

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

# 2014 ANNUAL REPORT

HUA NAN FINANCIAL HOLDINGS CO.,LTD.



# 103



## HUA NAN FINANCIAL HOLDINGS CO.,LTD.

### 1. Address, Website and Tel No. of HNFHC and Its Subsidiaries

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

Address: No. 123, Songren Rd., Xinyi District, Taipei City

Tel No.: 886-2-2371-3111

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

#### (2) Subsidiaries

##### 1. Hua Nan Commercial Bank Ltd. (HNCB)

Address: No. 123, Songren Rd., Xinyi District, Taipei City

Tel No.: 886-2-2371-3111

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

##### 2. Hua Nan Securities Co., Ltd. (HNSC)

Address: 5F, No. 54, Sec. 4, Minsheng E. Rd., Songshan District, Taipei City

Tel No.: 886-2-2545-6888

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

##### 3. South China Insurance Co., Ltd. (SCIC)

Address: 5F, No. 560, Sec. 4, Zhongxiao E. Rd., Taipei City

Tel No.: 886-2-2758-8418

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

##### 4. Hua Nan Investment Trust Corp. (HNIT)

Address: 3F-1, No. 54, Sec. 4, Minsheng E. Rd., Taipei City

Tel No.: 886-2-2719-6688

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

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

Address: 3F, No. 143, Sec. 2, Minsheng E. Rd., Taipei City

Tel No.: 886-2-2500-0622

Website: None

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

Address: 4F, No. 18, Sec. 1, Changan E. Rd., Taipei City

Tel No.: 886-2-2511-2900

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

### 2. Spokesperson

Name of Spokesperson: David, Y. C. Cheng

Title: Executive Vice President

Tel No.: 886-2-2371-3111 Ext. 1863

E-Mail: [public@hnfhc.com.tw](mailto:public@hnfhc.com.tw)

Name of Deputy Spokesperson: James, H.J. Liu

Title: Executive Vice President

Tel No.: 886-2-2371-3111 Ext. 1865

E-Mail: [public2@hnfhc.com.tw](mailto:public2@hnfhc.com.tw)

### 3. Stock Transfer Agency

Name: Hua Nan Securities Co., Ltd.

Address: 4F, No. 54, Sec. 4, Minsheng E. Rd., Taipei City

Tel No.: 886-2-2545-6888

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

### 4. Independent Auditor of the Finance Report

Name of CPA: Yi-Chun Wu, Kuang-Chung Lai

Name of Office: Deloitte & Touche

Address: 12F, No. 156, Sec. 3, Minsheng E. Rd., Taipei City

Tel No.: 886-2-2545-9988

Website: [www.deloitte.com.tw](http://www.deloitte.com.tw)

### 5. Name of Overseas Securities Exchange Office & the way to inquire into information of securities: None

### 6. Credit Rating Agency

Name: Taiwan Ratings Co.

Address: 49F, No. 7, Sec. 5, Xinyi Rd., Taipei City

Tel No.: 886-2-8722-5800

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

### 7. Investor Relations

Tel No: 886-2-2371-3111 Ext 6315/6317

E-mail: [ir@hnfhc.com.tw](mailto:ir@hnfhc.com.tw)

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*H*onesty

*E*fficiency

*A*ctiveness

*R*esponsibility

*T*eamwork



# I | Letter to the Shareholders



CHAIRMAN  
Teng-Cheng Liu

## Operation Results in 2014

### 1. Financial environments in Taiwan and other countries for 2014

Despite regional political upheavals of 2014, the Federal Reserve of the United States has announced the conclusion of its quantitative easing (QE) policies. Continuous decline in international oil and raw material prices as well as QE monetary policies adopted by central banks in the European Union, Japan, and other major countries have continued to improve global economy. Global economic growth is slightly higher compared to the previous year, though recovery is somewhat weaker in both Europe and Japan. Taiwan's Directorate-General of Budget, Accounting and Statistics of the Executive Yuan has estimated economic growth in 2014 to be 3.74%, which was a significant improvement from last year's 2.23%. This growth marks the end of two continuous years of poor economic performance. Major contributing factors for the 2014 economic

growth include economic recovery of the United States, continued growth and record exports for electronic products, significant pick-up in industrial production, reduced unemployment rates that have reached the lowest for the past 7 years, declining international oil and raw material prices, as well as increased consumer spending.

### 2. Business plan and results of business strategies

Hua Nan Financial Holdings Co., Ltd. (hereafter "the Company" or "HNFHC") has benefited greatly and achieved spectacular overall performance from the liberalization of the Cross-Straits financial markets and the Renminbi business, continued improvements to asset quality, improved profitability of our OBU and overseas operations, and increased transaction volumes in the Taiwanese stock market. Fellow employees in our Company have contributed greatly to our growth, achieving a net after-tax profit of NT\$ 13.131 billion in 2014, which was a NT\$ 3.08



VICE CHAIRMAN  
**MING-CHENG LIN**

billion increase (31% growth) compared to last year. This record profit is mainly driven by the subsidiary HNCB. Business strategies for this Company in 2014 include improvement in operational performance, diversification of profit sources, continued enhancement of operational systems and structures, and expansion of business scope in both Taiwan and other countries. The following describes the major achievements we have made:

(1) Improved asset quality

In 2014, we have achieved an overdue ratio of 0.19% and a coverage ratio of 585.79%. These results were better compared to the average standards of competing banks and represented a significant improvement in asset quality compared to the 0.42% overdue ratio and 292.37% coverage ratio from the previous year.

(2) Balanced corporate contributions

- Acquiring Jinxing Securities: In order to expand the scale of its securities business and improve operational performance, HNSC has completed the acquisition of businesses from Jinxing Securities in Miaoli in March 2014.

- Cross-selling benefits: Our Company has integrated sales networks and undertaken CRM analysis in order to enhance cross-selling performance. In 2014, cross-selling has achieved 24% of overall businesses conducted by the various subsidiaries.

(3) Comprehensive overseas expansion

We have continued to expand our businesses in the Greater China Region and overseas:

● Greater China Region

A. We have signed a Memorandum of Understanding with China Huarong Asset Management Co., Ltd. on 19th November 2014 in order to facilitate professional training and achieve effective exchange of information between both parties.

B. Banking services:

- (a) Our Renminbi deposits have totaled 9.199 billion Yuan at the end of 2014.
- (b) Net profit before tax for the Mainland China Shenzhen branch reached NT\$ 213 million in 2014, a 32% increase from

PRESIDENT  
**MAO-SHYAN LIU**



NT\$ 161 million recorded in the previous year.

(c) The second branch in Mainland China officially opened on 20th January 2015 in Shanghai. We opened the third branch in Fuzhou on 13 May 2015.

C. Securities services: We have continued to search for potential partners in Shenzhen and other financial experimental areas in order to seize opportunity on joint Cross-Straits ventures for establishing securities company with complete operational licenses.

D. Property and casualty insurance services: We have worked with the Chinese MITCompany to establish a new company named Shenzhou Auto Insurance Company. Applications have been submitted to the China Insurance Regulatory Commission in September 2014.

- Other overseas area

We are now focused upon upgrading the Hanoi representative office into a branch and have

planned to establish a representative office in Myanmar. Evaluations have also been carried out for establishing a branch in Japan.

(4) Commitments to corporate social responsibility

- Caring for the underprivileged: We are committed to giving back our society and have led volunteers from HNFHC in a number of social and charity events for senior citizens such as the “Hua Nan is So Good; It Never Gets Old” campaign held in Chiayi, Changhua, Taichung, and Yilan. These events have been passionately received and brought wide recognition for our Company.
- Supporting grass-roots baseball and athleticism: We have promoted baseball and supported youth baseball team training programs in Taiwan, providing sponsorship for the 2014 Hua Nan Financial Holdings Cup National Youth Baseball as well as the 1st 21U Baseball World Cup. We have also held Dream Baseball Camps in various locations in Taiwan. In addition to promoting our corporate image, our efforts have also been publicly recognized,



winning us a silver medal and long-term sponsorship award in the 2014 Sports Activists Award organized by the Sports Administration of the Ministry of Education.

- Supporting sports, academic, and cultural events: We have planned and sponsored sports, academic, and cultural events that include HNFHC's badminton and table tennis competition and joyous carnival, Taipei Lantern Festival, Uniform Invoice Road Run, Taiwan International Percussion Convention, public showing of the Minnan Folk Opera titled The Weaver Girl and the Cowherd, disaster relief and charity donations for the 81 Kaohsiung Gas Explosion, Cross-Strait free trade forums, legal risk management conventions, French economist Dr. Piketty's visit and seminar, and Koichi Hamada's forum.
- Establishing a Corporate Social Responsibility Committee: In order to achieve the target of sustainable business development and fulfill our social responsibilities, the Board of Directors Meeting in 2014 Q4 has formally established the Company's Corporate Social Responsibility (CSR) Committee. We would start compiling and releasing our CSR report in 2015. CSR activities that have already been scheduled shall be further incorporated into the Company's management directives and business activities in order to comply with the requirements of the competent authorities as well as the expectations of our stakeholders.

### 3. Budget implementation, financial income, and profitability analysis

In 2014 combined net after-tax profit of our Company and our subsidiaries totaled NT\$ 13.131 billion, providing an after-tax profit of NT\$ 1.41 billion per share. Combined return on asset (ROA) was 0.59%; combined return on equity (ROE) was 9.39%. Profitability of our various subsidiaries are provided in the following:

#### (1) HNCB

Net after-tax profit for 2014 totaled NT\$ 12.434 billion, providing an after-tax profit of NT\$ 1.84 billion per share. ROA was 0.57%, while ROE was 9.19%.

#### (2) HNSC

Net after-tax profit for 2014 totaled NT\$ 576 million, providing an after-tax profit of NT\$ 0.71 per share. ROA was 2.06%, while ROE was 4.98%.

#### (3) SCIC

Net after-tax profit for 2014 totaled NT\$ 571 million, providing an after-tax profit of NT\$ 2.85 per share. ROA was 3.90%, while ROE was 15.44%.

#### (4) HNIT

Net after-tax profit for 2014 totaled NT\$ 26 million, providing an after-tax profit of NT\$ 0.82 per share. ROA was 3.14%, while ROE was 6.07%.

#### (5) HNVC

Net after-tax loss for 2014 totaled NT\$ 17 million, providing an after-tax loss of NT\$ 0.09 per share. ROA was -0.95%, while ROE was -0.95%.

#### (6) HNAMC

Net after-tax profit for 2014 totaled NT\$ 82 million, providing an after-tax profit of NT\$ 0.82 per share. ROA was 3.42%, while ROE was 7.31%.

### 4. Research and development

#### (1) HNFHC

This Company has been utilizing the Analytical CRM System, Operational CRM System, and KPI System for many years. In response to developments in the digital era, we have further established 3e (e-channel, e-payment, and e-marketing) digitalized financial environments and incorporated Big Data analytical techniques to enhance analysis, applications, and performance management of our marketing operations while providing customers with personalized experiences and services. Meanwhile, we have continued to make further improvements to our Customer Product Purchase Inclination Model that we have constructed in order to help our subsidiaries improve their accuracy in target customer selection, enhance overall event performance, strengthen customer adherence,



and continue to build quality customers and customer value for our Company.

## (2) HNCB

For research and development, HNCB has continued to encourage our employees' commitment to research and development. In 2014, our fellow employees have developed and submitted a total of 430 product proposals, of which 79 have been adopted.

## (3) HNSC

- We have worked with various policies and laws to research and develop various new services as well as structural and derivative financial products such as trade and exchange of convertible corporate bonds, interest exchange and trade, overseas sub-brokerage services, release of local call (put) warrants, index and individual stock options and futures, interest rate futures, gold futures, and asset securitization. Additional efforts have been directed towards investment banking services, financial engineering, risk control, and professional training and recruitment.
- The following data systems have been planned:
  - A. Systems that work with financial holding channels and establishment of integrated projects.
  - B. Planned establishment of a web-based overseas sub-brokerage and transaction platform: A system that allows users to book stocks in multiple countries and operate different categories of products from a single platform shall be established. A New Taiwan Dollar calculation subsystem shall also be established to facilitate the convenience of customer transactions.
  - C. Planned expansions for the service management system: Includes planning for customer relationship management, regional supervision system, management system, and decision-making support management system.

D. Establishing a securities manager system: Offer complete descriptions of customer transactions and assist branch managers in performing securities services.

E. Special needs booking and management: In order to respond to data requirements in various branches, support shall be provided to help various branches carry out needs descriptions and analysis and establish integrated project systems for financial sales channels.

F. Planned establishment of systems for financial management and trust services: Implement system establishment for future financial management and trust services.

G. Company employee sales integration platform has been activated and operational since February 2015. Multiple personnel training has been carried out. Company cross-selling bonus system is also in place in order to encourage employees to carry out cross-selling using this platform and improve joint performance.

- Professional knowledge from overseas commodity departments, financial product departments, and futures management departments have been integrated and employed in the research and trade of financial product arbitrage. Software designs developed by our information and technology departments have also been employed to develop computer trading programs capable of capitalizing on price discrepancies, arbitrage, and hedging. Artificial intelligence graphing and technical analysis were used as support in order to identify market trends and perfect trade opportunities to maximize profit.
- Aggressive planning of mergers and acquisitions of potential securities traders under the structure of HNFHC parent company in order to strengthen



securities transaction capabilities and achieve sustainable management and growth.

- HNSC's subsidiary, Hua Nan Investment Consultant has implemented in depth studies of the basic, technical, and capital aspects of global finances as well as overall economy, industrial status, and individual companies in Taiwan and other countries for the purposes of achieving accurate assessments of investment trends and avoid high risk sectors. In addition to periodic release of investment publications and hosting of investment seminars, Hua Nan Investment Consultant also provides HNFHC with the basis and references for investment consultation and credit management.
- Track the Financial Supervisory Commission's Cross-strait Financial Business with Special Characteristics and corresponding updates in Developing Asset and Wealth Management Services of the Greater China Region in order to implement investment assessments and build profit opportunities.
- Track the Legislative Yuan's progress in implementing the Cross-Strait Agreement on Trade in Services and contact potential Mainland Chinese businesses in Shenzhen and other regions in order to plan and assess opportunities to jointly establish securities firms with complete licensing and seize the market initiative.
- Develop trust-based Wealth management services and introduce insurance and other financial products to offer customers with multiple product options. Propose the promotion of products priced in Renminbi.

- Promote Offshore Securities Unit (OSU) services. Made plans to increase professional recruitment, expand relevant services, and increase niche markets.
- Track legislative trends and liberalization of Formosa bonds and Taiwan T-shares, and continue to establish connections with Chinese companies in order to capitalize on future opportunities for providing securities underwriting services.

#### (4) SCIC

In response to the diverse requirements of the marketing channels and customer's requirements, SCIC has continued to research and develop new products and propose innovative combinations of marketing projects. In order to meet the requirements for insurance service developments and provide the insured with comprehensive and professional services, a total of 112 new products have been developed in 2014, of which 93 project commodities have been marketed. SCIC continued commitment to product innovation, the professionalism of insurance services, and innovative products offered helped to achieve excellent performance, winning Faith, Hope & Love Awards of Insurance for six consecutive years.

Risk management framework includes a Risk Management Committee composed of Directors of the Board as well as Risk and Asset Liability Management Committee meetings convened by Presidents. Risk management systems and cultures permeate every layer of the organization and have been thoroughly implemented, ensuring that all risk management operations are compliant to the business objectives and strategies established by the Board of Directors.

For risk management systems, SCIC has adopted (1) strengthening the links to ensure internal controls, risk management, and legal compliance; (2) make use of risk and returns performance

assessment systems (such as RAROC); (3) improve linkages between risk appetite and budget objectives as well as operational strategies; (4) improve risk appetite quantification models and risk management indicators in order to gradually improve SCIC's governance and risk management benefits.

The highest guiding principle for SCIC is stable business development. In 2014, SCIC has continued to attain twAA- ratings with Stable outlook from Taiwan Ratings. Such ratings provide an official recognition and acknowledgment of SCIC strong capital backing, higher than

average insurance underwriting performance and liquidity compared to the industry, as well as stable operational cash flow. A.M. BEST Credit Ratings also rated SCIC with A- for financial strength ratings, A- for issuer credit ratings, and positive outlooks, fully demonstrating that SCIC access to stable and adequate capital (RBC), excellent profitability in insurance underwriting, continuous growth in market shares, and support from the parent company of HNFHC in terms of business contributions and risk management. Such recognition and assistance have ensured SCIC's constant achievements and great



Front row (from left): Vice Chairman Ming-Cheng Lin, Chairman Teng-Cheng Liu, President Mao-Shyan Liu.  
Back row (from left): Vice President Hsin-Tien Ting, Vice President James H.J. Liu, Chief Internal Auditor Chin-Ho Shin, Vice President David Y.C. Cheng.



performance, winning recognition and support from various business sectors as well as the general public.

In 2014, SCIC have achieved significant results with our innovative services, all-aspect services, and the commitments shown by every fellow employee. Our goals of 2015 shall be to Focus on Both Quality and Quantity and gain TOP5 to create a New Era of Globalization. Our guiding business strategies shall focus upon improving business performance. We shall work as a team and continue to achieve stellar performance by proposing innovative total services for our customers, continuing to strengthen data integration and management benefits, pursuing overseas expansion, and fulfilling our corporate social responsibility and obligations.

**(5) HNIT**

Revival of the global economy in 2014 has improved market confidence and improvements. Overall investment funds have increased by NT\$ 7.6 billion to about NT\$ 1.975 trillion for an annual growth of 0.4%.

Statistics for the scale of various funds have revealed that the category of international balanced funds has experienced the highest growth for the entirety of 2014 with a total annual increase of NT\$ 33.3 billion. The main reason behind this would be differences of various countries' currency policy which have led to differences in performances in financial markets around the world and large fluctuations. Investors thus preferred balanced funds with dynamic equity and stock allocations. The category with the second highest growth would be international Exchange Traded Funds (ETF), especially A-stock ETF. The fund category that experienced the greatest decrease of NT\$ 73.6 billion would be the domestic money market funds. The main reason was the customers' willingness to invest in assets with higher risks, which meant that capital have been shifted away

from more conservative products. This is then followed by international fixed-income funds.

The asset management structure of this Company is still focused upon currency market funds. Outflows of customer capital meant that publicly offered funds available totaled NT\$ 32.7 billion at the end of 2014, a decrease of NT\$ 1.2 billion compared to the previous year.

**(6) HNVC**

HNVC has attended corporate seminars and training courses in order to assess trends in industrial developments. HNVC has improved the professionalism in investment project assessments and post-investment management. By supporting the management and financial planning of overseas investees, we would be able to establish strategic alliances and partnerships in order to successfully list the company and benefit from our investments.

**(7) HNAMEC**

HNAMEC has established a multi-pronged business model and established three core services in investment and resolution services for non-performing loans, direct investment services for real estate, and contracted collection service. Business strategies and manpower allocations could be flexibly adjusted according to changes in the market to prevent the dwindling of business sources as well as over-concentration of business efforts.

Additionally, in order to fulfill its responsibilities for protecting and managing personal data and strengthen corporate data security and protection, HNAMEC has passed certification for the BS 10012 in personal information management system as well as ISO 27001 for Information Security Management. Regular auditing has been implemented in order to verify the effective operations of the system. This makes HNAMEC the first AMC company to achieve dual certification.



## A summary of business objectives for the Company in 2015 and future development strategies

For 2015, we expect the United States to continue in leading the way for global economic recovery. However, potential risks may still exist as a result of incidents such as divergent monetary policies of the United States, Europe, and Japan, continued decline in international oil prices that may increase the threat of deflation in Eurozone and severely impact the economies of Russia and other oil producing countries, and unfavorable political developments in Greece. All these pose uncertainties and risks to the global financial market. Taiwan has benefited from improvements in the global economy. Declining international oil and raw materials costs meant that economic growth is expected to be slightly better than that of 2014, providing us with cautious optimism. Our Company shall continue to work in line with policies established by the competent financial authorities and develop Cross-Straits financial and Renminbi services, using OBU and overseas branches to become financing centers for Taiwanese entrepreneurs. We shall strengthen our positioning and establish financial bridgeheads across Asia and thoroughly implement our development strategies for 2015 which can be divided into 6 major directives: (1) diversify profit sources; (2) balance profit contributions across its subsidiaries; (3) actively pursue comprehensive positioning in other countries; (4) improve financial products and provide innovative services; (5) create a robust management system; and (6) fulfill our corporate social responsibilities. By considering and fulfilling the expectations of our employees, shareholders, customers, and the general public, we shall continue to confront new challenges, make relevant adjustments, and achieve new heights as we continue to pursue our vision of becoming Asia's first-rate financial institution.

