk value of 17.41% for fixed income instruments and 9.34% for foreign currency instruments.

f. Comparison of our group's trading book position VaR at year-end 2013 and 2012

The VaR of our group's trading book position at year-end 2013 is \$37.56 million, a \$0.06 million increase compared to the 2012 figure of \$37.50 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

Non-trading book interest rate risk refers to the risk that group members' earnings or the economic value of equity are impaired as a result of market interest rate fluctuations. The measurement tools that are usually adopted included the sensitivity analysis of net interest income and economic value of equity.

A. Critical control mechanism

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.

B. Risk management report

With HNCB's asset and liability structure as of December 31, 2013 as the foundation, under the condition of defining applicable assumptions and no active management, the change of net interest income in the following year under different interest rate scenarios is analyzed. The result indicates that, if the market interest rate gradually rises by 100 basis points, the net interest income is expected to increase by 15.9% compared to the base scenario; on the other hand, if the market interest rate gradually declines by 100 basis points, the net interest revenue is expected to decrease by 11.4% compared to the base scenario.



| Change in market interest rate in the following year | Change in net interest income in the following year (compared to the base scenario) |
|--|--|
| gradually rises by 100 basis points | +15.9% |
| gradually declines by 100 basis points | -11.4% |

(2) Liquidity Risk Management

Liquidity risk refers to the risk that group members' current or future earnings or shareholders' equity are impaired owing to not able to repay their due debtor funds for debt repayment being obtained with significant loss.

A. Critical control mechanism

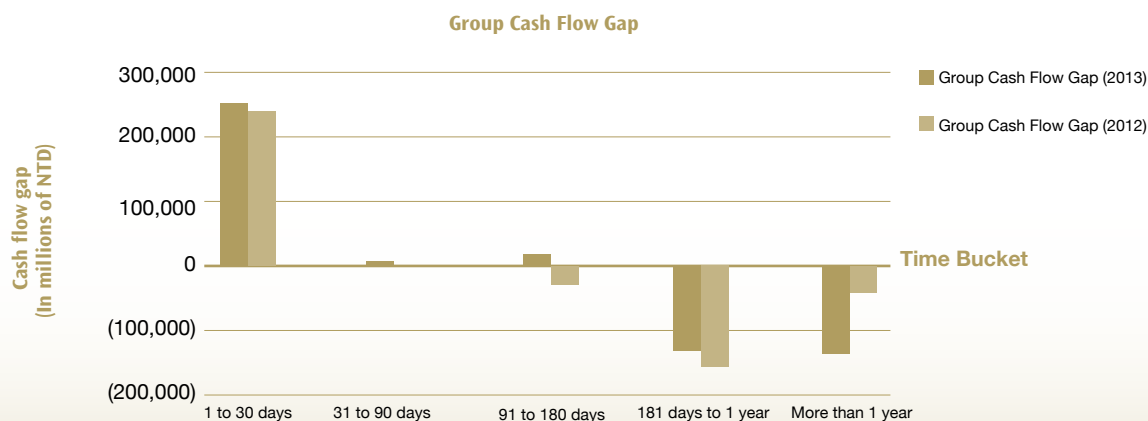
Considering the business nature, the liquidity risk management framework are applicable to the Hua Nan Financial Holdings, Hua Nan Commercial Bank, Hua Nan Securities, South China Insurance, Hua Nan Investment Trust, and Hua Nan Asset Management in the Group.

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 in order to plan the responsive strategies or funding sources in advance.

B. Risk management report

The Group's 1 to 30 days cash flow gap as of Dec. 31, 2013 stood at NT\$251,153 million, which was an increase of NT\$14,337 million from the 1 to 30 days cash flow gap at the end of 2012 of NT\$236,816 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, HNCS, SCIS) applicable to the framework of non-trading foreign exchange risk management. The non-trading book exchange rate risk is limited as the impacts of unfavorable foreign exchange rate changes on each subsidiary's shareholders' equity are less than 0.5%.

4. Insurance risk management

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

(1) Critical control mechanism

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 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. Defining and controlling underwriting risk management indicators.

B. Defining and controlling reserve risk management indicators.

C. Defining and controlling the retention / loss limit for each risk unit in each type of insurance, and reinsurance risk management indicators .