## Credit Ratings

Assessed institution	Assessor	Long-term credit assessment	Short-term credit assessment	Future outlook
Hua Nan Financial Holdings	Taiwan Ratings (2014/06)	twA+	twA-1	Stable
Hua Nan Commercial Bank	Taiwan Ratings (2014/06)	twAA	twA-1+	Stable
	Moody's (2015/01)	A3	P2	Stable
	Fitch Ratings (2014/05)	BBB+	F2	Stable
Hua Nan Securities	Taiwan Ratings (2014/06)	twA+	twA-1	Stable
South China Insurance	Taiwan Ratings (2014/12)	twAA-	-	Stable
	A.M. Best (2015/01)	A-	a-	Positive

Chairman

Teng-Cheng Liu

*Teng Cheng Liu*

Vice Chairman

Ming-Cheng Lin

*Ming Cheng Lin*

President

Mao-Shyan Liu

*Mao-Shyan Liu*



*H*onesty

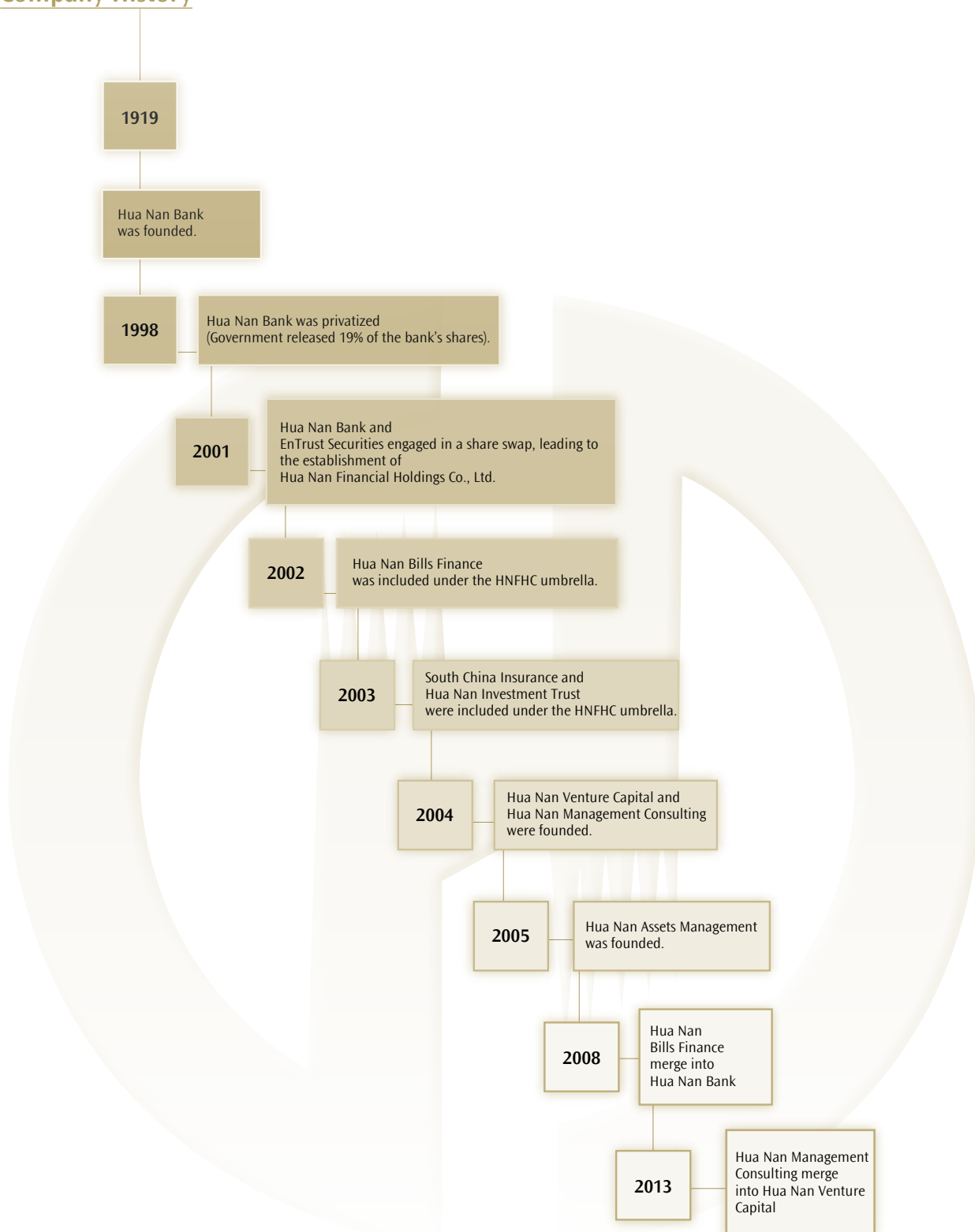


## II | Company Profile

### Date of Establishment

Hua Nan Financial Holdings Co., Ltd (HNFHC) was established through a share swap between Hua Nan Commercial Bank Ltd. (HNCB) and En Trust Securities Co., Ltd. (now called “Hua Nan Securities” or “HNSC”) on December 19, 2001. HNFHC headquarters is located in Taipei City, and the authorized capital is in the amount of NTD100 billion.

### Company History



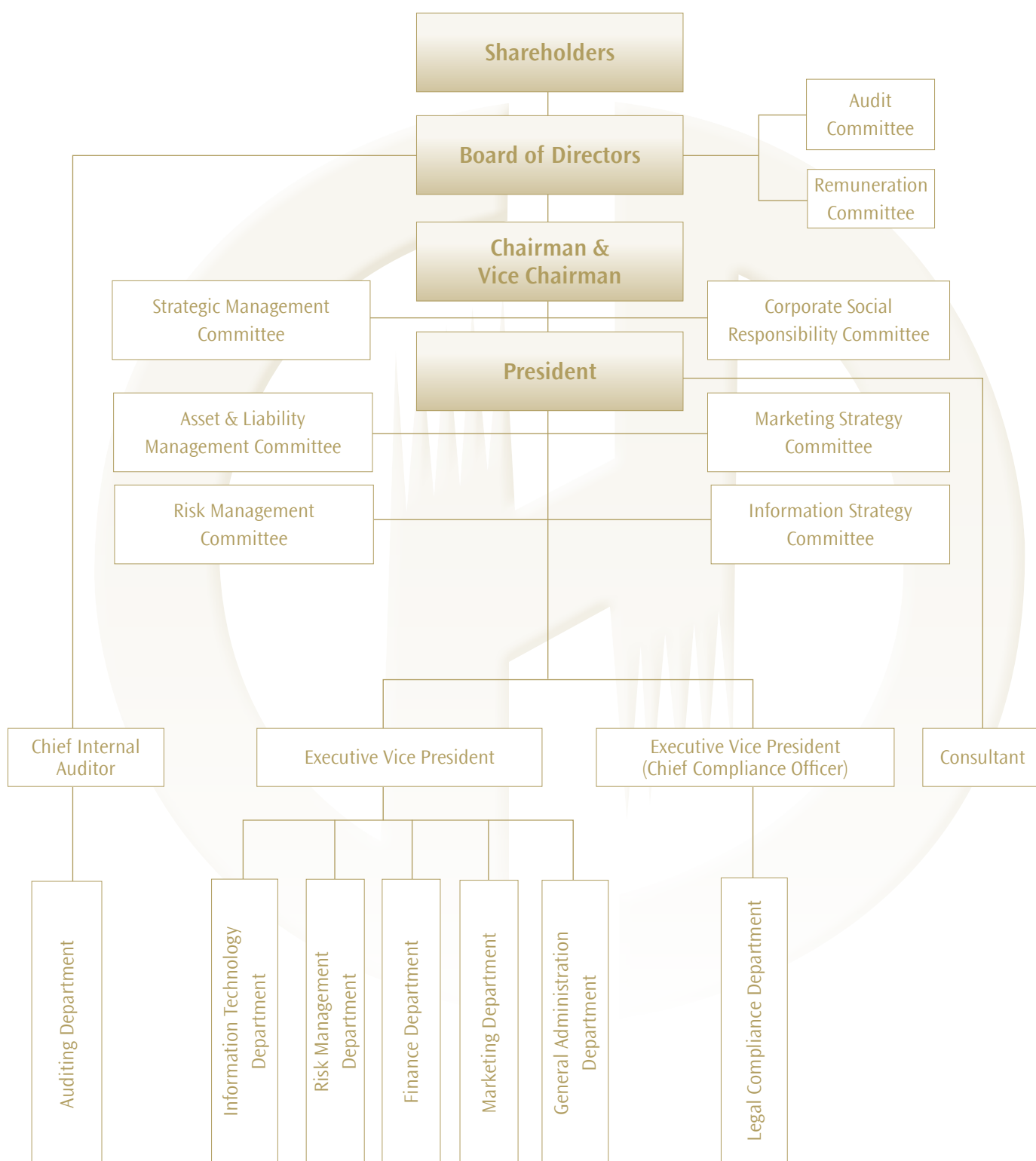






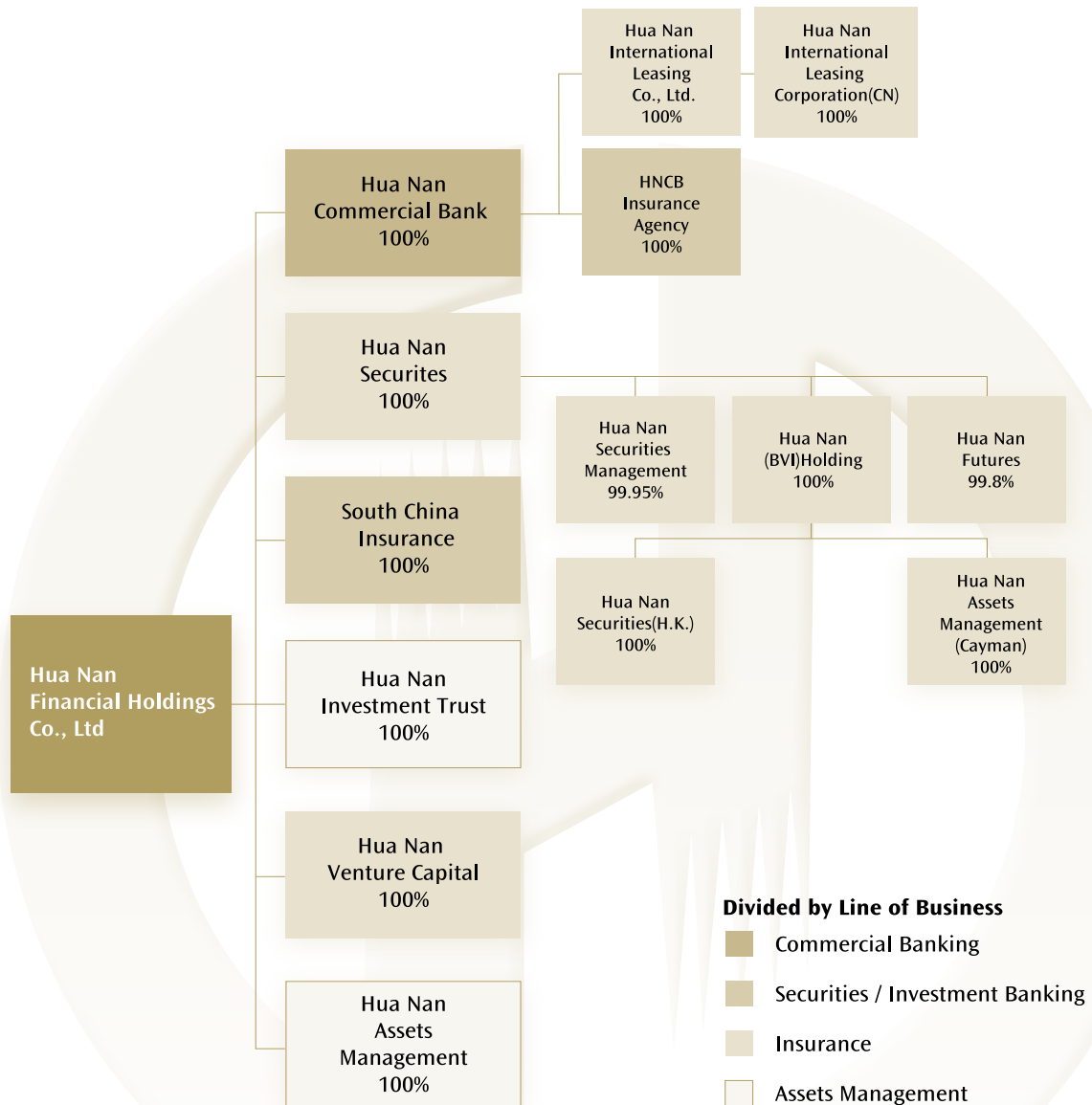
# III | Corporate Governance

## Organization Chart





## Company Organization



## Directors and Management Team

### 1. Directors Information

Apr. 14, 2015

Position	Nationality or Registered Address	Name	Date of Electing (Appointment)	Term	Date of Initial Electing (note 1)	Holding share as of electing date		Current holding share		Holding share of himself / herself, spouse and minor children		Shares held by means of another party's name		Highest educational attainment/ Work experience	Positions held in holdings company and other companies	Spouse or 2nd level kin holding other heads, director or supervisor position		
						No. of shares	Rate of holding share (%)	No. of shares	Rate of holding share (%)	No. of shares (note 2)	Rate of holding share (%)	No. of shares	Rate of holding share (%)			Position	Name	Relationship
Chairman	R.O.C.	Teng-Cheng Liu	July 1, 2013	until June 30, 2016	June 21, 2013	146,613,586	1.70	158,562,592	1.70	103,000	0.00	0	0	Director-general of National Treasury Agency, Ministry of Finance, Administrative Deputy Minister of Ministry of Finance, Chairman of Taiwan Cooperative Financial Holding Co. and Taiwan Cooperative Bank, Chairman of Taiwan Financial Holding Co., Ltd. and Bank of Taiwan Master of Dept. of International Business, National Taiwan University, Bachelor of College of Law, National Taiwan University	Chairman of National Credit Card Center of R.O.C., Director of Securities & Futures Institute etc. (note 3)	None	None	None
Vice Chairman	R.O.C.	Ming-Cheng Lin	July 1, 2013	until June 30, 2016	Nov. 14, 2001	152,324,336	1.77	164,738,768	1.77	0	0.00	0	0	Director of Central Bank, Chairman of Hua Nan Financial Holdings Co., Ltd.(HNFH), Vice Chairman of Hua Nan Bank, Director of Taiwan Asset Management Corporation, Supervisor of Taiwan Financial Asset Service Corporation, Director of T. Y. Company Hsing Yeh Co., Ltd. Master of Laws of Keio University, Japan	Chairman of Hua Nan Bank, Director of Lin Pen Yuan Industrial Co., Ltd.	Director Director	T. Lin Hui-Jan Yen	Father and son Relative by marriage within the 2nd level kin
Director & President	R.O.C.	Mao-Shyan Liu	July 1, 2013	until June 30, 2016	June 24, 2009	146,613,586	1.70	158,562,592	1.70	427,955	0.01	0	0	Chairman of Hua Nan Venture Capital Co., Ltd., Executive Vice President of HNFH., Vice Manager of Trust Department, Manager of Business Dept. of Hua Nan Bank, Graduate Institute of Economics, Chinese Culture University	Managing Director of Hua Nan Bank, Director of South China Insurance Co., Ltd., Director of Taiwan Small Business Integrated Assistance Center, Managing Director of Financial Executives Institute	None	None	None
Director	R.O.C.	Yun Lin	July 1, 2013	until June 30, 2016	Nov. 14, 2001	1,831,201,815	21.23	1,980,444,762	21.23	0	0.00	0	0	Director, Dean and Full-time Professor of Department of Finance, NTU Ph.D. (Economics), Illinois University, U.S.A.	Professor of Department of Business Administration, Shih Hsin University, Part-time Professor of Department of Finance of NTU, Independent Director of Uni-President, Supervisor of The Eslite Spectrum Corporation	None	None	None
Director	R.O.C.	Ai Wei	July 1, 2013	until June 30, 2016	Aug. 12, 2009	1,831,201,815	21.23	1,980,444,762	21.23	0	0.00	0	0	Associate Professor and Dean of Graduate Institute of East Asian Studies, National Cheng Chi University, Director of Center of Cross-Straits Political and Economic Affairs, NCCU, Ph. D of Graduate Institute of East Asian Studies, NCCU	Independent Director of Asrock Inc.	None	None	None
Director	R.O.C.	Ming-Jui Hsieh	July 1, 2013	until June 30, 2016	Aug. 12, 2009	1,831,201,815	21.23	1,980,444,762	21.23	0	0.00	0	0	Review Commissioner of Securities Traded on Listed & Over-the-Counter, Researcher of National Policy Foundation, Ph. D of National Chung Hsing University	Associate Professor of Department of Business, National Open University, Supervisor of 3DFAMILY Technology Co Ltd.	None	None	None
Director	R.O.C.	Teng-Lung Hsieh (Discharged on July 16, 2014.)	July 1, 2013	until June 30, 2016	Sep. 8, 2003	1,831,201,815	21.23	1,980,444,762	21.23	0	0.00	0	0	Managing Director of Hua Nan Bank, Chief Auditor of Bank of Taiwan, Manager of Department of Credit Management, Bank of Taiwan Dept. of Bank Insurance of National Taichung Open College of Business	Director of Hua Nan Bank, Vice President of Bank of Taiwan	None	None	None
Director	R.O.C.	HSU, CHIH-WEN (Appointed on Sep. 9, 2014)	July 1, 2013	until June 30, 2016	Sep. 9, 2014	1,831,201,815	21.23	1,980,444,762	21.23	0	0.00	0	0	Vice President & Deputy General Manager of Singapore Branch, Bank of Taiwan Senior Vice President & General Manager of Hong Kong Branch, Bank of Taiwan Dept. of Economics, Soochow University	Manager of International Department, Bank of Taiwan Director of Hua Nan Bank	None	None	None
Director	R.O.C.	Shih-Tien Chiang	July 1, 2013	until June 30, 2016	Oct. 1, 2012	1,831,201,815	21.23	1,980,444,762	21.23	0	0.00	0	0	Director of Planning Division, Central Trust of China, Vice President of Central Trust of China, Consultant of Bank of Taiwan, Dept. of International Trade, Tamkang University	Vice President of Bank of Taiwan, Director of Hua Nan Bank, Director of Bank Taiwan Insurance Brokers	None	None	None



Position	Nationality or Registered Address	Name	Date of Electing (Appointment)	Term	Date of Initial Electing (note 1)	Holding share as of electing date		Current holding share		Holding share of himself / herself, spouse and minor children		Shares held by means of another party's name		Highest educational attainment/ Work experience	Positions held in holdings company and other companies	Spouse or 2nd level kin holding other heads, director or supervisor position		
						No. of shares	Rate of holding share (%)	No. of shares	Rate of holding share (%)	No. of shares (note 2)	Rate of holding share (%)	No. of shares	Rate of holding share (%)			Position	Name	Relationship
Director	R.O.C.	En-Shiang Tai	July 1, 2013	until June 30, 2016	Oct. 12, 2010	1,831,201,815	21.23	1,980,444,762	21.23	1,742,667	0.02	0	0	Chairman of The Non-Life Underwriters Society of the Republic of China, President of the Non-Life Insurance Association of the R.O.C., Master of College of Management, National Taiwan University	President of South China Insurance Co., Ltd., President of the Non-Life Insurance Association of the R.O.C.	None	None	None
Director	R.O.C.	T. Lin	July 1, 2013	until June 30, 2016	Nov. 14, 2001	152,324,336	1.77	164,738,768	1.77	0	0.00	0	0	Fund Manager of Mercury Asset Management J. D. University of California, Los Angeles, U.S.A	Director of Hua Nan Bank	Vice Chairman	Ming-Cheng Lin	Father and son
Director	R.O.C.	Hui-jan Yen	July 1, 2013	until June 30, 2016	Nov. 14, 2001	152,324,336	1.77	164,738,768	1.77	28,590	0.00	0	0	Consultant of Taiwan Jewelry Industry Association, Director of Chinese & Philippines Economic Association, Director of Kuang Lung Vocational High School, Tamkang University, Studying at MBA Program, National Chengchi University	President of Asia jewelry Co., Ltd., Director of Formosa Microsemi Co., Ltd., Director of Tai Yang Co., Ltd., Director of Te Ho Co., Ltd.	Vice Chairman	Ming-Cheng Lin	Relative by marriage within the 2nd level kin
Director	R.O.C.	Rung-Fu Hsieh	July 1, 2013	until June 30, 2016	Mar. 4, 2009	8,916,313	0.10	9,642,991	0.10	132,648	0.00	0	0	General Manager of Shin Hai Gas Corp., Managing Director of Industrial Bank of Taiwan, Dept. of Business, National Open University	President, The Great Taipei Gas Corp., Supervisor of Shin Hai Gas Corp., Managing Director Hua Nan Bank, etc. (note 3)	None	None	None
Director	R.O.C.	Hsu Chen, An-Lan	July 1, 2013	until June 30, 2016	Nov. 14, 2001	297,867	0.003	322,142	0.00	320,677	0.00	0	0	President Yuan Ding Investment Co., Ltd., President of Hua Nan Securities Co., Ltd., Director of Foreign Language of Tunghai University	President of Hua Nan Securities Co., Ltd., Director of Hua Nan Bank, etc. (note 3)	Director	Yuan-Chen Hsu	Mother and son
Director	R.O.C.	Michael, Yuan Jen Hsu	July 1, 2013	until June 30, 2016	May 15, 2009	297,867	0.003	322,142	0.00	0	0.00	0	0	Assistant Manager of Chairman Office, Hua Nan Securities Co. Ltd., Manager of Asia-Pacific Equity-Linked Commodity Trading Dept., Merrill Lynch, MBA The Wharton School University of Pennsylvania	Director of Hua Nan Bank, Director and VP of Brokerage Management Dept. Hua Nan Securities Co., Ltd., Director of Hua Nan Securities Co., Ltd. (Hong Kong), Director of Ju Yuan Enterprise Co., Ltd., Supervisor of Pu Chang Construction Co., Ltd., Supervisor of Pen Cheng Venture Investment Co., Ltd.	Director	Hsu Chen An-Lan	Mother and son
Director	R.O.C.	Vivien, Chia-Ying, Shen	July 1, 2013	until June 30, 2016	Aug. 31, 2005	43,022,482	0.50	46,528,814	0.50	56,778	0.00	0	0	Vice Chairman of The Hongkong and Shanghai Banking Corporation Limited, MBA of University of Birmingham, U.K	None	None	None	None
Independent director	R.O.C.	A-Wang Huang	July 1, 2013	until June 30, 2016	June 31, 2013	0	0	0	0.00	0	0.00	0	0	Director of Dept. of financial Inspection, Central Bank, Master, Graduate Institute of Accounting, National Chengchi University	Consultant without remuneration, Central Bank	None	None	None
Independent director	R.O.C.	Chung-Yuan Hsu	July 1, 2013	until June 30, 2016	June 15, 2007	63,000	0	68,134	0.00	68,134	0.00	0	0	Director of Dept. of Accounting, National Chengchi University, Partner CPA of BDO Taiwan, Doctor of Accountancy of University of Memphis	Independent Doctor of Hua Nan Bank, Professor of Dept. of Accounting, National Chengchi University	None	None	None
Independent director	R.O.C.	Chun-Pin Chen	July 1, 2013	until June 30, 2016	June 15, 2007	52,500	0	56,778	0.00	56,778	0.00	0	0	Part-time Lecturer of Department of Law, Soochow University, Lei Shih Law Firm Master, NTU College of Law	Independent Doctor of Hua Nan Bank, Lawyer of Lei Shih Law Firm, Director of TFASC Taiwan	None	None	None
Independent director	R.O.C.	Ching-hsiou Chen	July 1, 2013	until June 30, 2016	June 18, 2010	52,500	0	56,778	0.00	56,778	0.00	0	0	Director of Personnel Administration, Executive Yuan, Chairperson & Lawyer of Legal Affairs Committee, Taipei City government, Doctor of Laws, National Taiwan University	Professor of Department of Law, Soochow University, Director of Weng, Yuan-Chang's Culture & Education Foundation	None	None	None

Note 1: The time that the representative took up the position as a director or a supervisor for the first time.

Note 2: It does not include legal person's shareholding.



## 2. Management Team

Apr. 14, 2015

Position	Nationality	Name	Date of Appointment	Holding share		Holding share of spouse and minor children		Shares held by means of another party's name		Highest educational attainment/ Work experience	Positions held in other companies	Spouse or 2nd level kin holding managers			Employee warrant certificates obtained from managerial staff
				No. of shares	Rate of holding share (%)	No. of shares	Rate of holding share (%)	No. of shares	Rate of holding share (%)			Position	Name	Relationship	
President	R.O.C.	Mao-Shyan Liu	July 1, 2009	427,955	0.0046	0	0	0	0	Chairman of Hua Nan Financial Management Consulting Co., Ltd., Executive Vice President of HNFH, Vice Manager of Trust Department, Manager of Business Dept. and Manager of Finance Dept. of Hua Nan Bank Graduate Institute of Economics, Chinese Culture University	Managing Director of Hua Nan Bank, Director of South China Insurance Co., Ltd., Director of Taiwan Small Business Integrated Assistance Center, Managing Director of Financial Executives Institute	None	None	None	Unissued
Executive Vice President	R.O.C.	David, Y. C. Cheng	July 29, 2009	188,098	0.0020	0	0	0	0	Director of Director of General Administration Management Department, HNFH, Director of Hua Nan Financial Management Consulting Co., Ltd., Assistant Manager of Auditing Dept. of Hua Nan Bank, Manager of Los Angeles Branch, Hua Nan Bank, Senior Executive Officer of Head Office, Hua Nan Bank, Manager of Corporate Banking Marketing Dept. of Hua Nan Bank, Master of Financial College, Fu Jen Catholic University	Chairman of Hua Nan Assets Management Co.	None	None	None	Unissued
Executive Vice President & G. M. of Risk Management Department	R.O.C.	James, H. T. Liu	Mar. 18, 2002	38,609	0.0004	0	0	0	0	Senior Assistant Manager, Financial Management Dept. of CTBC, Researcher of Institute of Economy-Doctor Program, UCLA	Director of Hua Nan Securities Co., Ltd., Director of South China Insurance Co., Ltd.	None	None	None	Unissued
Executive Vice President (Chief Compliance Officer) & G. M. of Legal Compliance Department	R.O.C.	Hsin-Tien Ting	Feb. 6, 2015	230,472	0.0025	6,147	0.0001	0	0	Manager of Juihsiang Branch and Huajiang Branch, Chief Secretary of Board of Directors, Hua Nan Bank, Executive Vice President of General Administration Management Department, Hua Nan Bank NTU College of LAW (Minor: Department of Economics)	Executive Vice President of Hua Nan Bank Managing Director of Chunghua Real Estate Management Co., Director of Hua Nan Securities Investment Management Co., Ltd.	None	None	None	Unissued
Chief Internal Auditor & G. M. of Auditing Department	R.O.C.	Chih-Ho Shih	July 16, 2014	148,106	0.0000	0	0	0	0	Manager of Hsihu Branch, Chunghsiao E. Road Branch, Yuanshan Branch and Manager of Corporate Banking Credit Management Dept. Department of Business Administration, Soochow University	None	None	None	None	Unissued
G. M. of General Administration Department	R.O.C.	Sarah, C. T. Hsu	Feb. 14, 2014	0	0.0000	0	0	0	0	Director of Department of Economic Research, Bank of Taiwan Doctor of Graduate School of Economics, National Chengchi University	Director of Hua Nan Venture Capital Co., Ltd.	None	None	None	Unissued
G. M. of Marketing Department	R.O.C.	Tony Jang	Mar. 22, 2005	184,478	0.0020	0	0	0	0	Chief Secretary, Board of Directors, Hua Nan Bank EMBA of National Chengchi University	Executive Vice President of Hua Nan Bank, Director of Hua Nan Investment Trust Corp. Director of Lian-An Co., Ltd.	None	None	None	Unissued
G. M. of Finance Department	R.O.C.	King-Huo Lu	Aug. 1, 2012	0	0.0000	0	0	0	0	Assistant Manager of Financial & Accounting Dept. of Hua Nan Bank Graduated from Dept. of Accounting, Soochow University	Manager of Financial & Accounting Dept. of Hua Nan Bank Supervisor of South China Insurance Co., Ltd.	None	None	None	Unissued
G. M. of Information Department	R.O.C.	Michael Duh	Mar. 1, 2008	49,24	0.0005	0	0	0	0	Vice General Manager of Information Dept. of Taishin International Bank, Master of Graduate Institute of Electrical Engineering, National Taiwan University	Manager of Information Planning Development Dept. of Hua Nan Bank, Director of CDIB Partners Investment Holding Corp.	None	None	None	Unissued



### 3. Remuneration of Directors , President and Executive Vice Presidents

#### (1) Remuneration of Directors

Position	Name	Remuneration of Directors								Ratio of the total amount A, B, C and D to the net profit after tax
		Remuneration (A)		Separation and pension pay (B)		Remuneration from allocated earnings (C)		Professional fees (D)		The Company
		The Company	All companies in the financial report	The Company	All companies in the financial report	The Company	All companies in the financial report	The Company	All companies in the financial report	
Chairman	Ministry of Finance									
	Teng-Cheng Liu									
Vice Chairman	Memorial Scholarship Foundation to Mr. Lin Hsiung-Chen									
	Ming-Cheng Lin									
Director	Ministry of Finance									
	Mao-Shyan Liu									
Director	Bank of Taiwan									
	Shih-Tien Chiang									
Director	Bank of Taiwan									
	En-Shiang Tai									
Director	Bank of Taiwan									
	Teng-Lung Hsieh (Discharged on July 16, 2014)									
	Chih-Wen Hsu (Appointed on Sep. 9, 2014)									
Director	Bank of Taiwan									
	Yun Lin									
Director	Bank of Taiwan									
	Ai Wei									
Director	Bank of Taiwan									
	Ming-Jui Hsieh									
Director	Memorial Scholarship Foundation to Mr. Lin Hsiung-Chen									
	T. Lin									
Director	Memorial Scholarship Foundation to Mr. Lin Hsiung-Chen									
	Hui-Jan Yen									
Director	Shin Kong Life Insurance Foundation									
	Rung-Fu Hsieh									
Director	Entrust Foundation									
	Hsu Chen, An-Lan									
Director	Entrust Foundation									
	Michael, Yuan Jen Hsu									
Director	China Man-Made Fiber Corporation									
	Vivien, Chia-Ying Shen									
Independent Director	A-Wang Huang									
Independent Director	Ching-hsiou Chen									
Independent Director	Chung-Yuan Hsu									
Independent Director	Chun-Pin Chen									
Total		11,376	30,874	640	1,903	118,178	118,178	5,996	8,936	1.04%

Remuneration in the capacity as part-time employees													Ratio of the total amount A, B, C, D, E, F and G to the net profit after tax		Have received remuneration of re-investment enterprise outside the subsidiary
Salary, bonus and special expenditures (E)		Separation and pension pay (F)		Employees' Bonus from Allocated Earnings (G)			Total of employee warrant certificates obtained (H)		Total of restricted employee new shares number obtained						
All companies in the financial report	The Company	All companies in the financial report	The Company	All companies in the financial report	The Company		All companies in the financial report		The Company	All companies in the financial report	The Company	All companies in the financial report	The Company	All companies in the financial report	
					Amount of cash bonus	Amount stock bonus	Amount of cash bonus	Amount stock bonus							
1.22%	7,268	11,779	398	506	689	0	689	0	0	0	0	0	1.10%	1.32%	114



(2) Range of the Remuneration

Range of the Remunerations	Name of Directors			
	Sum of the 4 Remunerations (A+B+C+D)		Sum of the 7 Remunerations(A+B+C+D+E+F+G)	
	The Company	All companies in the financial report	The Company	All re-investment enterprises
Less than NTD2,000,000	Mao-Shyan Liu, Shih-Tien Chiang, En-Shiang Tai, Teng-Lung Hsieh, Chih-Wen Hsu, Yun Lin, Ai Wei, Ming-Jui Hsieh, T. Lin, Hui-jan Yen, Rung-Fu Hsieh, Hsu Chen, An-Lan, Michael Yuan Jen Hsu, Vivien, Chia-Ying Shen, A-Wang Huang, Ching-hsiou Chen, Chung-Yuan Hsu, Chun-Pin Chen	Mao-Shyan Liu, Shih-Tien Chiang, Teng-Lung Hsieh, Chih-Wen Hsu, Yun Lin, Ai Wei, Ming-Jui Hsieh, T. Lin, Hui-jan Yen, Rung-Fu Hsieh, Yuan-Chen Hsu, Vivien, Chia-Ying Shen, A-Wang Huang, Ching-hsiou Chen, Michael Yuan Jen Hsu, Chun-Pin Chen	Shih-Tien Chiang, En-Shiang Tai, Teng-Lung Hsieh, Chih-Wen Hsu, Yun Lin, Ai Wei, Ming-Jui Hsieh, T. Lin, Hui-jan Yen, Rung-Fu Hsieh, Hsu Chen, An-Lan, Yuan-Chen Hsu, Vivien, Chia-Ying Shen, A-Wang Huang, Ching-hsiou Chen, Michael, Yuan Jen Hsu, Chun-Pin Chen	Shih-Tien Chiang, Teng-Lung Hsieh, Chih-Wen Hsu, Yun Lin, Ai Wei, Ming-Jui Hsieh, T. Lin, Hui-jan Yen, Rung-Fu Hsieh, Vivien, Chia-Ying Shen, A-Wang Huang, Ching-hsiou Chen, Michael, Yuan Jen Hsu, Chun-Pin Chen
NTD2,000,000 (including) ~ NTD5,000,000 (excluding)	Ming-Cheng Lin		Ming-Cheng Lin	
NTD 5,000,000(including) ~ NTD 10,000,000(excluding)	Teng-Cheng Liu, Shin Kong Life Insurance Foundation, China Man-Made Fiber Corporation	Teng-Cheng Liu, En-Shiang Tai, Hsu Chen, An-Lan, Shin Kong Life Insurance Foundation, China Man-Made Fiber Corporation	Teng-Cheng Liu, Mao-Shyan Liu, Shin Kong Life Insurance Foundation, China Man-Made Fiber Corporation	Teng-Cheng Liu, Mao-Shyan Liu, En-Shiang Tai, Hsu Chen, An-Lan, Michael, Yuan Jen Hsu, Shin Kong Life Insurance Foundation, China Man-Made Fiber Corporation
NTD 10,000,000(including) ~ NTD 15,000,000(excluding)	Entrust Foundation	Ming-Cheng Lin, Entrust Foundation	Entrust Foundation	Ming-Cheng Lin, Entrust Foundation
NTD 15,000,000(including) ~ NTD 30,000,000(excluding)	Ministry of Finance, The Memorial Scholarship Foundation to Mr. Lin Hsiung-Chen	Ministry of Finance, The Memorial Scholarship Foundation to Mr. Lin Hsiung-Chen	Ministry of Finance, The Memorial Scholarship Foundation to Mr. Lin Hsiung-Chen	Ministry of Finance, The Memorial Scholarship Foundation to Mr. Lin Hsiung-Chen
NTD 30,000,000(including) ~ NTD 50,000,000(excluding)	Bank of Taiwan	Bank of Taiwan	Bank of Taiwan	Bank of Taiwan
NTD 50,000,000(including) ~ NTD 100,000,000(excluding)				
Over NTD100,000,000				
Total	26	26	26	26

Note 1: Director's remuneration was determined according to their participation in the Company's operating, their value of the contribution to the Company and the common practice applied in the industry. The determination procedure was approved by the board of shareholders or is prescribed by the Articles of Incorporation.

Note 2: The total amount of directors' remuneration in 2014 accounted for 1.04% of the Company's net profit after tax, representing a decrease of 0.04% compared with 1.08% in 2013. All the remuneration stated in the financial report accounted for 1.22% of the Company's net profit after tax, representing a decrease of 0.1% compared with 1.32% in 2013.

Note 3: The Company rented a car for its chairman, in which the car rental and fuel expenses were included in the business execution cost; the vice chairman's car cost was \$4,759,000, in which this year's depreciation and fuel expenses were included in the business execution cost. The Company rented a car for its president, in which this year's car rental and fuel expenses were included in column (E).

Note 4: The remuneration of the chauffeurs of the chairman, vice chairman and president was paid by the subsidiary, Hua Nan Bank, and the Company did not pay such expense.

Note 5: According to the Guidelines Governing Management of Responsible Persons, Managerial Persons, Directors and Supervisors of Public or Private Business Agencies Appointed by the Ministry of Finance, the employee bonus eligible to be received by the director concurrently the president should be the income of the originally appointed business agency.

Note 6: The amounts disclosed in (B) and (F) are the contribution amounts set aside for expenditure-based separation and pension pay.



### (3) Remuneration of the President and Vice President

Dec. 31, 2014 Unit: in NT\$ thousand

Position	Name	Amount of stock bonus	Amount of cash bonus	Total	% of the total amount to the net profit after tax (%)
President	Mao-Shyan Liu	0	3,046	3,046	0.023%
Executive Vice President	James, H. J. Liu				
Executive Vice President	David, Y. C. Cheng				
Chief Auditor (Retired on July 16, 2014.)	Ching-Nan Ku				
Chief Internal Auditor (Appointed on July 16, 2014.)	Chih-Ho Shih				
G. M.	Tony Jang				
G. M.	Michael Duh				
G. M.	Chin-Huo Lu				
G. M.	Sarah, C. T. Hsu				
Total		0	3,046	3,046	0.023%

Note 1: The employee bonus was estimated according to the 2014 employee bonus amount planned by the board of directors for distribution.

Note 2: According to the "Guidelines Governing Management of Responsible Persons, Managerial Persons, Directors and Supervisors of Public or Private Business Agencies Appointed by the Ministry of Finance", the employee bonus eligible to be received by the president should be the income of the originally appointed business agency.