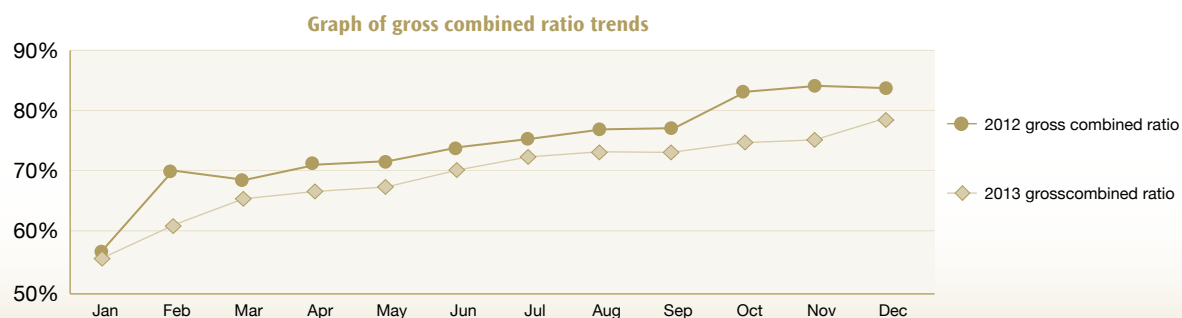
Once the indicators reached the advanced warning level, relevant business units will submit action plans to management. Also, while the indicator may not have reached the advanced warning level, but the risk management unit believes that there is a deviation from the norm, the relevant business units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

Gross combined ratio is the sum of gross loss ratio and gross operating expense ratio. Gross loss ratio is the ratio of gross claim amount to the gross premium earned. It is mainly used to review the underwriting quality. The gross operating expense ratio is the ratio of the gross operating expense to the gross premium. It is mainly used to review the business expense. Because there were fewer large claims in 2013, the gross claim amount declined from the level of 2012, and the gross loss ratio likewise declined. Also, the gross operating expense ratio in 2013 was not significantly different from that in 2012. The result is that the 2013 gross combined ratio declined. Based on our assessment, it is in the acceptable range. It also shows that, under appropriate underwriting control, the underwriting quality this year was better than that of 2012.

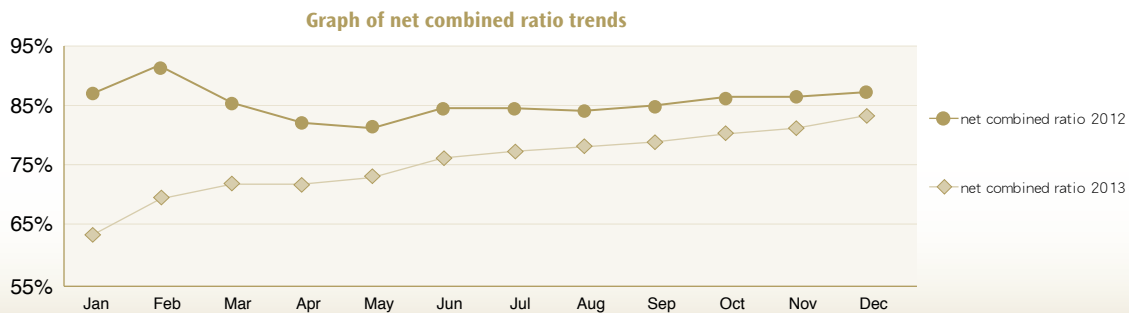


Note: the calculation of the indicator in the chart above does not include compulsory automobile liability insurance, nuclear insurance and Residential earthquake insurance.



B. Reinsurance risk management

Net combined ratio is the sum of net loss ratio and net operating expense ratio. The net loss ratio is the ratio of the net claim to the net premiums earned. It is mainly used to review the loss of retained policy after reinsurance is arranged. The net operating expense ratio is the ratio of the net operating expense to the net premium. It is mainly used to review the operating expense of the retained policy after reinsurance is arranged. Because there were fewer large claims in 2013, the net claim amount declined from the level of 2012, and the net loss ratio declined. Also, the net operating expense ratio in 2013 was not significantly different from that in 2012. The result is that the 2013 net combined ratio declined. Based on our assessment, it is in the acceptable range. It also shows that, under appropriate reinsurance arranged, the retained policy quality this year was better than that of 2012.