# Activeness



# IV | Capital Overview

## Capital Overview

### 1. Issued Shares

Unit: shares; in NT\$

Period	Price at issuance	Authorized capital		Paid in capital		Remarks	
		Number of Shares	Amount (NTD)	Number of Shares	Amount (NTD)	Sources of Capital Stock	Other
Dec. 2001	\$10	10,000,000,000	100,000,000,000	4,146,799,357	41,467,993,570	Conversion of shares: 41,467,993,570	None
Aug. 2002	\$10	10,000,000,000	100,000,000,000	4,478,543,305	44,785,433,050	Capital Surplus Transferred to Capital: 3,317,439,480	Ministry of Economic Affairs – Oct. 25, 2002-Letter No. of Ching-shou-shang-tzu-ti-09101432670
Aug. 2003	\$10	10,000,000,000	100,000,000,000	4,728,503,594	47,285,035,940	Conversion of shares: 1,696,952,890 (South China Insurance Co., Ltd.) 802,650,000 (Hua Nan Investment Trust Co., Ltd.)	Ministry of Economic Affairs – Aug. 15, 2003-Letter No. of Ching-shou-shang-tzu-ti-09201240920 Ministry of Economic Affairs – Aug. 27, 2003-Letter No. of Ching-shou-shang-tzu-ti-09201253580
Aug. 2004	\$10	10,000,000,000	100,000,000,000	5,579,634,240	55,796,342,400	Earnings and Capital Surplus Transferred to Capital: 8,511,306,460	Ministry of Economic Affairs – Sep. 10, 2004-Letter No. of Ching-shou-shang-tzu-ti-09301166350
Aug. 2005	\$10	10,000,000,000	100,000,000,000	5,970,208,636	59,702,086,360	Capitalization of Earnings: 3,905,743,960	Ministry of Economic Affairs – Sep. 5, 2005-Letter No. of Ching-shou-shang-tzu-ti-09401173590
Aug. 2008	\$10	10,000,000,000	100,000,000,000	6,089,612,808	60,896,128,080	Capitalization of Earnings: 1,194,041,720	Ministry of Economic Affairs – Aug. 28, 2008-Letter No. of Ching-shou-shang-tzu-ti-09701216840
Sep. 2009	\$10	10,000,000,000	100,000,000,000	6,272,301,192	62,723,011,920	Capitalization of Earnings: 1,826,883,840	Ministry of Economic Affairs – Sep. 4, 2009-Letter No. of Ching-shou-shang-tzu-ti-09801205810
Aug. 2010	\$10	10,000,000,000	100,000,000,000	6,617,277,757	66,172,777,570	Capitalization of Earnings: 3,449,765,650	Ministry of Economic Affairs – Aug. 27, 2010-Letter No. of Ching-shou-shang-tzu-ti-09901194810
Sep. 2011	\$10	10,000,000,000	100,000,000,000	7,014,314,422	70,143,144,220	Capitalization of Earnings: 3,970,366,650	Ministry of Economic Affairs – Sep. 6, 2011-Letter No. of Ching-shou-shang-tzu-ti-10001207630
Dec. 2011	\$16.67	10,000,000,000	100,000,000,000	8,214,314,422	82,143,144,220	Capital Increased by Cash: 12,000,000,000	Ministry of Economic Affairs – Jan. 17, 2012-Letter No. of Ching-shou-shang-tzu-ti-10101009540



Period	Price at issuance	Authorized capital		Paid in capital		Remarks	
		Number of Shares	Amount (NTD)	Number of Shares	Amount (NTD)	Sources of Capital Stock	Other
Sep. 2012	\$10	10,000,000,000	100,000,000,000	8,625,030,143	86,250,301,430	Capitalization of Earnings: 4,107,157,210	Ministry of Economic Affairs – Sep. 7, 2012-Letter No. of Ching-shou-shang-tzu-ti-10101185540
Sep. 2013	\$10	10,000,000,000	100,000,000,000	9,056,281,650	90,562,816,500	Capitalization of Earnings: 4,312,515,070	Ministry of Economic Affairs – Sep. 4, 2013-Letter No. of Ching-shou-shang-tzu-ti-10201181880
Sep. 2014	\$10	10,000,000,000	100,000,000,000	9,327,970,099	93,279,700,990	Capitalization of Earnings: 2,716,884,490	Ministry of Economic Affairs – Sep. 19, 2014-Letter No. of Ching-shou-shang-tzu-ti-10301189410

Note 1: The data should be updated to the date printing the annual report for publication.

Note 2: The effective (approval) date together with the doc. No. should be added for any capital increase.

Note 3: Those that issue the stock below the par value should indicate it in a noticeable way.

Note 4: Those that have currency debts or technology served as stock contribution should state the status and additionally mark the category and amount of the object served as stock contribution.

Note 5: Those that have private placement should indicate it in a noticeable way.

Unit: shares

Kind of stock	Authorized capital			Remarks
	Outstanding capital stock	Un-issued shares	Total	
Common stock	9,327,970,099	672,029,901	10,000,000,000	Listed stock

## 2. Shareholders Structure

Unit: shares; Apr. 14, 2015

Shareholder Structure Quantity	government agency	Financial institution	Other corporation	Individual	Foreign company or foreigner	Total
Number (people)	6	40	600	185,806	746	187,198
Shares of holding (shares)	212,509,063	3,156,300,391	2,084,791,008	2,146,640,877	1,727,728,760	9,327,970,099
Ratio of holding (%)	2.28	33.84	22.35	23.01	18.52	100.00

## Shareholding Distribution Status

### 1. Common Shares

Apr. 14, 2015

Level of share held			Numbers of shareholders	Shares of holding	Ratio of holding (%)
1	~	999	71,451	14,587,113	0.16
1,000	~	5,000	62,277	149,776,119	1.61
5,001	~	10,000	18,825	132,759,621	1.42
10,001	~	15,000	10,367	126,512,836	1.36
15,001	~	20,000	4,659	80,978,435	0.87
20,001	~	30,000	6,206	150,703,505	1.62
30,001	~	40,000	3,009	103,325,393	1.11
40,001	~	50,000	1,917	85,852,314	0.92
50,001	~	100,000	4,387	302,517,055	3.24
100,001	~	200,000	2,279	308,133,051	3.30
200,001	~	400,000	854	230,845,282	2.47
400,001	~	600,000	277	134,560,448	1.44
600,001	~	800,000	151	104,411,358	1.12
800,001	~	1,000,000	99	88,809,860	0.95
1,000,001	above		440	7,314,197,709	78.41
Total			187,198	9,327,970,099	100.00

## 2. List of Major Shareholders

The shareholder whose shareholding ratio is more than 1% of HNFHC's shares or the top ten shareholders of the company.

Apr. 14, 2015

Name of Major Shareholders	Shares	Shares of holding (shares)	Ratio of holding (%)
Bank of Taiwan		1,980,444,762	21.23
Shin Kong Life Insurance Co., Ltd.		372,119,653	3.99
Bank Taiwan Life Insurance Co., Ltd.		358,437,083	3.84
First Commercial Bank		227,759,591	2.44
Taiwan Tobacco & Liquor Corporation		220,270,942	2.36
Yuan Ding Investment Co., Ltd.		202,773,627	2.17
Yung Tsai Investment Co., Ltd.		179,608,558	1.93
Memorial Scholarship Foundation to Mr. Lin Hsiung Chen		164,738,768	1.77
Ministry of Finance		158,562,592	1.70
Dedicated investment account of Vanguard Emerging Market Stock Index Fund which custody by Standard Chartered Bank		128,405,992	1.38
Trust Account under HWATAI Bank		125,927,596	1.35
Yung Tzu Investment Co., Ltd.		108,544,103	1.16

## 3. Market Price, Net Worth, Earnings, and Dividends Per Share

Item		Year	2014	2013	As of Mar. 31, 2015 (Note 8)
Market value per share (Note 1)	Highest		19.60	17.90	18.10
	Lowest		16.75	15.95	17.10
	Average		17.91	17.07	17.62
Net value per share (Note 2)	Before appropriation		15.43	14.98	15.84
	After appropriation		Note 9	14.54	Note 10
EPS	Weighted average shares (thousand share)		9,327,970	9,056,282	9,327,970
	EPS — Pre adjustment (note 3)		1.41	1.11	0.39
	EPS — Post adjustment (note 3)		Note 9	1.08	Note 10
Dividend per share	Cash dividend		0.62	0.70	Note 10
	Scrip issue	Shares allocated from earnings	0.62	0.30	Note 10
		Dividend from capital reserve	None	None	Note 10
	Accumulated undistributed dividend (Note 4)		None	None	Note 10
ROI analysis	P/E ratio (Note 5)		12.70	15.38	11.29
	Dividend ratio (Note 6)		28.89	24.39	None 10
	Cash dividend yield (Note 7)		3.46%	4.10%	Note 10

\* When distributing the dividend from retained earnings or capital reserve, the information on stock market price adjusted according to the number of the shares to be distributed and the cash dividend should be disclosed.

Note 1: List the highest and lowest market prices over the years and calculate the average market price of respective years according to each year's trading value and volume.

Note 2: Please fill in the details according to the number of the shares issued by the end of the year and the distribution adopted in the following year's shareholders' meeting.

Note 3: If adjustment is required as a result of the scrip issue, the EPS of pre and post adjustment should be listed.

Note 4: For the equity securities issuance terms, if it is stipulated that the current year undistributed dividend could be accumulated until the year having surplus, each year's undistributed dividend accumulated until the current year should be disclosed respectively.

Note 5: P/E ratio = current year's average per share closing price/ EPS.

Note 6: Dividend ratio = current year's average per share closing price/ cash dividend per share

Note 7: Cash dividend yield = cash dividend per share/ current year's average per share closing price.

Note 8: The current year data should be updated to the date printing the annual report for publication.

Note 9: The 2014 earnings distribution will be resolved in the 2015 Shareholders' Meeting.

Note 10: The 2015 earnings have yet to be distributed.





## 4. Dividend policy and Implementation status:

(1) The Company will continue to expand its scale, enhance its profitability, concurrently follow the related laws and regulations, and adopt the surplus dividend policy. If it has any surplus left in the annual final account, it shall pay the tax due and cover losses of the previous years by law before setting aside the legal surplus reserve and the special surplus reserve as required by law or business needs. Based on the following method, the remaining surplus shall be distributed according to the resolution adopted by the Shareholders' Meeting:

- Directors' remuneration shall be no more than 1%.
- The employee bonus amount shall be distributed within the range from 0.02% to 0.16% and, after adopted by the Shareholders' Meeting, the total or partial bonus can be distributed in the form of new shares. The employees eligible to receive the stock bonus shall include the subsidiary's employees, for which the regulations shall be separately set up by the Board of Directors.
- Shareholders' dividends and bonuses may be added to the undistributed earnings left from the previous years and totally or partially distributed, for which the distribution shall be resolved by the Board of shareholders. Based on the company's operating planning, there are two types of dividends, cash and stock, in which the cash dividend shall not be lower than 10% of the total amount of the dividend to be distributed. In case that the cash dividend per share is less than \$0.1, unless otherwise separately resolved by the Board of shareholders, it shall not be distributed.

(2) Dividend distribution to be proposed in this time of Shareholders' Meeting: the cash dividend at \$0.62 per share for \$5,783,341,461 and the stock dividend at \$0.62 per share for 5,783,341,460 (\$1.24 per share in total) will be proposed in this time of regular Shareholders' Meeting.

(3) Regarding the dividend policy, the proposal to amend the "total distribution or partial distribution" to be "contribution of 30% to 100% of the distributable amount" will be submitted in this year (2015)'s regular Shareholders' Meeting, and the distribution will be made according to the resolution adopted in the Shareholders' Meeting.

## 5. Proposed Distribution of Dividend

			2015 (estimated)
Paid-up capital at the beginning period (NT\$)			93,279,700 thousand
This year's dividend distribution status	Cash dividend per share		\$0.62
	Each share's stock dividend from retained earning		0.062 shares
	Each share's stock dividend from capital Surplus		-
Changes in business performance	Operating income		Not applicable (note)
	Ratio of increase (decrease) in operating income compared with the same period of the previous year		
	Net profit after tax		
	Ratio of increase (decrease) in after-tax profit compared with the same period of the previous year		
	EPS		
	Ratio of increase (decrease) in EPS compared with the same period of the previous year		
	Average annual ROI (average annual reciprocal of the P/E ratio)		
Proforma EPS and P/E ratio	If all the stock dividend from retained earnings is replaced by cash dividend	Proforma EPS	Not applicable (note)
		Proforma average annual ROI	
	If there is no stock dividend from capital Surplus	Proforma EPS	
		Proforma average annual ROI	
	If there is no stock dividend from capital Surplus and the cash dividend from retained earnings is replaced by cash dividend	Proforma EPS	
		Proforma average annual ROI	

Note: The Company does not announce its 2015 financial forecast. According to the Letter No. (2000) Tai-Tsai-Cheng (1)-Tzu-Ti-00371 issued by the Securities and Futures Commission, Ministry of Finance on February 1, 2000, those companies that do not announce their financial forecast are not required to disclose the information.

## 6. Employee bonuses and director remuneration

### (1) The ratio and scope of employee bonuses and director remuneration prescribed by the Articles of Incorporation:

If the Company has any surplus left in its annual final account, it shall pay the tax due and cover losses of the previous years by law before setting aside the legal surplus reserve and the special surplus reserve as required by law or business needs. Out of the remaining surplus, the Shareholders' Meeting shall resolve to determine the employee bonus ranging from 0.02 % to 0.16% and the director remuneration which shall be no more than 1%.

### (2) Accounting handling for any difference among the estimates of current period's employee bonus and director remuneration amounts, calculation basis of the shares of the stock dividend and actual distributed amount:

Based on its current period's net profit after tax, the Company considers the factors of legal surplus reserve and special surplus reserve, and, within the ratio range defined in its Articles of Incorporation, it refers to the level of the bonus released in the financial holding industry and takes into account its business performance before recognizing its current period's employee bonus and director remuneration amounts as current period operating expenses. In case of any difference between the actually distributed amount and the estimated amount, the difference will be adjusted and recorded in the shareholders resolution year. The Company does not distribute any stock bonus.

### (3) Information on distribution of the employee bonuses approved by the board of directors:

- The amounts of employee cash bonus and stock bonus and director remuneration to be distributed are as follows:  
This time of shareholders' meeting proposed to distribute employee cash bonus \$11,648 thousand and director remuneration \$118,179 thousand.
- The ratio of the employee stock bonus shares to the stock dividend from retained earnings:  
Given that the Company only plans to distribute employee cash bonus, the ratio is not applicable.
- The EPS estimated after considering the employee bonus and director remuneration planned to be distributed:  
According to the Letter No. (2007) Chi-Mi-Tzu-Ti-052 published by Accounting Research and Development Foundation in March 2007, the Company has recognized the employee bonus and director/ supervisor remuneration as expenses, rather than earnings distribution as of January 1, 2008. As such, after taking the employee bonus and director remuneration planned to be distributed into account, the 2014 EPS is still estimated to be \$1.41.
- The Company set up the Audit Committee in July 2013 to replace supervisor's duties.

### (4) Distribution of the employee bonus and director remuneration from the earnings of the previous year:

As resolved in the Company's 2014 shareholders' meeting, the 2013 employee cash bonus and director remuneration amounts are \$7,382 thousand and \$90,461 thousand respectively, which are same as the distribution originally passed by the Board of Directors.



## Bonds

### 1. Corporate Bonds

Type of Corporate Bonds	2012 First term of unsecured corporate bonds	
Date of Issuance	January 21, 2013	
Face Value	NT\$10,000,000	
Place of Issuance and Transaction	Taiwan	
Issuing Price	100% Issuance according to face value	
Total Amount	Total amount for corporate bonds issued in this offering is NT\$9.9 billion. Bonds will be classified into A and B according to differing issuing conditions. Issue A amounts to NT\$5 billion and Issue B amounts to NT\$4.9 billion.	
Coupon Rates	Coupon rate of Issue A is a fixed annual rate of 1.23%; that of Issue B is a fixed annual rate of 1.55%.	
Term	Issuance period of Issue A is five years, maturing on January 21, 2018; issuance period for Issue B is seven years, maturing on January 21, 2020.	
Priority order of compensation	Creditors holding Issue A has the same order of compensation priority as the other holders of unsecured liabilities of the Company. Creditors holding Issue B is only placed slightly ahead of the right to claim for distribution of residual property of company shareholders and behind all the other company creditors.	
Warranty Agency	None	
Trustee	Trust Department, Yuanta Bank	
Underwriting Agency	None	
Legal Service Signatory:	Chan Kang-Jung Attorney Office Kang-Jung Chan	
CPA signatories	Deloitte & Touche Wei Chung, Yi-Chun Wu	
Terms of Payment	Method of calculation and payment of interest: Annual calculation of simple interest and one payment per year in accordance with the coupon rate from the date of issuance Method of principal payment: one-time payment upon maturity	
Unpaid principal	NT\$9,900,000,000	
Provisions for redemption or advance payoff	None	
Limiting provisions	If interest or principal payments for Issue B cause the company's capital adequacy ratio to fall below the statutory requirements, these payments shall be temporarily discontinued until such time that the ratio meets statutory requirements (interest can be accumulated; the original coupon rates shall be applied to the interest and principal of the extended term)	
Inclusion in qualifying capital	Issue B (NT\$4.9 billion) included in qualifying capital	
Name of credit rating agency, rating dates, and results of corporate bond rating	Agency name: Taiwan Ratings Corporation Rating date: November 15, 2012 Rating of Issue A: twA+ Rating of Issue B: twA-	
Other appended rights	Amount of ordinary shares already converted (swapped or warranted) and global/overseas depositary receipts or other negotiable securities as of the publishing date of the annual report	None
	Measures for issuance and conversion (swaps or warrants)	None
Measures for issuance and conversion, trade or warrants, impact of issuance on potential dilution of equity and current shareholders' equity		None
Name of the custodian institution entrusted with swapped collateral		None



# Responsibility



# V | Corporate Social Responsibility

## Corporate Social Responsibility

Evaluation Item	Operational Scenario			Situational differences and reasons with regards to the CSR code of practices for publicly traded companies
	Yes	No	Brief Description	
I. Promote implementation of corporate governance (1) Has the company set CSR policies or systems, as well as review the implementation of the performance?	✓		(1) The Company established a Corporate Social Responsibility Committee in 2014 for which the main task is to carry out major strategies of the corporate company's social responsibility, so that the entire company can actively from top to down put into practice the social responsibility. A corporate social responsibility report was published in 2015. The existing social responsibility activities in 5 major fields of corporate governance, customers' rights and interests, staff care, environmental sustainability, and society participation are presented in the report format, while sufficient communication and timely reviews are conducted with stakeholders.	In accordance.
(2) Does the company conduct CSR education and training on a regular basis?	✓		(2) Aside from the Company organizing regular social welfare activities to promote CSR and corporate ethics to its Board of Directors, supervisors and employees, the Board, and staff also participate in ethics-related training inside and outside the company.	In accordance
(3) Has the company set up a CSR Promotion Unit, with the Board of Directors empowering higher management to handle the matter and report the situation to the Board?	✓		(3) The Company has set up a CSR Committee for the entire company of companies. Department of General Administrative will be in charge of planning CSR related matters and will be reporting to the Board about the implementation plan and execution status.	In accordance
(4) Has the company set reasonable salary compensation policies and staff performance appraisal system in tandem with its CSR policy, as well as establish clear and effective system of reward and discipline?	✓		(4) The Company has drafted the "Employee Work Rules" to regulate the corporate ethics and conduct of its employees. This set of rules includes clear incentives and penalty measures, which shall be included in the annual employee evaluation.	In accordance
II. Develop sustainable environment (1) Does the company exert efforts in maximizing the use of various resources and utilize renewable materials that have the least environmental impact?	✓		(1) 1. Abide by government energy conservation policies and adjust temperatures of air-conditioning systems; use energy conserving illumination fixtures and reduce power consumption. 2. Set up electronic documentation system to promote paperless operations and reduce paper use. 3. Install water saving equipment to conserve water.	In accordance
(2) Does the company establish appropriate environmental management system according to the specific nature of the industry?	✓		(2) As the Company is in the financial service business, operating environment and business establishments commit to maximizing utilization as well as energy conservation and carbon reduction. The level of impact of its business activities in terms of environmental pollution or environmental damage is very low.	In accordance
(3) Does the company pay attention to the impact of climate change on operational activities and implement inventory of greenhouse gases as well as drafting energy carbon reduction and greenhouse gas reduction strategies?	✓		(3) The Company strictly enforces budget control, setting goals for conserving water and power within the Company and puts in place energy saving measures as well as disseminates relevant information to reduce the impact of climate change on operational activities. In December 2014, the Company moved to its new building in the Xinyi District; the Company is set to conduct the first greenhouse gas inventory by the end of 2015 to become the basis for future data comparisons.	In accordance
III. Maintain social welfare (1) Has the company drafted management policies and procedures according to relevant laws as well as the International Conventions on Human Rights?	✓		(1) The Company has set the "Employee Work Rules" in accordance with the Labor Law and other relevant laws to clearly state employee rights and responsibilities as well as management procedures. In addition, it has established an "Employee Welfare Committee" to take charge of various welfare measures, as well as to handle pension disbursements to ensure a secured life for employees after retirement.	In accordance
(2) Has the company established an employee grievance mechanism and channel? Has they been handled properly?	✓		(2) To maintain good communication with the employees, the Company has set up an evaluation commission as well as an employee welfare committee and a complaint hotline to protect the interests of staff members.	In accordance
(3) Does the company provide employees a safe and healthy working environment? Does it carry out health and safety education?	✓		(3) In accordance with relevant laws and regulations, the Company organizes regular health check-ups for employees as well as fire safety checks to ensure the safety and well-being of the employees.	In accordance
(4) Has the company established a system of regular communication with its employees and has reasonably notified employees about major changes that may cause significant impact on business operations?	✓		(4) Complementing the Company's performance management system, managers conduct interviews with employees three times a year at the beginning, in the middle, and towards the end, discussing goals set for the year, status of achieving of those goals, and development needs while giving guidance and recommendations. Incidents with major impact on the employee shall be discussed and communicated to the employees during meetings to relay the message more clearly and to listen to the employees' opinions on the matter.	In accordance