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. RSA: Risk Self Assessment

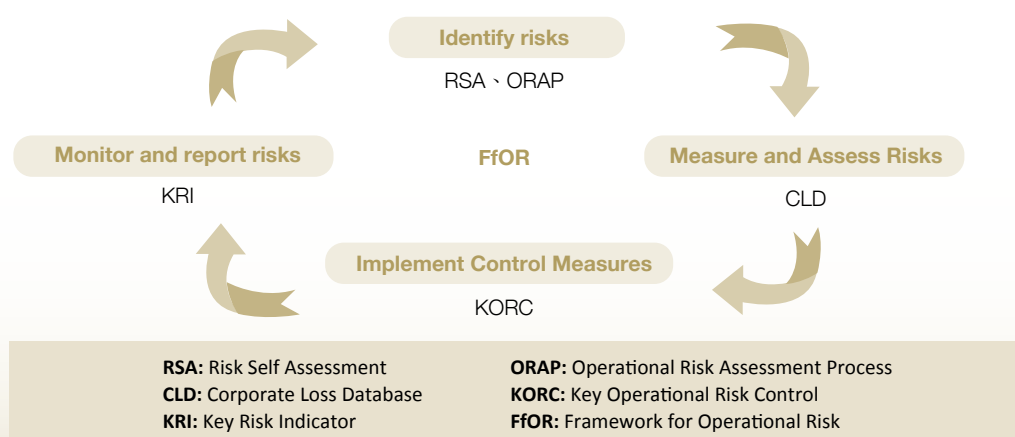
Through interviews and meetings between the Risk Self Assessment facilitator and personnel in all business units, we can help the business units identify and evaluate the operational risks of current operations and review the relevant controls. When necessary, action plans should be further planned and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

In the past, the execution of RSA was performed by departments. In 2013, the insurance subsidiary began to execute cross-department RSA by processes. In the course of execution, that subsidiary also invited the internal audit, compliance, risk control and sales units to participate in the process in the hope that it can improve communication and coordination between departments and practice the idea of Governance, Risk Management and Compliance (GRC).

B. ORAP: Operational Risk Assessment Process

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

Operational Risk Management Cycle



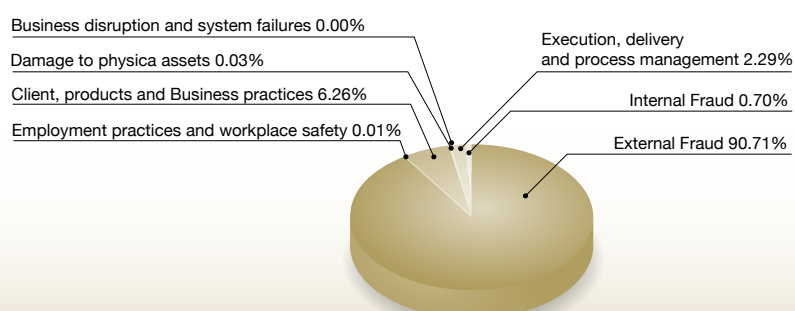
modifications on products, processes, systems or organizational structure (including outsourced business) are launched or occurred.

C. CLD: Corporate Loss Database

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. That database came online in Q4 2007 and was used by members of the group to report operating risk loss data. Before that, the bank subsidiary had been gathering loss data on paper since 2003. The company has been gathering external data since Q3 2008 and performing case study and analysis since 2012 for the education and reference by business units throughout the group.

As of now, the percentages of internal loss data gathered by our group under the Basel event type classification are as follows:

Percentage of CLD –Actual net loss-NTD





D. KORC: Key Operational Risk Control

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.

E. KRI: Key Risk Indicator

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.

(3) Provision of education and training on group operation risk management

The company conducted two large-scale, around-the-nation education and training events on operational risk management in 2007 and 2009. The company designed different courses for different levels, from directors, presidents, executive vice presidents, department managers and line employees. After e-learning formally came on line in 2010, the company continued to offer new courses so that the education and promotion risk management culture and awareness of our group were no longer constrained by time and space. Employees can receive education and training on operation risk management anytime.

In 2013, the company invited the Department of Information Technology and the Administrative Department of the Financial Holdings to host the “Joint training on information security, personal information protection and operational risk management.” The recipients of the instruction include high level managers in the financial holdings and headquarters/branch offices of all subsidiaries, department managers, information security personnel and compliance managers. The goal of the course includes the transmission and promotion of the three lines of defense in risk management, good risk culture and awareness, and customer interest orientation.

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, 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.

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. (the Company) and its subsidiaries as of December 31, 2013, December 31, 2012 and January 1, 2012, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2013 and 2012. 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. Those rules and standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated 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 the Company and its subsidiaries as of December 31, 2013, December 31, 2012 and January 1, 2012 and their consolidated financial performance and their consolidated cash flows for the years ended December 31, 2013 and 2012, in conformity with the Criteria Governing the Preparation of Financial Reports by Financial Holding Companies, Criteria Governing the Preparation of Financial Reports by Securities Issuers, Criteria Governing the Preparation of Financial Reports by Public Banks, Criteria Governing the Preparation of Financial Reports by Securities Firms, Criteria Governing the Preparation of Financial Reports by Futures Commission Merchants, Criteria Governing the Preparation of Financial Reports by Insurance Companies, the guidelines issued by the authority, and International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) endorsed by the Financial Supervisory Commission of the Republic of China.