Evaluation Item	Operational Scenario			Situational differences and reasons with regards to the CSR code of practices for publicly traded companies
	Yes	No	Brief Description	
(5) Has the company established effective training programs for the development of employees' career skills?	√		(5) Plan diverse training programs for staff members in various professional fields, and provide job rotation opportunities based on the employee's professional expertise, performance contributions, and career development. Also, encourage employees to continue learning and provide resources for development.	In accordance
(6) Has the company drafted relevant consumer protection policies and complaint procedure for R&D, procurement, operations, and customer service?	√		(6) To protect consumer interests, the company has set a firewall policy and cross-selling management regulations. In addition, competent authorities have clear rules about confidentiality regarding customer information as well as privacy statement posted on corporate website.	In accordance
(7) Does the company follow relevant regulations and international norms with regard to the marketing and labeling of products and services?	√		(7) The Company and its subsidiaries have set the relevant internal regulations in accordance with the "Financial Consumer Protection Act," "Inter-subsidiary cross-selling Management Regulations," and other relevant laws.	In accordance
(8) Does the company assess if the suppliers have had past records of adverse impact on society and the environment before doing business?	√		(8) The company would double check relevant stakeholder information in its dealings with suppliers. It will also evaluate information regarding the supplier's social and environmental impact as one of the basis for contract signing.	In accordance
(9) In the company's contracts with its major suppliers, is there a clause stating that the company can at any time terminate the contract if the suppliers are found to have policies in violation of CSR or if they have had adverse impact on the society and the environment?		√	(9) When the Company signs agreements with its suppliers, it requires the supplier to abide by the internationally recognized human rights and commit to protecting the environment and preventing pollution.	Currently, the company not set termination clause with suppliers for terminating agreements with suppliers for breach of corporate social responsibility, or having adverse impact on society and the environment.
IV.Reinforces information disclosure Does the company disclose important and reliable information pertaining to CSR on its website and Market Observation Post System (MOPS)?	√		The Company discloses important information about corporate social responsibility on the official website and MOPS.	In accordance
V. If the company has drafted its CSR Code of Policies in accordance with the "Corporate Governance Best Practice Principles for TWSE/GTSM Listed Companies," please state the difference between actual operations and the code: The "Best Practice Principles" is a reference provided by the Securities and Exchange Commission to assist publicly traded companies in promoting and executing CSR; it is not mandatory for all companies to draft such a code. The company is currently drafting the corporate company's CSR Code of Policies to fulfill its corporate responsibility.				
IV. Additional important information which may assist in the understanding of CSR operations: Please see on pages 34 to 39 as well as the 2014 CSR Report.				
VII. Please mention if the company's CSR report have passed the verification standards of relevant verification bodies: The Company's 2014 Corporate Social Responsibility Report will adopt the international standard ISAE authentication.				



## Charitable Events Held in 2014

### 1. “Nutcracker” and “Swan Lake” Theatrical Dance Performances by the St. Petersburg Ballet Company

The United Daily News invited the St. Petersburg Ballet to Taiwan for a series of dance performances including Tchaikovsky’s full-length ballet operas, “Swan Lake” and “Nutcracker.” The Company was involved in a sponsorship capacity in support of promoting high-quality arts performances.

### 2. 2014 Taipei Lantern Festival

The Company has been a major sponsor of the Taipei Lantern Festival, organized annually by the Taipei City Government since 1997 to support social and cultural development as well as to establish closer connections with the public. The 2014 Lantern Festival activities were held at the Maruyama Park of Flora Expo site; the Company sponsored the light holders of the “Student Lantern Area” and produced 20,000 Horse Year lanterns to give away to the public during the festivities.

### 3. 2014 Financial and Economic Legislation Summit

To enhance legislative efficiency and to speed up Taiwan’s economic development, the Academy of Promoting Economic Legislation invited the Heads of the relevant Ministries to instruct on major financial and economic issues for the 5th Legislative Session of the 8th Legislative Yuan during the recess of the 4th Legislative Session. At the same time, the Academy also invited leaders from the various political parties as well as conveners from relevant committees, industry association leaders, prominent businessmen, and important financial and economic experts for a series of lectures and forums. The Company sponsored the Academy, considering that it assists in enhancing the quality and level of efficiency of legislation and that it is of great help to the Company’s platform for professional exchanges.

### 4. “Love.line with Teacher Chang” – Happy Family Parent Education Seminar of the “Finger-Sliding” Generation

The Teacher Chang Foundation was established in 1969 and since then, it has been actively involved in community services, concern for the emotional development of the youth, and social issues. In

celebration of its 45th anniversary, the foundation is organizing “Love.line with Teacher Chang – Happy Family Parent Education Seminar of the ‘Finger-Sliding’ Generation.” To carry out its mission of social concern and to enhance corporate image, the Company donated NT\$200,000 and invited its subsidiary HNCB’s Wealth Management Department to assist in arranging lecturer for the lecture “Life’s First Pot of Gold,” using a lighthearted approach to educate children about personal finance.

### 5. 2014 Ministry of Finance Uniform Invoice Cup Race (Kaohsiung)

In line with the government’s thrust to promote public corporations’ involvement in charitable activities, the Company, in cooperation with the Ministry of Finance and the Kaohsiung Tax Bureau, organized the 2014 Ministry of Finance Uniform Invoice Cup Race in April 27 at the Wei Wu Ying Metropolitan Park. The Company mobilized more than 1000 employees, customers, and their families to join the event, successfully acquiring more than 40,000 uniform invoices to donate to charitable institutions.

### 6. 2014 Hua Nan Financial Company Badminton & Table Tennis Competitions and “Joyful Care” Fair Festivities

To promote a love for sports activities among company employees for better health, and to encourage get-togethers among employees and competent authorities, the company held the 2014 Hua Nan Financial Company Badminton & Table Tennis Competitions and “Joyful Care” Fair Festivities on May 17 at the Taipei City University Tien Mu campus stadium. Aside from the six teams fielded by the Company, participants include teams from the Ministry of Finance and the Financial Supervisory Commission. The event also features a 20-stall food area; 100 children from the Taipei Chapter of the Taiwan Fund for Children and Families were invited to enjoy the festivities.

### 7. 2014 TIPC Taiwan International Percussion Festival

“TIPC Taiwan International Percussion Festival” is an annual event started by Professor Ju Tzong-ching. It is on its 8th year, since the first performance held in 1993. The event invites the world’s top percussion

companies to come to Taiwan and perform, providing not only a vital link between local arts and culture with the world, but also pushes Taiwan' percussion music onto the international stage. The Percussion Festival is world recognized top percussion music pageantry. The "2014 TIPC Taiwan International Percussion Festival" invites 10 companies and 10 solo performers from 13 countries to go on a musical tour around Taiwan, giving a total of 30 performances. The Company provides sponsorship for this series of performances to support the excellence of the performing arts and to enhance corporate image.

#### **8. Funding and support for the national training camp organized by the Chinese Taipei Football Association**

Founded in 1924, the Chinese Taipei Football Association focuses mainly on promoting the game of soccer in Taiwan, establishing a player registration system, applying for the right to hold international matches in the country, and bringing in soccer resources and manpower. It also works with the Ministry of Education on "Soccer 'Seed' Player Training Program" and the "Elite Player Training Program," promoting 5-man soccer and women's soccer, as well as getting government sponsorship. The Company has served as a major sponsor to help nurture domestic soccer talents and to link up local efforts with the rest of the world.

#### **9. 2014 "Hua Nan Financial Holdings National U15 Baseball Championships"**

To carry on the Company's commitment to nurturing baseball talents and to extend the Company's connections to the sports, the company has organized the National U15 Baseball Championships bearing its name. Preliminary matches were held from May 13 to 16 at the Chiayi City and Yunlin Touliou baseball stadiums; eight teams were chosen for the finals held at the Taipei City Tien Mu and New Taipei City Hsinchuang baseball stadiums, with the team from Kaoshiung City eventually being proclaimed as champions.

#### **10. Chen Ya-Lan Taiwanese Opera "The Weaver and the Cowherder"**

Co-produced by Chen Ya-Lan opera and the United Daily News Company, "the Weaver and the

Cowherder" was performed from July 31 to August 3 at the National Sun Yat-sen Memorial Hall. The performance combined elements of traditional opera and modern-day technology to nurture local art and to promote Taiwanese culture. To support this artistic endeavor, the company served as a sponsor of this event.

#### **11. "Kaoshiung August 1 Gas Explosion"**

The Kaoshiung gas explosion on August 1 resulted in more than 300 deaths and incalculable losses. In response to the call for reconstruction and to help the victims go back to regular life, the Company donated NT\$10 million to the relief efforts.

#### **12. The First "Cross-Straits Free Trade Zone Cooperation Forum"**

Jointly organized by the Economic Daily and the Shanghai Academy of Social Sciences (SASS), the first "Cross-Straits Free Trade Zone Cooperation Forum" was held on August 26, 2014 at the Taipei International Convention Center, with the aim to build a platform of exchanges and dialogues between industry, government, and the academe on both sides of the Taiwan Straits. The event invited Zhu Min, Vice Chair of the Shanghai Academy of Social Sciences, SASS Institute of World Economy Director Zhang Youwen, as well as Chung Hua Institute for Economic Research Vice President Wang Jiann-Chyuan to speak on issues relevant to promoting business opportunities arising from cross-straits economic exchanges as well as the challenges; there was also a round-table forum after the speeches. Also invited to the event were Straits Exchange Foundation Vice Chairman Ma Shao-chang, Shanghai Political Association Vice Chair Jiang Liang, and SASS vice president Wang Zheng.

#### **13. Sports Promotion Award**

Since 2007, the Company has been involved with the ROC Baseball Association in its U12 baseball program for indigenous children. With its "One Ball Fulfilling One Dream" activity, the Company holds regular baseball clinics, building a solid foundation for youth baseball from grounds up. This project has benefited many children from remote areas; the Company has also organized numerous baseball competitions and relevant activities.



Moreover, from 2011, the Company joins the Ministry of Finance and the Financial Supervisory Commission in organizing the “Uniform Invoice Cup Race” to promote running as the sports activity of choice for a larger majority. The Company also holds the Badminton & Table Tennis Competitions and “Joyful Care” Fair Festivities annually to encourage employees to take care of their health; disadvantaged companies are also invited to join in the festivities. In 2014, the Ministry of Education awarded the Silver Medal of the Sports Promotion Award and Long-term Sponsorship Award.

#### **14.2013 Turnaround Management 10th Anniversary International Conference**

The Taiwan Turnaround Management Association was established in 2003; in 2006, it formally became the Taiwan chapter of the Turnaround Management Association Global. Since 2011, the Company has been involved in sponsoring the international conference organized by this association. As it marks its 10th year anniversary in 2013, the TMA-Taiwan especially held the “Turnaround Management 10th Anniversary International Conference.”

#### **15. Make-a-wish Baseball Clinic**

In 2014, the Company organized four “Make-A-Wish Baseball Clinics” in Geng Liao Elementary School in Chiayi, Guang Fu Elementary School in Taichung, and Wen Guang Elementary School and Ma Guang Junior High School in Yunlin. Aside from giving away play equipment, professional baseball players were brought in to provide coaching and instruction. The Company hoped that through this learning platform, young players can benefit from the experience of their mentors.

#### **16. Hua Nan, Live On!**

Concerned with elderly citizens living on their own in remote areas with inadequate resources, the Company’s volunteers and those from the Hongdao Senior Citizen’s Welfare Foundation organize the “Hua Nan, Live On!” event in four areas including Chiayi, Changhua, Taichung, and Yilan. Activities include free haircuts and medical diagnoses, giving of living supplies, make-a-wish, and paying respects to the elders.

#### **17.2014 First World Cup 21U Baseball Championship**

The Company assisted in organizing international baseball competitions in Taiwan, ensuring that players on the Chinese Taipei team had adequate resources and funding during the competition. The Chinese Taipei team was eventually crowned champions.

#### **18.2014 Legal Risk Management Seminar**

The China Legal Consultancy Center, National Cheng Chi University Department of Law, and National University of Kaoshiung Department of Law jointly held the “2014 Legal Risk Management Seminar” on November 12 and 14. The event brought together members from various sectors including government, industry, banking, education, and academia to present interdisciplinary research results and to discuss issues in risk management and legal integration.

#### **19.2015 Asia Economic Summit - Asia’s Economic Future from Japan’s Perspective**

On November 25, the Wealth Magazine biweekly held the 2014 Impact Forum at the Howard Plaza Education and Culture Hall with the theme “2015 Asia Economic Summit - Asia’s Economic Future from Japan’s Perspective.” The event was presided by the president of Wealth Magazine, Hsieh Chin-ho, and the keynote speaker was Mr. Koichi Hamada, chief economic adviser of Japanese Prime Minister Shinzo Abe; former president Lee Teng-Hui was the guest of honor.



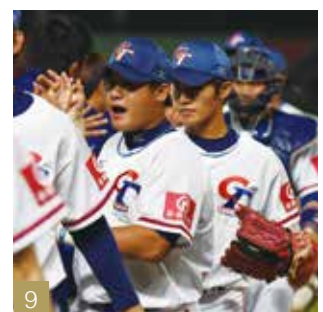
# Teamwork







- Picture 1 Kaohsiung City won 2014 Hua Nan Financial Holdings Youth Baseball Championship.
- Picture 2 Chairman Teng-Cheng Liu of Hua Nan Financial Holdings Co., Ltd. presented Most Valuable Player Award to Ji-Lin Xu in Kaohsiung City.
- Picture 3 Hua Nan Financial Holdings Co., Ltd. received 2014 Silver Award of the Sponsorship Category of Sports Promoter Award and Long-Term Sponsorship Award from Sports Administration, Ministry of Education.
- Picture 4 President Mao-Shyan Liu (right) of Hua Nan Financial Holdings Co., Ltd. donated baseball talent cultivation funds on behalf of the Company to Secretary-General Zong-Cheng Lin (left) of Chinese Taipei Baseball Association.
- Picture 5 To appreciate Hua Nan Financial Holdings Co., Ltd. for supporting basic-level baseball for a long time, Chinese Taipei Baseball Association presented an appreciation certificate to the Company in today's press conference of Hua Nan Financial Holdings Cup. From left to right in the photo are President Chih-Chi Tu of South China Insurance Co., Ltd., President Mao-Shyan Liu of Hua Nan Financial Holdings Co., Ltd., President Tom Peng of Baseball Federation of Asia (BFA), President Li-Yen Yang of Hua Nan Bank, and Vice President Guang-Rong Yang of Hua Nan Securities.
- Picture 6 At the opening ceremony of First World Cup 21U Baseball Championship, from left to right, Vice Director Tom Peng of World Baseball Softball Confederation (WBSC), Vice President of ROC Den-Yih Wu, and baseball celebrity residing in Japan Chen-Chu Wang (Sadaharu OH).
- Picture 7 Little League Baseball Team of Geng Liao Elementary School cheered for Chinese Taipei Baseball Team.
- Picture 8 Company photo of the press conference at the opening ceremony of First World Cup 21U Baseball Championship.
- Picture 9 Chinese Taipei Baseball Team had excellent performance and won the world championship.







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Picture 1 Youthful Dreams of Wedding Gowns—Executive Vice President David, Y. C. Cheng (back row, third from left) of Hua Nan Financial Holdings Co., Ltd. and CEO Yi-Ying Lin of Hondao Senior Citizen's Welfare Foundation (back row, fourth from right) took the photo with five elderly couples.

Picture 2 Chairman Teng-Cheng Liu of Hua Nan Financial Holdings Co., Ltd. presented a one-million-dollar check on behalf of the Company to CEO Yi-Ying Lin (right) of Hondao Senior Citizen's Welfare Foundation.

Picture 3 The dream experience event helped senior citizens fulfill their dreams.

Picture 4 Company photo of the event "Good Hua Nan Never Gets Old" in Changhua.

Picture 5 Chairman Teng-Cheng Liu (left) of Hua Nan Financial Holdings Co., Ltd. donated money to Taiwan Fund for Children and Families in Taipei on behalf of the Company.

Picture 6 Press Conference of the Saint Petersburg Ballet Shows.

Picture 7 Press Conference of Ya-Lan Chen's Taiwanese Opera Troupe Performance, "Cowherd Boy and Weaver Girl".

Picture 8 Coaches instructed young baseball players baseball skills in "Dream Baseball Classroom."

Picture 9 Company photo of "Dream Baseball Classroom" at Geng Liao Elementary School in Chiayi County.



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# VI | Operational Highlights

## The Company's Businesses

### 1. HNFHC

#### (1) Business scope:

##### • Major businesses

A. The Company is engaged in the financial holding business, in which, according to the Financial Holding Company Act, the business is limited to investment and management of and invested businesses.

B. According to Article 36 of the Financial Holding Company Act, the Company is eligible to invest in the following businesses:

- \* Financial holding business
- \* Banking business
- \* Bills financial business
- \* Credit card business
- \* Trust business
- \* Insurance business
- \* Securities business
- \* Futures business
- \* Venture capital business
- \* Foreign financial institutions approved by the competent authorities for investment
- \* Other businesses related to financial businesses as recognized by the competent authorities.

C. In addition, the company may follow Article 37 of the Financial Holding Company Act to apply to the competent authorities for investment in the businesses other than those that are prescribed in Article 36 of the Financial Holding Company Act. Unless otherwise approved by the competent authorities, a financial holding company and its representative shall not act as the director or supervisor of the business in question, or designate its personnel to be the managerial personnel of the business. The total amount of investment in other businesses shall not exceed 15% of the financial holding company's net value. Financial holding company's investment in other businesses shall not exceed 5% of the voting shares issued by the invested business.

D. The company keeps abreast of local and foreign financial market trends and latest commodity information through product integration planning, review and management mechanism. It integrates and packages the products of its subsidiaries and launches various types of campaigns covering customer relationship management (CRM), composite products and virtual channels after analyzing customer attributes through the CRM system, so as to provide well-rounded digital financial services for all of the Company's customers.

##### • Business ratios over the past two years:

Unit: in NT\$ thousand

Item	Year	2014		2013	
		Amount	%	Amount	%
Operating income					
Long-term equity investment profit		13,672,399	100	10,603,285	100
Hua Nan Bank		12,434,632	91	9,570,913	90
Hua Nan Securities		576,284	4	313,263	3
South China Insurance		570,902	4	696,031	7
Hua Nan Investment Trust		25,425	-	32,496	-
Hua Nan Venture Capital		(17,023)	-	(94,128)	(1)
Hua Nan AMC		82,179	1	84,710	1

#### (2) 2015 business plan:

The company's 2015 business plan will put focus on the six orientations of diversified income sources, leveraged company profit contribution, aggressive and integrated overseas deployment, improvement of financial products and service innovation, enhancement of business operating quality and fulfillment of corporate social responsibility, in which the details are explained as below:

A. Diversify income sources: elevate the ratio of non-interest income

- (a) Strengthen the wealth management business, elevate quality and quantity of financial management specialists, expand well-rounded financial product line, and optimize customer services.