March 24, 2014

Notice to Readers

The accompanying consolidated financial statements are intended only to present the consolidated financial position, financial performance 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 applied in the Republic of China.

For the convenience of readers, the independent 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 independent auditors' report and consolidated financial statements shall prevail.

HUA NAN FINANCIAL HOLDINGS CO., LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (In Thousands of New Taiwan Dollar)

| ASSETS | December 31, 2013 | | December 31, 2012 | | January 1, 2012 | |
|--|-------------------------|------------|-------------------------|------------|-------------------------|------------|
| | Amount | % | Amount | % | Amount | % |
| CASH AND CASH EQUIVALENTS (Notes 4, 6 and 43) | \$ 49,164,202 | 2 | \$ 33,194,211 | 2 | \$ 37,423,984 | 2 |
| DUE FROM THE CENTRAL BANK AND OTHER BANKS (Notes 6, 7 and 43) | 122,085,753 | 6 | 127,619,967 | 6 | 105,296,645 | 5 |
| FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (Notes 4, 8 and 43) | 44,612,847 | 2 | 42,244,349 | 2 | 35,750,610 | 2 |
| AVAILABLE-FOR-SALE FINANCIAL ASSETS (Notes 4, 12, 43 and 45) | 86,877,259 | 4 | 70,816,750 | 3 | 70,643,572 | 4 |
| DERIVATIVE FINANCIAL ASSETS FOR HEDGING (Note 4) | 6,132 | - | - | - | - | - |
| SECURITIES PURCHASED UNDER AGREEMENTS TO RESELL (Notes 4, 6 and 9) | 610,822 | - | 632,486 | - | 964,902 | - |
| RECEIVABLES, NET (Notes 4, 5, 10 and 43) | 48,505,696 | 2 | 52,260,362 | 3 | 54,694,199 | 3 |
| CURRENT TAX ASSETS (Note 41) | 2,022,777 | - | 2,035,360 | - | 3,012,035 | - |
| DISCOUNTS AND LOANS, NET (Notes 4, 5, 11 and 43) | 1,406,686,928 | 65 | 1,374,118,631 | 66 | 1,309,124,120 | 66 |
| REINSURANCE CONTRACTS ASSETS, NET | 2,563,184 | - | 2,707,162 | - | 2,511,503 | - |
| HELD-TO-MATURITY FINANCIAL ASSETS, NET (Notes 4, 5, 13 and 45) | 310,957,337 | 15 | 283,161,524 | 14 | 288,449,565 | 15 |
| INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD, NET (Notes 4 and 14) | 75,532 | - | 81,050 | - | 85,359 | - |
| OTHER FINANCIAL ASSETS, NET (Notes 4, 15 and 45) | 44,373,098 | 2 | 32,511,313 | 2 | 26,279,912 | 1 |
| PROPERTY AND EQUIPMENT, NET (Notes 4, 16 and 45) | 32,173,716 | 2 | 32,295,842 | 2 | 32,234,042 | 2 |
| INVESTMENT PROPERTIES, NET (Notes 4, 17 and 45) | 7,517,333 | - | 6,569,603 | - | 6,315,390 | - |
| INTANGIBLE ASSETS, NET (Notes 4 and 18) | 403,916 | - | 432,660 | - | 510,395 | - |
| DEFERRED TAX ASSETS (Notes 4, 5 and 41) | 2,347,229 | - | 1,733,315 | - | 1,702,192 | - |
| OTHER ASSETS, NET (Notes 4, 19, 43 and 45) | 3,744,810 | - | 4,234,710 | - | 4,260,750 | - |
| TOTAL | \$ 2,164,728,571 | 100 | \$ 2,066,649,295 | 100 | \$ 1,979,259,175 | 100 |
| LIABILITIES AND EQUITY | | | | | | |
| DEPOSITS FROM THE CENTRAL BANK AND BANKS (Notes 20 and 43) | \$ 131,875,899 | 6 | \$ 89,799,416 | 5 | \$ 82,357,240 | 4 |
| FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS (Notes 4, 8 and 43) | 20,794,876 | 1 | 23,318,866 | 1 | 27,907,823 | 2 |
| DERIVATIVE FINANCIAL LIABILITIES FOR HEDGING (Note 4) | 86,820 | - | 113,294 | - | 144,124 | - |
| SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE (Notes 4, 8, 12, 13, 15, 22 and 43) | 24,494,364 | 1 | 26,310,065 | 1 | 23,915,984 | 1 |
| COMMERCIAL PAPER PAYABLE, NET (Notes 21 and 45) | 5,456,332 | - | 5,965,865 | - | 2,659,514 | - |
| PAYABLES (Notes 23 and 43) | 29,717,876 | 2 | 43,799,190 | 2 | 44,762,281 | 2 |
| CURRENT TAX LIABILITIES (Note 41) | 2,194,257 | - | 954,314 | - | 2,381,899 | - |
| DEPOSITS AND REMITTANCES (Notes 24 and 43) | 1,737,742,713 | 80 | 1,663,974,327 | 81 | 1,595,488,062 | 81 |
| BONDS PAYABLE (Note 25) | 41,541,653 | 2 | 43,350,000 | 2 | 38,350,000 | 2 |
| OTHER BORROWINGS (Notes 26 and 45) | 938,000 | - | 1,733,000 | - | 3,826,000 | - |
| PROVISIONS (Notes 4, 5, 27 and 28) | 15,560,087 | 1 | 15,831,433 | 1 | 14,794,248 | 1 |
| OTHER FINANCIAL LIABILITIES (Notes 29 and 43) | 8,664,716 | 1 | 11,751,499 | 1 | 10,346,858 | 1 |
| DEFERRED TAX LIABILITIES (Notes 4 and 41) | 6,101,863 | - | 6,098,183 | - | 6,098,183 | - |
| OTHER LIABILITIES (Notes 4 and 30) | 3,898,365 | - | 4,037,341 | - | 2,944,370 | - |
| Total liabilities | 2,029,067,821 | 94 | 1,937,036,793 | 94 | 1,855,976,586 | 94 |
| EQUITY ATTRIBUTABLE TO OWNER OF THE PARENT | | | | | | |
| Share capital | | | | | | |
| Ordinary shares | 90,562,816 | 4 | 86,250,301 | 4 | 82,143,144 | 4 |
| Capital surplus | 17,758,986 | 1 | 17,758,993 | 1 | 17,758,993 | 1 |
| Retained earnings | | | | | | |
| Legal reserve | 8,523,548 | - | 7,636,447 | - | 6,782,026 | - |
| Special reserve | 6,492,093 | - | 6,492,108 | - | 6,492,108 | - |
| Unappropriated earnings | 14,467,312 | 1 | 13,829,936 | 1 | 14,137,300 | 1 |
| Total retained earnings | 29,482,953 | 1 | 27,958,491 | 1 | 27,411,434 | 1 |
| Other equity | | | | | | |
| Exchange differences on translating foreign operations | (20,632) | - | (230,406) | - | (72,574) | - |
| Unrealized losses on available-for-sale financial assets | (2,124,839) | - | (2,126,305) | - | (3,959,827) | - |
| Total other equity | (2,145,471) | - | (2,356,711) | - | (4,032,401) | - |
| Total equity attributable to owner of the parent | 135,659,284 | 6 | 129,611,074 | 6 | 123,281,170 | 6 |
| NON-CONTROLLING INTERESTS | 1,466 | - | 1,428 | - | 1,419 | - |
| Total equity | 135,660,750 | 6 | 129,612,502 | 6 | 123,282,589 | 6 |
| TOTAL | \$ 2,164,728,571 | 100 | \$ 2,066,649,295 | 100 | \$ 1,979,259,175 | 100 |