- (b) Carry out credit card precision marketing, offer well-rounded product line and optimize services, so as to build a good brand image for the credit card business.
  - (c) Flexibly use capital, reinforce securities and FOREX operation effects and increase investment income.
  - (d) Strengthen product cross-marketing and tie-in sale capacity and elevate customer's overall contribution.
- B. Leverage the Company's profit contribution: elevate the profit contribution of non-bank subsidiaries.
- (a) Enhance subsidiaries' operating performance, and compatibility between capital allocation and profit contribution.
  - (b) Seek for merger opportunity so as to expand the market size.
  - (c) Wield the Company's cross-sale comprehensive effects with joint marketing and cooperative promotions.
- C. Aggressively integrate overseas deployment: increase overseas footholds and profit contribution.
- (a) Greater China region:
    - ※ Banking business: strengthen deployment in China, aggressively promote Sheezhen, Shanghai and Fuzhou branches' businesses.
    - ※ Lease business: in conjunction with HNCB's branches in China to promote the business.
    - ※ Securities business: seek to set up the Cross-Strait joint venture and securities company with complete oprational license.
    - ※ Property insurance business: set up Shenzhou Auto Insurance Co. with Chinese MIT Group.
    - ※ Investment trust business: HNIT has prepared the RQFII fund product plan, in an attempt to grasp the business opportunity created after opening up of RQFII.
    - ※ Other financial related businesses: In conjunction with the Financial Supervisory Commission's (FSC) successive opening up of China's financial related businesses to discreetly evaluate the feasibility, and tap into the China market in due time.
  - ※ Equity participation business: look for the underlying stocks worth investment.
  - (b) Other overseas regions:
    - ※ Aggressively upgrade Vietnam's Hanoi Office to be the Branch.
    - ※ Set up representative office in Myanmar.
    - ※ Evaluate the feasibility to set a branch in Tokyo.
  - (c) Grab RMB offshore businesses, seize policy opening up business opportunities, and strengthen OBU, OSU and foreign branch operating performance.
- D. Improve financial products and service innovation: develop e-financial businesses and financial innovation.
- (a) Usher in the age of Bank 3.0: reinforce digital financial services, such as third party payment, mobile payment and online insurance, and e-financial business innovation to meet digital banking, Internet and mobile trends.
  - (b) Set up the cloud customer service workforce, set strong roots in social network sites and marketing, promote online and real time interaction with customers, develop young customer companys and expand the customer size.
  - (c) Seize population aging business opportunities and launch retirement products covering financial management, insurance, trust, etc.
  - (d) In conjunction with competent authorities' opening-up of various policies to diversify product lines and services and optimize operating performance.
- E. Enhance business operating quality: elevate asset quality, capital utilization efficiency and customer satisfaction.
- (a) Elevate asset quality and capital utilization efficiency.
  - (b) Reinforce the spirit of the customer service orientation, simplify the operation process so as to increase customer satisfaction.





- (c) Expedite promotion of excellent personnel and cultivate financial talent to enhance their globalization and professionalism, so as to meet the requirements for business development.
- (d) Enhance risk control efficiency, fulfill law compliance and strengthen internal control.

F. Fulfill corporate social responsibility:

- (a) Strengthen corporate governance: protect shareholders' equity, elevate operating efficiency of the board of directors, perfect the risk management mechanism, etc.
- (b) Protect customer rights and interests: ensure customer rights and interests, stress protection of personal information, and place premium on product liability.
- (c) Place premium on personnel care: set up a well-rounded employee remuneration and welfare system, reinforce personnel training and keep smooth communication with the personnel.
- (d) Maintain environmental sustainability: reinforce office energy management and encourage procurement of green environmental protection articles.
- (e) Social participation: continue to promote and sponsor public welfare activities and care for the community companies requiring assistance.
- (f) Prepare the corporate social responsibility report: Based on the aforementioned activities to compile the Company's Corporate Social Responsibility Report in accordance with the latest version of the sustainability reporting guidelines published by Global Reporting Initiatives (GRI), so as to show how the Company's values its stakeholders in the operating process.

**(3) Industry overview:**

A. Financial management

On the outlook for the 2015 financial industry's operating environment, the global economy shows

a cautiously optimistic outlook following the stable recovery of the U.S. economy and decline in global raw-material prices. However, some uncertainty factors, such as the expected increase in U.S. interest rates, geographic political risk and economic weakness of Europe and Japan shall also be considered.

In the local market, the government has continued to relax related laws and regulations in an attempt to promote Bank 3.0 and increase stock market trading volume. Such government efforts will help the financial industry to expand their business scope, integrate physical and virtual sales channels and increase stock market trading volume. However, some uncertainty factors such as a downswing in the real estate market, increase in overseas loan exposure insurance and possibility of Taiwan High Speed Rail's bankruptcy shall be considered.

B. Marketing

With the advent of the internet mobile communication age, financial industry's e-commercialization has turned out to be an inevitable trend. The Company is aggressively planning to provide its customers with convenient and real time digital money flow services through the three major dimensions of digital channel, digital payment and digital marketing. At the same time, by analyzing big data comprising customer conduct, trading trail, etc. to offer the services and preferential terms best meeting customer requirements, it is hoped that financial services will be closer and adapt to consumer daily lives.

**(4) Research and development**

A. Marketing

- (a) To strengthen the adherence between customers and the Company and uplift the customer value, the Company has continued to set roots in the three major dimensions of customer operating strategy, business intelligence analysis and customer operating management system:



※ Customer operating strategy:

Divide the Company's customers into three categories of “high value customers”, “potential customers” and “general customers”, so as to effectively allocate the Company's marketing resources. In addition, based on “expansion of the size of the high value customers” and “elevation of the ratio of the customers holding high contribution products” as the two major operating strategy directions to manage and develop customer relations, other than continuing to increase customer's average product quantity, the Company has also elevated the quality of its high contribution products, in an attempt to improve customer's product constitution quality, enhance customer value and increase the ratio of the Company's service income.

※ Business intelligence analysis:

Other than adopting the algorithms of the decision tree and logistic regression to set up the “fund customer retrieval model” and “customer product purchase tendency model”, a variety of business intelligence analysis technologies to explore the change in customer constitution structure in different categories or products, conduct characteristics of respective customer companies and the major reasons for the Company's business increase or decrease have been used to optimize marketing sequence, select proper target customers through the marketing activity management system, and, in the end, enhance the marketing precision and sales success.

Furthermore, the Company has also continued to provide high value customers with one-to-one exclusive service, use the high value customer asset plummet risk model to give prediction and provide customers with the optimal products and

services by watching out the changes of customer's attributes, asset status, product holdings and transaction conduct all the times.

※ Customer operating management system:

In addition to continuing to utilize the “Analytical CRM System”, “Operational CRM System” and “KPI system”, and elevate efficiency of marketing analysis, sales application, and effect management, the Company has also set up the “Company Personnel Sales Integration Platform” to offer a platform to transmit, dispatch and manage the joint business opportunities across the subsidiaries of the Company, rapidly and consistently handle customer requirements and provide more real-time and integrated services for customers. At the same time, by in conjunction with the “Company Cross-Sale Talent Incentive System”, all the personnel participating in the Company's cross-sale business could be encouraged to promote the joint-sale business. In so doing, company sales momentum could be galvanized, the overall marketing effect could be wielded, and the cross-sale culture of the personnel across the Company could be established.

- (b) In the future, in response to the advent of the digital finance 3.0, the Company will set up a 3e (e-channel, e-payment and e-marketing) environment. Through the three major dimensions of digital channels, digital payments and digital marketing, the Company hopes to provide its customers with convenient and rapid digital money flow services without restriction on time and location, get hold of customers' financial status and trading information, offer customers tailored, exclusive and considerate services through real-time services, easy-operation interfaces and integration of virtual and physical services. At the same time, the Company has also



conducted big data analysis according to the information on customer conduct and trading trail, etc. to promptly find out customer feelings and requirements and offer the services and preferential terms best meeting customer requirements at the key moment. In so doing, the Company hopes to satisfy customer's every requirement and make them feel that banks are ubiquitous, so financial services could be closer and adapt to consumer daily lives.

#### B. Risk management

##### (a) 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, whereas the data linking and consistence among internal control and audit, risk management and law compliance can be achieved.

##### (b) Reach a balance between risk and return

In order to reach the balance between risk and return, the Company plans to use the RAROC (Risk-Adjusted Return on Capital) to evaluate respective businesses and understand each business's risk-adjusted profitability. Then, it will draft a proper prior business development strategy to elevate capital allocation efficiency, and measure the risk-adjusted performance.

##### (c) Control of counterparty credit risk

Strengthen the content of the Company's derivative financial product counterparty credit risk statement, continue to analyze customer investment portfolios and weakness through trading pieces, notional principal and credit

exposure insurance amount, and keep an eye on the impact of future possible market changes on the credit risk of the Company's counterparties.

##### (d) Trading book's market risk capital

In terms of economic capital calculation methodology, Basel plans to adjust "VaR (Value at Risk)" to be "ES (expected shortfall) under pressure", for which the Company will continue to study the definition of the new methodology and its advantages and disadvantages, and evaluate the impact on the Company's capital.

##### (e) Renew the asset and liability management system

The Company will assist its subsidiaries in renewing their asset and liability management system, enhancing the precision of interest rate risk analysis by re-reviewing and adjusting the asset and liability management model and reinforcing the liquidity risk analysis instrument to enhance the control capacity of asset and liability management.

##### (f) Management of Non-Financial Risks

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

Regarding business conduct risks, aside from the subsidiaries' product reviewing mechanisms on new products in the wealth management and asset management segments, HNFHC also has a company product committee that aims to provide suitable and value-generating products to the customers. The Company performs social responsibilities to protect the customers' rights and the Company's reputation.

(g) Set up HNPC's risk appetite

The purpose to set up the risk appetite is to ensure that it has sufficient capital to cope with unexpected loss. When setting up the risk appetite, HNPC shall work with the business unit and risk management unit and consider the profits to be acquired in various strategic scenarios and the risks to be encountered. As such, the risk appetite is a very strong and effective instrument for to determine the optimal business strategy.

Currently, before setting up a reasonable risk appetite, HNPC measures the risks faced by its respective insurance offices according to the degree of the earnings volatility. In terms of investment, it measures the faced risks according to its future strategic deployment for the investment position and the past trends of involved risk factors, and takes the risk tolerance into account.

(h) Study on applying Big Data to risk management

Set up a Big Data innovation study panel, pay close attention to the latest development of how foreign practices apply big data to risk management, and think of how to apply big data to the risk management of respective subsidiaries from the standpoint of the Company.

The following are the examples for application of Big Data to risk management:

※ Consumer banking credit scoring

The conventional consumer banking credit scoring variables refer to the static data in a past specific period. According to US P2P lending or peer-to-peer lending companies, the categories that are included in the Big Data cover the social network data and payment records (including public utilities expenses, such as water and electricity bills, and personal living and recreation expenses, such as rent and parking fee), in

which the real-time data are also included for evaluation.

※ Credit card fraud

Establish a credit card fraud model according to data collected from credit card- holder purchase through card usage, e.g. the purchase price, time, location, etc.

※ Capital market early-warning

Better understand investor's emotional reaction to the market through capital market trading data, and put forth the early-warning signal when the analysis shows that an irrational critical mass may occur in the market (e.g. simultaneously selling or buying a specific financial product).

**(5) Long-term and short-term business development plans**

A. On the financial management front

(a) The short-term aspect

- ※ Diversify income sources
- ※ Leverage the Company's profit contribution
- ※ Aggressively integrate overseas deployment
- ※ Improve financial products and innovate services
- ※ Enhance business operating quality
- ※ Fulfill corporate social responsibility

(b) The long-term aspect

Other than its spontaneous growth, in the face of the over-saturation of local financial institutions and acceleration of the deployment in the Greater China Market, the Company hopes to acquire or merge good quality financial institutions or the ones with complementary strength, so as to broaden its business size, enhance its global competitiveness and make headway towards a greater vision to be an excellent global financial institution in the Asia Pacific region.



B. On the marketing front

(a) Short-term business development plan:

By utilizing the Company's three major abundant resources of products, channels and customers to assist respective subsidiaries in attaining their operating goal:

- ※ Assist respective subsidiaries in integrating their products and launching composite product campaigns

Make every effort to expand the Company's cross-business marketing momentum, integrate subsidiaries' three major resources of customers, products and channels, develop the Company's composite product campaigns and continue to assist respective subsidiaries in having customers hold more of the Company's products, so as to fully wield the comprehensive effect of the Company's marketing.

- ※ Guide personnel to obtain joint cross-selling related licenses

Assist respective subsidiaries in holding personnel financial profession educational training and guiding personnel to obtain marketing related licenses, in which the actions include periodically holding seminars to guide subsidiaries' personnel to obtain the marketing licenses and continuing to track the effect of each subsidiary's execution of the license obtaining plan. In the end, it is hoped that, by aggressively reinforcing personnel's professional image and sales ability, the purpose of all-out personnel marketing will be fulfilled.

- ※ Integrate the Company's marketing resources

Continue to integrate the marketing resources of the Company's subsidiaries, package the Company's products to launch marketing activities and strengthen the Company's brand image and increase the awareness of subsidiaries' products through

key product advertising and publicities.

Also, launch the Company's sales point collection project to help respective subsidiaries long-term cultivate their customers and develop new customers, in which those who purchase the specific product or reach a certain trading amount at any of the subsidiaries under the Company are eligible to receive corresponding virtual points and the accumulated points are redeemable for an equal-value gift or discount of the service charge. By integrating subsidiaries' resources, the Company provides its customers with more valuable contribution and continues to enhance its adherence with all of its customers.

- ※ Elevate virtual channel's operating efficiency

Continue to elevate the operating effect of the Company's virtual channels covering adding the bank on-line business items for the deposit accounts opened at the Company's subsidiary, HNCB, as required by the FSC, establishing the "Digital Bank 3.0 Section", and successively roll out the businesses which have been opened up. For personal e-banking, HNCB provides the "mobile credit card" service to enhance financial convenience through the mobile payment. In addition to continuing to enhance its mobile trading function through bank cooperation or horizontal alliance, HNCB sets up a commodity network platform to integrate customers' securities, banks, funds and insurance accounts step by step to enhance the overall service effect of customer wealth management. The number of the application cases received by HNCB on the Internet and through the channel network in 2014 substantially increased by 90% compared with 2013. SCIC has planned to establish a website in the mobile device

version to continue to strengthen the customer on-line insurance channel and increase the use frequency of mobile network customer groups. HNIT continues to enrich the content and information of the fund commodities on its official website. It is hoped that, through the website virtual service, investors could literally seize changes in the international financial market, and online order placement could become more convenient, so the trading volume could increase as a result of elevation of customer satisfaction.

※ Promote the Company's corporate banking integration and marketing

Use subsidiaries' resources, especially the huge and excellent channel and customer resources owned by HNCB compounding the strength of the cross-subsidiary "corporate banking integrated marketing workforce" and "cross-business marketing platform" case tracking management system to elevate the corporate banking integration marketing business volume in full swing, while planning mobile Internet Banking APP for corporate clients to implement and providing corporate clients with practical banking information or offering the cash management function to meet corporate users' implementation requirements.

※ Customer segmentation:

By using the business intelligence analysis model, the Company divides its customers into three companies of "high value customers", "potential customers" and "general customers" according to their importance and value. Under the circumstance where the digital environment changes rapidly, the Company will analyze Big Data through customer conduct and trading trail related data in response to customer's requirements for diversification

and volatility, followed by further classifying the customers to be prioritized, so as to help subsidiaries effectively elevate customer satisfaction and enhance the Company's operation effect through the mass differentiation service.

(b) Long-term business development plan:

※ Elevation of cross-selling businesses:

Utilize the Company's three major resources of channels, products and customers to fully develop the cross-selling, so as to achieve the strategic goal, of which the ratio of the total volume of the three cross-selling major businesses (including the cross-marketing sales volume of HNSC brokerage business, SCIC business and HNIT fund business) to the total sales volume of the three subsidiaries shall be increased to more than 24%.

※ Reinforcement of customer structure:

Periodically track different customer companies' data indicators, such as their total assets, accumulated total contribution, detention ratio, average trading product quantity, etc., draft customer operating orientations and the action plan, put forth exclusive resolution plan for new customer development, existing customer maintenance, retrieval of lost customers, etc., so as to enhance adherence between customers and the Company, strengthen customer constitution structure and further elevate profitability and quality.

※ Integration of virtual and physical channels:

Beyond customer expectations to make the initiative to bring in new technology or offer innovative and integrated services to satisfy the customers' requirements for the virtual channel, so as to uplift customer use satisfaction, increase market share, literally wield the alternation and complementarity between virtual and physical channels,



effectively reduce the trading cost and pursue the Company's maximum composite effect.

※ Application of business intelligence:

With the popularity of mobile devices and network communities, a variety of structured and non-structured information has been massively and rapidly generated. By using customer conduct and trading trail related data and combining text exploration and big data analysis technology, the Company provides the personal exclusive services developed with initiative, customization and virtual and physical integration, and offer the services and preferential terms meeting customer requirements at the key moment. In addition, according to customer's ensuing feedback, the application of the business intelligence analysis continue to set roots, so as to elevate product sales precision and customer satisfaction.

## 2. HNCB

### (1) Business scope:

● Major business items:

- ※ Accept a variety of deposits (accept checking deposits, demand deposits, time deposits, savings deposits, etc.).
- ※ Issue bank debentures.
- ※ Engage in the loan business (provide short-term, mid-term and long-term loans, and deposit certificate pledge loans, and consumer loans).
- ※ Engage in the note discount business.
- ※ Invest in securities (investment in government bonds, short-term notes, corporate bonds, bank debentures and corporate stocks).
- ※ Engage in the domestic exchange business.
- ※ Engage in the commercial draft acceptance business.

- ※ Issue local L/Cs..
- ※ Guarantee issuance company's bonds.
- ※ Engage in the local guarantee business (engage in the guarantee business).
- ※ Act as the collecting and payment agent.
- ※ Act as the agent to sell government bonds, treasure notes, corporate bonds and corporate stocks.
- ※ Underwrite securities (underwrite government bonds, treasure notes, corporate bonds and corporate stocks).
- ※ Proprietary trading of securities.
- ※ Trade securities for customer accounts.
- ※ Engage in the custody and warehouse business.
- ※ Engage in the safety deposit box rental business.
- ※ Engage in the agency services related to the businesses listed in the business license or approved by the competent authorities. .
- ※ Engage in the credit card business (issue credit cards and offer credit card cash advances)
- ※ Act as the agent to sell gold bullion, gold coins and silver coins.
- ※ Trade gold bullion, gold coins and silver coins and engage in guarantee businesses covering export exchange, import exchange, general inward and outward remittance, foreign exchange deposits, foreign currency loans and foreign currency guarantee payments.
- ※ Engage in the derivative financial product business approved by the competent authorities.
- ※ Engage in the businesses prescribed by the Trust Enterprise Act.
- ※ Engage in proprietary trading of government bonds.



- ※ Engage in margin purchase or short sale of securities.
- ※ Engage in short-term bill brokerage, dealing, certification and underwriting businesses.
- ※ Issue stored value cards.
- ※ Engage in the public welfare lottery agency business approved by the competent authorities.
- ※ Engage in the export certification business.
- ※ Engage in the import certification business.
- ※ Proprietary trading of corporate bonds and bank debentures.
- ※ Engage in the wealth management business.
- ※ Proprietary trading of bonds.
- ※ Engage in asset backed beneficiary securities.
- ※ Engage in money trust.
- ※ Engage in the trust of money loans and their security interests.
- ※ Engage in the securities trust business.
- ※ Engage in the real estate trust business.
- ※ Engage in the superficies trust business.
- ※ Engage in the discretionary investment services in a form of trust.
- ※ Act as an agent to issue, transfer and register securities, distribute stock dividends, interest, bonuses, etc.
- ※ Offer consulting services for issuance and placement of securities.
- ※ Act as the certifying agent for the stock and bond issuance.
- ※ Engage in securities certification.
- ※ Engage in the custody business.
- ※ Consigned for custody of securities investment trust funds.
- ※ Offer investment, property management and real estate development consulting services.
- ※ Act as the trustee for bond issuance.