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



HUA NAN FINANCIAL HOLDINGS CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

| | For the Year Ended December 31 | | | | Percentage Increase (Decrease) % |
|---|--------------------------------|-------|---------------|-------|--|
| | 2013 | | 2012 | | |
| | Amount | % | Amount | % | |
| INTEREST REVENUE (Notes 4, 32 and 43) | \$ 35,315,843 | 99 | \$ 33,510,583 | 99 | 5 |
| INTEREST EXPENSE (Notes 4, 32 and 43) | 12,083,476 | 34 | 11,184,325 | 33 | 8 |
| NET INTEREST | 23,232,367 | 65 | 22,326,258 | 66 | 4 |
| NET REVENUES OTHER THAN INTEREST | | | | | |
| Commission and fee revenues, net (Notes 4, 33 and 43) | 6,353,628 | 18 | 5,830,667 | 17 | 9 |
| Income from insurance premiums, net (Notes 4 and 34) | 2,194,319 | 6 | 2,096,670 | 6 | 5 |
| Gain (loss) on financial assets and liabilities at fair value through profit or loss (Notes 4, 8 and 35) | 3,260,079 | 9 | (1,186,875) | (4) | 375 |
| Gain on investment properties, net (Note 17) | 251,663 | 1 | 186,873 | 1 | 35 |
| Realized gain on available-for-sale financial assets (Notes 4 and 36) | 661,570 | 2 | 436,771 | 1 | 51 |
| Foreign exchange (loss) gain, net (Notes 4 and 37) | (1,183,886) | (3) | 3,474,327 | 10 | (134) |
| Impairment loss on assets (Notes 4, 15,17 and 19) | (106,315) | - | (118,620) | - | (10) |
| Share of loss of associates (Notes 4 and 14) | (5,518) | - | (4,309) | - | 28 |
| Other non interest net revenues (Note 4) | 843,785 | 2 | 864,048 | 3 | (2) |
| Total net revenues other than interest | 12,269,325 | 35 | 11,579,552 | 34 | 6 |
| TOTAL NET REVENUES | 35,501,692 | 100 | 33,905,810 | 100 | 5 |
| ALLOWANCE FOR DOUBTFUL ACCOUNTS AND GUARANTEES (Notes 4, 10 and 11) | (3,874,858) | (11) | (3,483,299) | (10) | 11 |
| CHANGE IN PROVISIONS FOR INSURANCE LIABILITIES, NET (Notes 4 and 27) | (117,470) | (1) | (259,748) | (1) | (55) |
| OPERATING EXPENSES (Notes 38, 39, 40 and 43) | | | | | |
| Employee benefits | (12,958,111) | (36) | (12,912,042) | (38) | - |
| Depreciation and amortization | (912,532) | (3) | (1,025,305) | (3) | (11) |
| Others | (5,753,584) | (16) | (5,687,231) | (17) | 1 |
| Total operating expenses | (19,624,227) | (55) | (19,624,578) | (58) | - |

HUA NAN FINANCIAL HOLDINGS CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

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

| | For the Year Ended December 31 | | | | Percentage Increase (Decrease) % |
|---|--------------------------------|-----------|----------------------|-----------|--|
| | 2013 | | 2012 | | |
| | Amount | % | Amount | % | |
| NET PROFIT BEFORE INCOME TAX | 11,885,137 | 33 | 10,538,185 | 31 | 13 |
| NET PROFIT INCOME TAX EXPENSE (Notes 4 and 41) | (1,833,875) | (5) | (1,597,659) | (5) | 15 |
| NET PROFIT FOR THE YEAR | <u>10,051,262</u> | <u>28</u> | <u>8,940,526</u> | <u>26</u> | 12 |
| OTHER COMPREHENSIVE INCOME (Notes 4, 28 and 41) | | | | | |
| Exchange differences on translating foreign operations | 209,774 | 1 | (157,832) | - | 233 |
| Unrealized gain on available-for-sale financial assets | 1,694 | - | 1,836,754 | 6 | (100) |
| Actuarial gain (loss) arising from defined benefit plans | 119,352 | - | (215,799) | (1) | 155 |
| Income tax relating to the components of other comprehensive income | (21,290) | - | 33,454 | - | (164) |
| Other comprehensive income for the year | <u>309,530</u> | <u>1</u> | <u>1,496,577</u> | <u>5</u> | (79) |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR | <u>\$ 10,360,792</u> | <u>29</u> | <u>\$ 10,437,103</u> | <u>31</u> | (1) |
| NET PROFIT ATTRIBUTABLE TO: | | | | | |
| Owner of the parent | \$ 10,051,213 | 28 | \$ 8,940,484 | 26 | 12 |
| Non-controlling interests | <u>49</u> | - | <u>42</u> | - | 17 |
| | <u>\$ 10,051,262</u> | <u>28</u> | <u>\$ 8,940,526</u> | <u>26</u> | 12 |
| COMPREHENSIVE INCOME ATTRIBUTABLE TO: | | | | | |
| Owner of the parent | \$ 10,360,743 | 29 | \$ 10,437,061 | 31 | (1) |
| Non-controlling interests | <u>49</u> | - | <u>42</u> | - | 17 |
| | <u>\$ 10,360,792</u> | <u>29</u> | <u>\$ 10,437,103</u> | <u>31</u> | (1) |
| EARNINGS PER SHARE (Note 42) | | | | | |
| Basic | \$ 1.11 | | \$ 0.99 | | |

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



HUA NAN FINANCIAL HOLDINGS CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(In Thousands of New Taiwan Dollars)

| | Capital Stock | Capital Surplus | | | | |
|---|---------------|-----------------|----------------|-------------------------|----------|---------------|
| | | Share Premium | Treasury Stock | Donated Assets Received | Others | Total |
| BALANCE AT JANUARY 1, 2012 | \$ 82,143,144 | \$ 17,702,383 | \$ 52,349 | \$ 2,936 | \$ 1,325 | \$ 17,758,993 |
| Appropriation of 2011 earnings (Note) | | | | | | |
| Legal reserve | - | - | - | - | - | - |
| Cash dividends | - | - | - | - | - | - |
| Share dividends | 4,107,157 | - | - | - | - | - |
| Net profit for the year ended December 31, 2012 | - | - | - | - | - | - |
| Other comprehensive income (loss) for the year ended December 31, 2012 | - | - | - | - | - | - |
| Total comprehensive income (loss) for the year ended December 31, 2012 | - | - | - | - | - | - |
| BALANCE AT DECEMBER 31, 2012 | 86,250,301 | 17,702,383 | 52,349 | 2,936 | 1,325 | 17,758,993 |
| Appropriation of 2012 earnings (Note) | | | | | | |
| Legal reserve | - | - | - | - | - | - |
| Cash dividends | - | - | - | - | - | - |
| Stock dividends | 4,312,515 | - | - | - | - | - |
| Net profit for the year ended December 31, 2013 | - | - | - | - | - | - |
| Other comprehensive income for the year ended December 31, 2013 | - | - | - | - | - | - |
| Total comprehensive income for the year ended December 31, 2013 | - | - | - | - | - | - |
| Equity adjustments on investments accounted for using the equity method | - | (7) | - | - | - | (7) |
| BALANCE AT DECEMBER 31, 2013 | \$ 90,562,816 | \$ 17,702,376 | \$ 52,349 | \$ 2,936 | \$ 1,325 | \$ 17,758,986 |

Note: The remuneration to directors and supervisors amounting to \$79,839 and \$76,898 and employees bonus amounting to \$6,387 and \$6,412 had been charged against earnings of 2012 and 2011, respectively.

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

| Retained Earnings | | | | Exchange Differences on Translating Foreign Operations | Unrealized Gain (Loss) on Available-for-sale Financial Assets | Non-controlling Interests | Total Equity |
|---------------------|---------------------|-------------------------|----------------------|--|---|---------------------------|-----------------------|
| Legal Reserve | Special Reserve | Unappropriated Earnings | Total | | | | |
| \$ 6,782,026 | \$ 6,492,108 | \$ 14,137,300 | \$ 27,411,434 | (\$ 72,574) | (\$ 3,959,827) | \$ 1,419 | \$ 123,282,589 |
| 854,421 | - | (854,421) | - | - | - | - | - |
| - | - | (4,107,157) | (4,107,157) | - | - | (33) | (4,107,190) |
| - | - | (4,107,157) | (4,107,157) | - | - | - | - |
| - | - | 8,940,484 | 8,940,484 | - | - | 42 | 8,940,526 |
| - | - | (179,113) | (179,113) | (157,832) | 1,833,522 | - | 1,496,577 |
| - | - | 8,761,371 | 8,761,371 | (157,832) | 1,833,522 | 42 | 10,437,103 |
| 7,636,447 | 6,492,108 | 13,829,936 | 27,958,491 | (230,406) | (2,126,305) | 1,428 | 129,612,502 |
| 887,101 | - | (887,101) | - | - | - | - | - |
| - | - | (4,312,515) | (4,312,515) | - | - | (29) | (4,312,544) |
| - | - | (4,312,515) | (4,312,515) | - | - | - | - |
| - | - | 10,051,213 | 10,051,213 | - | - | 49 | 10,051,262 |
| - | - | 98,290 | 98,290 | 209,774 | 1,466 | - | 309,530 |
| - | - | 10,149,503 | 10,149,503 | 209,774 | 1,466 | 49 | 10,360,792 |
| - | (15) | 4 | (11) | - | - | 18 | - |
| <u>\$ 8,523,548</u> | <u>\$ 6,492,093</u> | <u>\$ 14,467,312</u> | <u>\$ 29,482,953</u> | <u>(\$ 20,632)</u> | <u>(\$ 2,124,839)</u> | <u>\$ 1,466</u> | <u>\$ 135,660,750</u> |