● Business operating income ratios over the past two years

Unit: in NT\$ million

Business item	2014		2013		Increase/ (decrease)	
	Amount	Share (%)	Amount	Share (%)	Amount	Share (%)
Corporate banking	12,539	26	12,605	29	(66)	(1)
Consumer banking	12,860	27	12,173	28	687	6
Banking transactions	5,546	12	4,707	11	839	18
Foreign exchange	12,118	25	9,491	22	2,627	28
Trust and wealth management	3,425	7	2,604	6	821	32
Others	1,553	3	1,658	4	(105)	(6)
Total amount of major incomes	48,041	100	43,238	100	4,803	11

Note:1. The above business incomes include interest, service fee and profits of financial assets/ liabilities, currency exchange and investment in real estate.  
 Note:2. Consumer banking covers the credit card and cash card business, whereas foreign exchange includes the overseas branch and international banking branch business.

● New financial products and services planned to be developed in the future:

- A. Aggressively work on horizontal strategic alliance, so as to increase the market share in the e-banking market.
- B. Provide the digital Bank 3.0 service, build a digital banking environment, elevate operation efficiency and make headway towards a new banking service era.
- C. In conjunction with opening of overseas branches to set up an overseas branch Internet banking system, so as to continue to develop global e-money flow services.
- D. Plan a “new generation customer service project”, introduce the Internet customer service, mobile customer service and text customer service and elevate the Bank’s customer service quality in full swing. In addition, in conjunction with opening



of the Bank's overseas branches to establish an overseas branch Internet banking system, so e-banking services could be free from the region restriction.

- E. In conjunction with government's policies to promote the innovative industry, encourage small and medium enterprise's innovation and facilitate enterprise's global development, the Bank has successively planned related loan preferential projects.
- F. In response to the rise of the ASEAN emerging market, other than applying for upgrading its Hanoi representative office to be a branch, HNCB will aggressively assess the feasibility to set up business footholds in other ASEAN countries, so as to service the Taiwanese enterprises stationed in ASEAN countries, participate in the countries' local economic growth and, in the end, reinforce HNCB's profit performance.
- G. Set up a commodity sales-aid proposal system to provide integrated recommendations for customers and increase commodity trading success rates.
- H. In conjunction with the government's policies to seize the business opportunities by meeting senior citizens' requirements for their retirement lives, promote the retirement care trust business. In addition, by combining the requirements of respective stages in life to promote standardized money trust commodities, such as the child education trust, insurance claims trust, etc.
- I. HNCB plans to launch structured products combining two to three categories out of four underlying categories of interest rates, exchange rates, commodities, and equity, in which principal guarantee is the main structure.

## **(2) 2015 business operating plan:**

- A. Offer customers a more diversified account debit way for gold passbook investment, so as to enhance HNCB's competitiveness and increase its gold passbook market share.
- B. Keep it one of the top five local banks having the highest demand deposits, so as to ensure that

HNCB has the lowest average deposit interest rate amongst local banks.

- C. Aggressively participate in the bidding requested by respective agencies for bank payroll transfers, hold demand deposit related promotion activities in due time and promote payroll and securities deposits.
- D. Fully wield HNCB's business foothold channel strength, reinforce its cross-Company securities brokerage business and strengthen property insurance and investment trust fund products, so as to enhance HNCB's share in the Company's joint sales and increase the service revenue.
- E. Continue to refer to the government's territorial planning policy and pay attention to the change in each county and city's business circle areas, so as to proceed with business unit operating performance analysis for respective regions, adjust HNCB's operating footholds in due time and elevate channel effect.
- F. Strengthen e-banking competitiveness:
  - (a) Integrate HNCB's virtual and physical channels, offer better service quality and enhance operation efficiency.
  - (b) Win more young and Internet customer companys, and aggressively make good use of the social commerce.
- G. Plan and execute customer service channel marketing projects (including inward tele-marketing and outward tele-marketing), so as to increase joint sales volume and enhance customer adherence and contribution.
- H. Continue to promote the on-line e-financing business, seize supply chain financing business opportunities and win more of those existing customers who have yet to be involved in the financing business through the new-account campaign for the online e-financing business, so as to reinforce the operating momentum of the business, enhance customer adherence, elevate the operating volume of the business and increase income.

- I. Aggressively look for the sources for sponsorship or joint sponsorship of syndicated loan cases, reinforce participation in international syndicated loan cases by cooperating with financial peer companies, so as to increase the Bank's market share in the syndicated loan market and service income.
- J. In conjunction with the opening up of cross-strait policies to aggressively promote cross-border financial services, so as to meet customer requirements and seize business opportunities. Other than Shenzhen at the Pearl River Delta, Hong Kong and Macau where HNCB has already set up branches and had long-standing experience in servicing Taiwan entrepreneurs, HNCB recently established its Shanghai branch and has to opened its Fuzhou branch on 13th May 2015. By then, HNCB will be able to service its customers at the Yangtze River Delta and China's West Coast Economic Zone and offer integrated financing resolutions.
- K. HNCB has successively signed the business MOU with China's banks covering Fujian Haixia Bank, Bank of China, Bank of Communication, China Merchants Bank, China Guangfa Bank, China Construction Bank, etc., and will continue to develop the substantive business cooperation with them, so as to increase the profit.
- L. Continue to execute the three-year double credit card sales plan, which will be executed from the aspects of financial strategies, products, card swiping promotional activities, channel expansion, customer services, information services, etc.
- M. Implement the payroll transfer reinforcement plan, in which, through data analysis, the customers are companyed and theme niche marketing is adopted, put focus on real estate mortgage loan customers who are habitual investors and have stable income, for which "refinancing home loans" and "stock backed loans" are the major products, financial products are combined and incentives are provided to meet customer investment requirements, so as to enhance the contribution from good-quality customers.
- N. Initiate the top-notch credit card customer company promotion plan to effectively solidify the high-consumption top-notch customer company by using invitation and cultivation of a premiere image for advanced prerogative.
- O. Use the intact channel sales network and sales assistance mechanism to wield the strength of the branch channel and aggressively cooperate with horizontal and network merchants, so as to expand and integrate sales channel resources, carry out niche and precision marketing, strengthen the business with high-quality customers, enhance customer adherence and increase product profits.
- P. Continue to enhance product diversification, seek for advantageous products, cooperate with good-quality funds and insurance companies equipped with brand edge, and continue to roll out proper commodity platform projects.
- Q. Continue to expand the financial sales workforce, strengthen the function of the senior financial guidance personnel at the channel center, set up branch's sales assistance goal and incentives and wield the cross-the-board personnel marketing function.
- R. Continue to roll out diversified and niche-type trust products, e.g. the fund with the service charge to be collected in redemption, individual management business by using the innovative investment model, etc.
- S. Properly adjust allocation of excess NT dollar current assets and elevate the yield of current capital.
- T. In conjunction with changes of the international financial status to strengthen equity securities operation and increase capital gains and dividend income.
- U. Flexibly leverage the net FX swap position, so as to increase the Banks' income.
- V. Continue to promote the TMU business mainly based on hedging requirements and supplemented by financial operation, in which the focus is placed on the professional customers



having a greater business size and free from credit risk, so as to stably promote FOREX derivative financial products and enhance diversification of product categories (e.g. varying structured underlying objects and structured investment commodities combining currencies and periods of days), especially for low-risk principal-guaranteed products, which may stratify customers' overall requirements and elevate the Bank's market share in the derivative financial product business.

**(3) Industry overview: industry's current status and development**

According to the statistics released by the Banking Bureau of the FSC, as of the end of September 2014, Taiwan had 39 local banks and 30 foreign banks (including the branches of mainland China's banks). With the numerous banks in Taiwan, competition in the industry has become intense. Given the limited sources for profit growth in the local market, many banks have aggressively expanded their market to the Greater China. According to the analysis of China's huge financial market, banks mostly aim at large enterprises for their corporate banking business whereas they are more conservative for releasing loans to small and medium enterprises. Taiwanese entrepreneurs in China need Taiwan's banks to provide capital for them, and it turns out to be the source of the corporate banking business. Hence, under such circumstances, banks and Taiwanese entrepreneurs can benefit each other. However, while mainland China is adjusting its industrial structure by degrees, the increasing labor cost is becoming a burden. Due to change of the operating environment, many enterprises have turned to the emerging markets in South-East Asia. As such, local banks have also aggressively assessed the development potential of other countries in the Asia Pacific region, such as South-East Asia countries, and the feasibility to expand their deployment in those countries, so as to have more sources to increase their profits.

**(4) Research and development:**

A total of 158 cases developed by HNCB over the past two years have come up with good results, which have greatly improved HNCB's business operating, elevated its operating performance and strengthened its service quality. In the future, HNCB will continue to encourage its personnel to devote themselves to research and development, so as to create outstanding performance and a record high of sales.

**(5) Long-term and short-term business development plans:**

**A. Short-term business development plan:**

- \* Continue the public welfare lottery wholesale and prize redemption business sub-brokered by the CTBC Bank, so as to increase the risk-free service income.
- \* Elevate the mobile bank and mobile payment function and grab the real-time financial business opportunities.
- \* Enhance product diversification, seek for advantageous products, cooperate with good-quality funds and insurance companies equipped with brand edge, and continue to roll out proper commodity platform projects.
- \* Continue to elevate quality and quantity of financial management specialists and guidance personnel, strengthen counter personnel's sales coordination ability and wield the all-out marketing function.
- \* Develop new accounts, activate old accounts, establish an intact after-sales service process, offer the financial diagnosis service and hold customer care activities through customer companying.

**B. Long-term business development plan:**

- \* Continue to relocate or adjust local business footholds, promote transformation of the branch operating environment from the operation-orientation type to sales-orientation

type, and elevate the channel effect through the differentiation development based on regional characteristics.

- ※ Continue to promote e-trading and reduce HNCB's operating cost.
- ※ Continue to expand the financial sales workforce, and strengthen personnel's professionalism.
- ※ Continue to strengthen the sales system, so as to elevate service efficiency and provide customers with more well-rounded services.
- ※ Reinforce customer services and elevate customer satisfaction through customer companying.

### 3. HNSC

#### (1) Business scope

- Major business items:
  - ※ Consigned trading of securities in the stock exchange market.
  - ※ Consigned trading of securities at its business outlets.
  - ※ Proprietary trading of securities in the stock exchange market.
  - ※ Proprietary trading of securities at its business outlets.
  - ※ Underwrite securities.
  - ※ Act as an agency to handle stock affairs for securities firms.
  - ※ Securities trading, margin purchase and short sale.
  - ※ Consigned trading of foreign securities.
  - ※ Engage in securities related auxiliary futures trading services.
  - ※ Concurrently engage in the securities related futures business.
  - ※ Engage in the wealth management business.
- A. Provide consulting services for asset allocation or financial planning, or financial product sales services.

B. Execute asset allocation for customers in a form of trust.

- ※ Other securities related businesses approved by the competent authorities.
- Business operating income ratios over the past two years:

Unit: in NT\$ thousand

Business item	2014		2013	
	Amount	(%)	Amount	(%)
Brokerage	2,126,243	85.29	1,768,953	89.29
Underwriting	84,416	3.39	91,216	4.60
Proprietary operating	282,307	11.32	121,017	6.11
Total	2,492,966	100	1,981,186	100

Elaboration on changes of contribution of respective major businesses to the operating income:

A. Brokerage business: The overall stock average daily trading value in 2014 was \$118.155 billion, representing an increase of 23.63% compared with \$95.569 billion in 2013, in which 2014 average annual market share was 2.81%, increasing by 1.08% from 2013's 2.78%. 2014 brokerage business operating income increased to \$2.126 billion from 2013's \$1.769 billion. The increase mostly resulted from more income from the brokerage service. Based on the annual budget, the operating expenses were controlled within a specific range. As a result, the 2014 brokerage operating profit increased by 58.59% from 2013.

B. Underwriting business: The total underwriting income in 2014 was \$83,209 thousand, representing an increase of \$17,922 thousand or 27.45% from 2013. The increase mainly came from the stock sale profit in the circumstance where the stock market recovered, whereas, due to more SPO cases, the service income also increased by \$10-plus million. The before-tax profit in 2014 was \$855 thousand posting an increase of \$29,151 thousand





from 2013. As a result, the underwriting business turned profit from loss.

C. Proprietary business: In 2014, the TAIEX gained 695.75 points or 8.08%. As a result, the stock proprietary operating gained \$178,698 thousand, showing a better performance compared with the proprietary operating loss of \$9,680 thousand in 2013.

- New financial products and services planned to be developed in the future:

Given that many securities related laws and regulations are being lifted and the Cross-Strait Financial supervision MOU has been signed, various new financial products will be successively introduced. Under such circumstances, Taiwan's major securities firms have been up and running, aggressively worked on studies and planning and cultivated required talent. On the outlook for this year, HNSC will evaluate and plan the following new products and related businesses according to the progress made by the competent authorities for lifting related laws and regulations:

A. Promote the trust-type wealth management business: introduce insurance related financial products, offer customers a wide selection of products and study the feasibility to promote the products denominated in the RMB.

B. Aggressively develop the well-rounded investment banking business: As encouraged by the government for transforming securities firms into investment banks, HNSC has developed its financial consulting business, e.g. corporate re-organization, acquisition/ merger, etc. and other broadly defined brokerage and underwriting businesses, and headed for establishing a well-rounded investment bank.

C. Given that the competent authorities are going to open up the China A-share sub-brokerage business, Hua Nan Securities will seize the business opportunity, apply to China for the eligibility of QFII, aggressively promote related businesses and service the public investors.

D. In order to meet investors' requirements for their investment in the Shanghai A-share market through the Shanghai – Hong Kong Stock Connect mechanism, HNSC has sought the opportunity to cooperate with Hong Kong's securities sub-brokers and develop the Shanghai – Hong Kong Stock Connect sub-brokerage business.

E. Design and promote derivate financial products, such as call/ put warrants, asset swap and structured products.

F. Aggressively participate in market making activities covering futures, TAIEX and individual stock options, ETF, etc.: The financial commodities department and futures dealing department will continue to promote market making activities so as to activate transactions of Taiwan's futures related commodities.

G. In conjunction with government's offer of preferential terms to encourage overseas Taiwanese entrepreneurs to list their stocks in Taiwan, the underwriting department will aggressively approach overseas Taiwanese entrepreneurs through various channels, such as its Hong Kong footholds, attorneys and accounting firms, to help them list their stocks in Taiwan.

H. Study the feasibility to introduce the new-type OSU business, in an attempt to expand the business operation space.

I. Keep track of opening up of the laws and regulations in relation to RMB Formosa bonds and T share listing (the mainland enterprises listed in Taiwan), continue to contact China's enterprises, establish required relations and, in the end, seize any underwriting business opportunities in the future.

J. For the TAIEX Enhancement Plan recently launched by the FSC including relaxing TAIEX daily stock price fluctuations to 10%, expanding day trading underlying stocks, lifting limits of personal and individual stock's margin

purchase and short sale, HNSC will hold related investment seminars, reinforce investor related services and respond to related changes with countermeasures.

## (2) 2015 business plan:

On the outlook for this year, the US economy has continued to recover, so, for Taiwanese enterprises whose business performance is closely associated with the US economy, the recovery will bring strong fundamental sustenance to the electronic industry. By comprehensively observing the overall environment, the market concertedly considers Asia a bullish region, mainly due to its loose monetary condition, low oil prices and favorable government policies which could stoke up TAIEX next year. As affected by loose monetary policies adopted by China, Japan and European Central Bank, the global capital is in a loose condition. While the capital is abundant, risk-type assets, such as stocks, high yield bonds, could be benefited. Oil prices fell to six-year lows, and are unlikely to rebound in the short run. The fall of oil prices has directly benefitted Asian countries because those countries' inflation could decline, which would further improve their national deficits. Due to strong US dollars, emerging countries' currencies mostly show depreciation. Since the countries in Asia are mostly export oriented, currency depreciation could help them boost export businesses. As such, export-oriented Taiwanese enterprises, especially NB and electronic component fabrication manufacturers, are expected to have a better business position, and TAIEX could have the chance to pass 10,000 points. Under such circumstances, the company sets up its major business directions for this year as follows:

- Nurture and recruit related business talent, so as to elevate future's overall business workforce.
- Strengthen island-wide channel marketing tactics, so as to elevate channel operating performance.
- Reduce the operating cost through channel merger and relocation, and seek for any acquisition opportunities to increase market share.

- Combine related study resources to steadily conduct stock dealing operation and strictly abide by the stop loss mechanism.
- Promote the Greater China internationalization business, so as to enhance the overseas niche edge.
- In conjunction with the opening up of laws and regulations to continue to promote the new-type businesses, such as the international OSU business and trust-type wealth management business.

## (3) Industry overview

- Even though the securities industry has gone through the stages of acquisition and merger, the total number of securities firms has remained unchanged. However, many medium and large securities firms have been integrated into financial holding companies, so the number of the headquarters of securities firms has reduced.

## Changes in the numbers of securities firms in recent years

Item year	Total number of securities firms		
	Headquarters	Branch	Total
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
2014	145	984	1,129

Data source: Website of Taiwan Securities Association

The local securities industry has encountered the problems of withered trading volume, international competition and offshore relocation of many securities firms, so, for the organization development strategy, the company will head for the direction of financial holding or strategic alliance. For the business development strategy, HNSC will set off for new businesses covering



wealth management, cash deposit accounts, trust, etc. In other words, innovation is the direction for HNSC to develop its organization, business and commodities.

- Expand securities firms' international securities business scope, relax the restrictions on overseas trans-investment, promote Taiwan to be the "Asia-Pacific Financial Center" so as to expand the territory of Taiwan's capital market and elevate securities firms' international competitiveness. As opened up by the FSC, securities firms may follow the international OBU model to set up the international OSU with accounting independence to engage in the offshore securities issuance and trading business. Also, in order to assist securities firms in developing distinctive commodities to attract non-resident customers, the FSC has further unleashed foreign currency derivative financial commodities, foreign futures trading and TAIEX related commodities, in an attempt to bring more overseas capital back to Taiwan and enhance the economic development momentum.

In order to help securities firms to deploy their overseas business, the FSC has uplifted the restrictions on securities firm's overseas trans-investment, in which the amount applied by securities firms by project may exceed the limit of their overseas trans-investment, securities firms may endorse and guarantee the financing of their overseas subsidiaries, and the amount of the capital lending between securities firm's foreign trans-investment businesses may be increased from 40% of their net value to 100%. In so doing, it is hoped to expedite our securities firms' international deployment and establish an integrated financial service network.

In order to meet the economic growth trend in the Asia-Pacific region and make good use of Taiwan's geographic convenience (located in the center of the Asia Pacific Region) and given the fact that Taiwan's financial industry has already had its strength for providing high-standard and high-quality professional services, the FSC will continue

to relax laws and regulations and expand the scope of the products to be offered by the OSU, so as to provide a convenient environment for offshore investors to open accounts and invest, and further promote Taiwan to be the "Asia Pacific Financial Center". All of the efforts will help local securities firms accelerate their pace for globalization, expand their business scope and elevate their service quality.

- Booming development of securities firm network and mobile e-transactions

With daily improvement of the electronic technology, compounding substantial growth (in terms of functionality and popularity) of personal mobile communications equipment, securities firms have aggressively promoted e-order placements in recent years in an attempt to increase their customers. As of the end of 2014, 75 local securities firms started to open e-trading for their customers, with which the e-trading value (including the transactions made through the network, voice and DMA) increased to \$24.6 trillion, and its ratio to the total trading value also increased to 41.4% from 38.2%.

In recent years, Hua Nan Securities has continued to roll out the brand new e-order system, substantially reinforce the trading functions of its mobile communications equipment, elevate system stability and program execution speed, and make efforts to win more customers so as to increase its market share. Its e-trading amount took up 1.31% of the total market trading amount in 2014, growing 10% from the previous year and making it advance to the 9th largest securities firm in Taiwan. ◦

#### **(4) Research and development**

- In conjunction with government's policies, laws and regulations, HNSC has studied and developed new-type businesses and structured financial derivative commodities, covering trading of emerging stocks, convertible bond asset swap trading, interest rate swap trading, the foreign sub-brokerage business, issuance of local call (put)

warrants, futures on index and individual stock options, interest rate futures, gold futures, asset securitization, etc., and strengthened its talent cultivation and recruitment for its investment banking business, financial projects, risk control, etc.