HUA NAN FINANCIAL HOLDINGS CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands of New Taiwan Dollars)

| | For the Year Ended December 31 | |
|--|--------------------------------|---------------|
| | 2013 | 2012 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net profit before income tax | \$ 11,885,137 | \$ 10,538,185 |
| Adjustments for: | | |
| Depreciation expenses | 751,623 | 839,825 |
| Amortization expenses | 193,787 | 218,306 |
| Allowance for doubtful accounts and guarantees | 3,874,858 | 3,483,299 |
| Gain on financial assets and liabilities at fair value through profit or loss | (76,109) | (84,310) |
| Interest expense | 13,629,346 | 13,102,953 |
| Interest revenue | (36,650,093) | (34,850,602) |
| Dividend income | (106,321) | (106,749) |
| Change in provisions for insurance liabilities, net | 117,470 | 259,748 |
| Share of loss of associates | 5,518 | 4,309 |
| Loss (gain) on disposal of property and equipment | 1,888 | (396) |
| Gain on disposal of investment properties | (58,569) | (17,251) |
| Gain on disposal of other assets | (81,059) | (6,742) |
| Impairment loss on financial assets | 97,745 | 118,620 |
| Impairment loss on non-financial assets | 8,570 | - |
| Gain on disposal of collaterals assumed | (20,305) | (49,379) |
| Changes in operating assets and liabilities | | |
| Decrease (increase) in due from the Central Bank and other banks | 1,842,338 | (13,469,368) |
| Increase in financial assets at fair value through profit or loss | (2,267,711) | (6,442,520) |
| (Increase) decrease in available-for-sale financial assets | (16,104,291) | 1,681,724 |
| Increase in derivative financial assets for hedging | (6,132) | - |
| Decrease in receivables | 4,768,677 | 1,031,442 |
| Increase in discounts and loans | (36,231,364) | (68,074,844) |
| (Increase) decrease in assets under reinsurance contracts | (99,462) | 100,457 |
| (Increase) decrease in held-to-maturity financial assets | (27,767,454) | 5,286,083 |
| Increase in other financial assets | (11,803,499) | (6,796,540) |
| Increase in deposits from the Central Bank and banks | 42,076,483 | 7,442,176 |
| Decrease in financial liabilities at fair value through profit or loss | (2,552,719) | (4,579,422) |
| Decrease in derivative financial liabilities for hedging | (26,474) | (30,830) |
| (Decrease) increase in securities sold under agreements to repurchase | (1,815,701) | 2,394,081 |
| (Decrease) increase in payables | (14,258,044) | 2,120,126 |
| Increase in deposits and remittances | 73,768,386 | 68,486,265 |
| Decrease in provisions | (434,857) | (454,148) |
| (Decrease) increase in other financial liabilities | (3,185,565) | 1,419,106 |
| (Decrease) increase in other liabilities | (127,359) | 1,095,728 |
| Cash generated from operations | (651,262) | (15,340,668) |
| Interest received | 36,597,476 | 34,719,660 |
| Dividend received | 158,079 | 149,020 |
| Interest paid | (13,905,297) | (13,189,959) |
| Income tax paid | (1,230,346) | (2,974,289) |
| Net cash provided by operating activities | 20,968,650 | 3,363,764 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Acquisition of property and equipment | (1,147,305) | (917,129) |
| Proceeds from disposal of property and equipment | 2,452 | 16,084 |
| Acquisition of intangible assets | (57,345) | (88,918) |
| Proceeds from disposal of collaterals assumed | 53,371 | 169,005 |
| Acquisition of collaterals assumed | (7,484) | (10,611) |
| Acquisition of investment properties | (33,166) | (23,657) |
| Proceeds from disposal of investments properties | 203,855 | 63,711 |
| Increase in other assets | (470,541) | (163,267) |
| Net cash used in investing activities | (1,456,163) | (954,782) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Decrease in short-term borrowings | (795,000) | (2,093,000) |
| (Decrease) increase in commercial paper payables | (509,533) | 3,306,351 |
| Corporate bonds issued | 9,891,653 | - |
| Repayment of corporate bonds on maturity | (4,700,000) | - |
| Bank debentures issued | - | 5,000,000 |
| Repayment of bank debentures on maturity | (7,000,000) | - |
| Cash dividends | (4,336,602) | (4,135,116) |
| Net cash (used in) provided by financing activities | (7,449,482) | 2,078,235 |
| EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES | 193,446 | (195,452) |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 12,256,451 | 4,291,765 |
| CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR | 90,088,317 | 85,796,552 |
| CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR | \$ 102,344,768 | \$ 90,088,317 |
| Cash and cash equivalents in consolidated balance sheets | \$ 49,164,202 | \$ 33,194,211 |
| Due from the Central Bank and other banks that meet the definition of cash and cash equivalents in IAS 7 | 52,569,744 | 56,261,620 |
| Securities purchased under agreements to resell that meet the definition of cash and cash equivalents in IAS 7 | 610,822 | 632,486 |
| Cash and cash equivalents in consolidated statements of cash flows | \$ 102,344,768 | \$ 90,088,317 |

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

HONESTY. EFFICIENCY. ACTIVENESS. RESPONSIBILITY. TEAMWORK

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

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