- Work on the planning of the following information systems:
  - A. In conjunction with the financial holding sales channel to integrate project establishment related systems.
  - B. Set up and plan the overseas sub-brokerage web transaction platform: establish a multi-country order placement platform, so customers could simultaneously operate multi-product trading on the same platform, and set up the NT dollar denominated sub-system to enhance customer's trading convenience.
  - C. Business management system expansion planning: including customer relationship management planning, regional supervision system planning, managerial personnel system planning, policy support management system planning, etc.
  - D. Set up the securities managerial personnel system: give intact description for the trading status of securities customers and assist branch's managerial personnel in operating the futures business.
  - E. Requirement management for special demand notes: For branch's information demand, the company assists its branches in describing the demand and analyzing establishment of the financial holding sales channel integration project system.
  - F. Wealth management trust business system planning: In conjunction with promotion of the future wealth management trust business to work on system establishment.
  - G. The "Company Personnel Sales Integration Platform" has been put online since February 2015, related personnel educational training

has been conducted for many times and the cross-Company (joint sales) incentive system has been established. In the future, the personnel will be encouraged to elevate the joint-sales performance through the cross-sales on the platform.

- Combine the professional knowledge of the overseas commodity department, financial commodity department and futures dealing department to devote efforts to studying on financial commodity arbitrage and transactions, and, in conjunction with information department's research and development of software design to give technical judgment with the artificial intelligence chart for computer transaction programs in relation to a variety of new-type financial derivative products, development spread and arbitrage and hedging, so as to seize the long or short operation direction, identify the optimal trading timing and gain the maximum profit.
- Under the structure of the parent company, "HNFHC", to aggressively proceed with the plan to merge or acquire potential underlying securities firms so as to augment the strength of securities related businesses and maintain a sustainable growth.
- By using the information regarding the global finance, local and foreign macroeconomics, the industry and individual companies, the subsidiary, Hua Nan Securities Investment Management, has further studied the dimensions of fundamental performance, technology and capital, so as to get hold of investment trends and hedge risk industries. In addition to periodically issuing related investment publications and holding investment seminars, the references for investment consultation and credit from financial holding company's related units have also been provided.
- Keep abreast of FSC's opening up of the "Cross-Strait Distinctive Financial Business Plan" and "Development of Greater China Region's Asset Management and Financial Management Business", and work on related investment evaluations to create



profit gaining opportunities.

- Keep tracking the fulfillment progress of the “Cross-Strait Service Trade Agreement”, contact China’s potential enterprises in the areas such as Shenjun, and evaluate the joint venture related investment planning for setting up the full license securities company, so as to grab the preemptive opportunity.
- Promote the trust-type wealth management business, introduce insurance related financial products, offer customers a wide selection of products and study the feasibility to promote the products denominated in RMB.
- Given that HNSC has already obtained the approval for engaging in the international OSU business, it will hire more specialists to promote related businesses and enhance its competitiveness.
- Keep track of opening up of the laws and regulations in relation to RMB Formosa bonds and T share listing (the mainland enterprises listed in Taiwan), continue to contact China’s enterprises, establish required relations and seize underwriting business opportunities.

#### (5) Long-term and short-term business development plans

- Short-term strategy: leverage the development of respective businesses covering brokerage, underwriting, dealing and new financial commodities, promote new-type businesses related to financial management and march ahead to become one of Taiwan’s top 10 securities firms in terms of profit and capital size.
- Mid and long-term strategies:
  - A. Brokerage business: complete channel deployment and expand new-type businesses.
  - B. Investment banking business: strengthen the underwriting business and expand the capital size.
  - C. Asset management: broaden the capital management scale and enhance operation management efficiency.

D. Financial innovation: strengthen financial engineering capacity and introduce new financial products.

E. Corporate e-operation: integrate corporate resources and elevate operating efficiency. °

F. Risk control: monitor risk assets to reduce the operating risk. °

#### 4. SCIC

##### (1) Business scope:

- Major business items:
  - ※ Fire insurance:
    - Commercial fire insurance
    - Fire supplement insurance
    - Residential fire insurance
    - Residential earthquake basic insurance
  - ※ Marine insurance:
    - Cargo transportation insurance
    - Inland transportation insurance
    - Hull insurance
    - Fishing boat insurance
    - Aviation insurance
  - ※ Auto insurance:
    - Automobile physical damage insurance
    - Automobile liability insurance
    - Automobile theft insurance
    - Compulsory auto (motorcycle) liability insurance
  - ※ Casualty insurance:
    - Engineering insurance
    - Credit & bond insurance
    - Liability insurance
    - Other property insurance
  - ※ Health and accident insurance:
    - Health insurance
    - Personal accident insurance
    - Comprehensive insurance
    - Travel agent liability insurance
    - Employer’s contract compensation liability insurance



- Business operating income ratios over the past two years:

Unit: in NT\$ thousand

Business item	2014		2013	
	Amount	Share (%)	Amount	Share (%)
Written premium income	7,651,697	95.62	7,047,700	95.26
Fire insurance	1,347,296	16.84	1,333,409	18.02
Marine insurance	553,703	6.92	518,074	7.00
Auto insurance	4,667,585	58.33	4,182,788	56.54
Casualty insurance	630,295	7.88	599,211	8.10
Health and accident insurance	452,818	5.65	414,208	5.60
Reinsurance premium income	350,388	4.38	350,686	4.74
Total	8,002,085	100.00	7,398,386	100.00

Note: The amount of the insurance lines was compiled according to 30 insurance lines.

- New products and services planned to be developed in the future:

The company will continue to develop new products according to the requirements of varying markets in 2015, so as to satisfy consumers' varying requirements and give them a wide selection of products. The planned new product items are as follows:

Product name
Auto specific accident limited comprehensive insurance
Tyre insurance additional provision of the auto insurance
Lessee's fire liability additional provision of the residential comprehensive insurance
Key and door lock additional provision of the residential comprehensive insurance
Trading credit insurance
First-time cancer contraction personal health insurance
Cancer hospitalization medication personal health insurance
Personal unexpected injury and illness insurance

Note: Rather than outsourcing, the aforementioned products have been jointly developed by the underwriting, claim, actuarial, legal affairs, investment, risk control and operating personnel of South China Insurance, so the related R&D expenses have been included in the annual business expense items.

## (2) 2015 business plan:

- Expand the market share: continue to take root and develop channels, strengthen the cooperation relationship with insurance brokerage agencies, banks and life insurance channels, broaden the business size, focus on targeted companies, segment products and offer tailored products, so as to satisfy the requirements of the customers from varying channels and elevate the sales performance and ratio in the sector of the Internet.
- Strengthen promotion and management of personal-information-related laws and regulations and management of the information: set up internal related operation rules according to the change of personal information related laws and regulations and carry out the customer information protection mechanism, so as to comply with statutory laws and regulations and protect customer's personal information.
- Strengthen the overall information management effect: continue to work on the business process reengineering (BPR) project and establish the new core information system in phases so as to reinforce the information management effect, reinforce the mobile device service function so as to increase diversified services items and gain customer recognition.
- Stabilize and activate the capital utilization strategy: stably adjust asset allocation, place premium on fixed income, increase high yield stocks and overseas fixed income product investment, pay attention to international currency trends, lower risk in loss on exchange, continue to evaluate the outsourcing operation scale and investment performance, properly adjust allocation of capital utilization and uplift the investment effect.
- Fulfillment of law compliance, internal audit and risk management: periodically hold law compliance educational training, carry out the internal control and internal audit system,



promote transparency of risk management information, and fulfill the performance evaluation of law compliance and risk management.

F. Elevate the efficiency of project services of the customer service center: plan and organize upgrading of the customer service information system so as to enhance service efficiency and quality, non-periodically hold project requirement evaluation meetings and periodically provide project service statements so as to enhance the project effect.

G. Set roots and deploy in the China market: continue to cultivate China's sales development manpower and cadre so as to prepare for the workforce which will be demanded in the market. On the other hand, after years of efforts, the company applied for equity participation in China Auto Insurance Co. and the application has been approved by the FSC, so the company's deployment in China has come up with a preliminary outcome.

H. Fulfill corporate social responsibility: continue to care for the underprivileged companies in remote areas, contribute new class room equipment to Alishan's Shanmei Tribe and aggressively participate in the "Tsou Tribe Elite Student Scholarship Plan", so the tribe's outstanding students could continue advanced studies and the company could nurture next generation's outstanding talent and fulfill its share of corporate social responsibility.

### (3) Industry overview: elaborate on the industry's current status and development

The entire property insurance market's written premium income in 2014 was \$131.558 billion, an increase of 5.9% from 2013 and its premium income increased by 7.329 billion. SCIS written premium income in 2014 was \$7.652 billion, an increase of 8.57% from 2013, and its premium income increased by \$604 million, posting an increase of market share to 5.82%.

### (4) Research and development

A. Expenditure incurred by new insurance product research and development over the past two years and the outcome and its R&D results:

SCIS new products have been developed by its product development workforce, and its important product items developed over the past two years are as follows:

Product name
Car collision damage limited insurance (for business only)
Residential comprehensive insurance
Additional provision of covering underwriting of motorcycle fire accidents in the residential comprehensive insurance
Additional provision of covering underwriting of pet fire accidents in the residential comprehensive insurance
Golf player comprehensive insurance
Company health insurance
Additional provision for company critical illness insurance benefits
Additional provision of the company cancer hospitalization medication health insurance (daily benefits type)
Additional provision of the first-time cancer contraction health insurance
Auto third liability insurance exclusively for taxi
Additional provision for criminal litigation attorney fee compensation of the auto third liability insurance.
Additional provision of the collision damage insurance (applicable to the commercial fire insurance)
Additional provision for product liability insurance's product recycling, recovery, replacement and return expenses.
Pharmacist and assistant pharmacist business liability insurance
Criminal execution personnel liability insurance
Additional provision for pet consignment liability of the accident liability insurance
Mountain climbing comprehensive insurance
Additional provision for accidental outpatient and surgery medication benefits of the (standard) personal casualty insurance

Note: Rather than outsourcing, the aforementioned products have been jointly developed by the underwriting, claim, actuarial, legal, investment, risk control and operating personnel of SCIS so the related R&D expenses have been included in the annual business expense items.

## B. Future R&D plan

In order to meet consumers' varying requirements and provide consumers with varying selections, SCIS plans to continue its new product development operation aiming at the requirements of different markets. The major new planned product items are mainly as follows below: auto specific accident limited comprehensive insurance, tyre insurance additional provision of the auto insurance, lessee's fire liability additional provision of the residential comprehensive insurance, key and door lock additional provision of the residential comprehensive insurance, trading credit insurance, first-time cancer contraction personal health insurance, cancer hospitalization medication personal health insurance and personal unexpected injury and illness insurance. At the same time, the company will also strengthen its information system integration and elevate its e-commercial marketing effect.

## (5) Long and short-term business development plans

### A. Operating orientations

- ※ Reinforce the channel business and elevate business unit's sales scale.
- ※ Escalate the good-quality net claim business ratio and control the accumulated risk.
- ※ Integrate the information system and strengthen the information management effect.
- ※ Cultivate multi-function professionalism and solidify the workforce of the leading cadre of respective ranks.
- ※ Strengthen the risk management mechanism and fulfill corporate governance.
- ※ Control the investment risk and elevate the effect of capital utilization.
- ※ Deploy overseas footholds and cultivate expatriate personnel and cadre.
- ※ Continue to participate in public welfare activities and build a good corporate image.

## B. Business goals

The premium income of SCIC in 2014 was \$8.02 billion, covering the written premium income, \$7.652 billion, and re-insurance premium income, \$350 million, and the average claim ratio of insurance lines was 48.63%.

SCIC 2014 operating income was \$5.78 billion, covering net premiums earned, \$4.826 billion, net investment profit, \$310 million, and other operating incomes, \$653 million. Its 2014 operating cost was \$3.885 billion, covering net claims incurred, \$2.682 billion, net changes of liability reserve, \$99 million and other operating costs, \$1.14 billion. Its operating expense was \$1.24 billion, operating profit was \$655 million, net non-operating income was \$8 million and before-tax profit was \$663 million. After deducting the income tax expense, the net after-tax income became \$571 million, with which the after-tax net income per share was \$2.85 and return on assets was 3.9%, return on shareholders' equity was 15.44% and budget completion rate was 95%.

## C. Important operating policies

### (a) Business development:

- ※ Strengthen maintenance and operation of good-quality channel relations, get more project cooperation with car dealers, elevate the market share of the channel new car business, increase sales of the regional insurance brokerage and agency business, broaden the business cooperation scale, increase the sales ratio, intensively develop and expand the target for the B2B and B2BC network transaction platform, escalate the competitiveness of the network insurance business and enlarge the business scale.
- ※ Expand operating workforce, continue to promote the strategy to increase operating footholds and direct operating workforce and uplift operating personnel's professionalism and marketing ability, so as to develop more new businesses and seize new business opportunities.



- ※ Enlarge the e-commerce business size, enhance the convenience for operation of the insurance webpage on the Internet and the overall operation efficiency, increase insurance product items on the Internet, draw more insurance purchases from different network consumer companies, elevate the sales ratio, and strengthen the effect of project services of the customer service center, so as to increase sales growth.
- ※ Plan and construct a new core information system to elevate the efficiency of the information system and digital network, and uplift the company's overall operating efficiency by maximizing its hardware and software functions, so as to elevate the company's competitiveness in full swing.
- ※ Set roots and deploy in the China market: continue to help the company's personnel obtain China's insurance professional licenses and reserve sales development workforce and cadre for the China market.
- ※ Have participated in the "Insurance Faith, Hope and Love Contest", in which South China Insurance have won the award for six consecutive years in the sectors of "Insurance Professionalism" and "Insurance Product Originality".

(b) Risk management:

- ※ Continue to advance the key risk control indicator of respective businesses, so as to literally enhance the effect of sales unit's risk control.
- ※ Develop the Own Risk and Solvency Assessment (ORSA), so as to advance the company's capital management and solvency assessment ability.
- ※ Improve the economic capital measurement method of respective businesses and the Risk Adjusted Return on Capital (RAROC)

assessment mechanism so as to include long-term performance evaluation and capital allocation assessment items.

- ※ Continue to promote internal audit, law compliance and integration of risk management functions and strengthen the Risk Self-Assessment (RSA) method, so as to effectively reduce the law compliance risk and elevate internal control efficacy.

(c) Expense control:

- ※ In conjunction with decoration and renovation of respective offices to continue to replace traditional lamps with power-efficiency lamps, so as to reduce electricity expenditure and achieve the effect of austerity.
- ※ Strictly execute the annual budget management system, carry out the expenditure amortization mechanism, request respective units to literally control the expense/ expenditure and periodically track the expenditure status, so each unit could keep abreast of the budget execution status, and attain the substantive control goal. The annual expense rates from 2012 to 2014 were 28.68%, 29.89% and 29.10% respectively.

(d) Capital management:

- ※ The asset risk has been the initial reference for South China Insurance to determine its external capital utilization and investments. In addition, in conjunction with its parent company's risk control integration mechanism, SCIC inspects and adjusts the current risk asset position with the measurement indicators, such as value-at-risk. In so doing, change in risk can be concurrently handled while capital income is stably elevated, and financial assets' potential volatility risk can be literally controlled.
- ※ Property insurance industry's capital attribute

is different from that of other financial institutions. Other than complying with statutory laws and regulations, South China Insurance have to take priority in liquidity and safety in its setting up a variety of capital utilization tactics, followed by considering its yield, so its solvency can be strengthened and the insured's rights and interests can be protected.

## 5. HNIT

### (1) Business scope

- Major business items:
  - ※ Securities investment trust business.
  - ※ Discretionary investment services.
  - ※ Futures trust business.
  - ※ Other businesses approved by the competent authorities.
- Business ratios (2014)

Asset type		Ratio (%)
Mutual fund	Equity type	39.58
	Fixed income type	49.73
Private placement fund		3.25
Discretionary services		9.48
Service income		0.39
Total		100.00

- New financial products and services planned to be developed in the future:

The company will continue to offer proper financial products and diversified services according to market trends and customer requirements, so as to satisfy customers' varying financial management requirements.

### (2) 2015 business plan

- Continue to strengthen asset management ability and elevate fund performance.
- Continue to develop new fund products, so as to provide customers with a wider selection and solidify the company's product line.
- Aggressively promote e-commerce, so as to elevate customer services.
- Continue to strengthen customer services and maintain a good relationship with customers.
- Continue to conduct personnel educational training, so as to facilitate the company's long term development and elevate its service quality.

### (3) Industry overview

In 2014, out of 20 fund types, 11 of them show increase in size and the top five fund types having the largest increases were the international balanced fund, international exchange traded fund (ETF), international fund of Funds – balanced fund, high yield bond fund and international money market fund. As a whole, the investment trust industry still shows a phenomenon of big ones getting bigger. Currently, Yuanta Funds has the largest fund size, whereas the fund size of other investment trust firms, covering Capital, Fu Hua, J.P. Morgan, Eastspring Investments and Cathay investment trust companies, is also more than hundred million dollars. Compared with the previous year, the investment trust industry status remains unchanged. Out of the top 10 investment trust firms, five of them are local companies, decreasing two firms from the previous year, whereas the remaining five firms are foreign investment trust companies. It illustrates that, by using their company's globalization edge and resources of offshore fund products, those foreign investment trust firms apparently have a better competitive capacity on the fund business than local investment trust firms.

### (4) Research and development: list the R&D expenditures and outcomes incurred over the past two years





The development of the new financial products covered in the securities investment trust business lies in opening up and approval from the competent authorities. Hence, in addition to paying attention to the policies of the competent authorities, the company has also referred to market trends to develop new financial products. The new products developed by the company in the past two years are as below:

- On July 8, 2013, the company launched its first domestic multi-currency fund “Hua Nan RMB High Yield Bond Fund” including NT dollar denomination and RMB denomination.
- On June 12, 2014, the company issued the China A-share fund – “Hua Nan China A Share Equity Fund”.

#### (5) Long and short-term business development plans

- Short and mid-term business development plans
  - A. Develop and issue products according to customer requirements and continue to construct an intact product line.
  - B. Continue to strengthen the capacity of the company’s research workforce and funds’ long-term performance, so as to enhance customers’ faith in the company.
  - C. Strengthen customer services, so as to elevate customer satisfaction.
  - D. Reinforce risk control, promote rationality of the operation process and elevate across-the-board service efficiency.
- Long-term business development plan
  - A. Develop the business scale and make the company one of the top ten investment trust firms.
  - B. Get more opportunities to provide discretionary investment services for government funds and foundations.

#### 6. HNVC

##### (1) Business scope:

##### ● Major business items:

- ※ Venture capital business
- ※ Investment consulting business
- ※ Management consulting business
- ※ 2014 business ratio:

Item	Ratio
Investment income	100%

##### (2) 2015 business plan:

- Investment deployment: place focus on the following three major directions: 1. e-commerce and third-party payment industries 2. bio-technology and medical device industries 3. traditional industries requiring high techniques, such as the precision machinery industry, energy efficiency and environmental protection industry, and cultural and creative industry.
- Case source development: Other than the business opportunities recommended by peer companys and investment matchmakers, the company will also reinforce its investment in small and medium enterprise projects through the government and visit those companies registered in the “Go Incubation Board”, so as to effectively seize the outstanding case sources
- Operation strategy for listed companies: to cash in on gains in the short run for the investment in the companies recently listed in the market. If the price of the investment underlying stocks already touches the stop loss limit, the company will discreetly evaluate and execute the stop loss, so as to avoid the capital to be long-term tied up.

##### (3) Industry overview:

According to the statistics released by Taiwan Venture Capital Association, as of the end of 2013, Taiwan had about 199 valid venture capital firms, in which the total capital managed by them was about NT\$147.861 billion. Since it is not easy to further

raise capital, the newly established venture capital firms tend to be in a small type.

In terms of results of Taiwan venture capital industry's investment cases, the investments are still mostly made in Taiwan, in which the cases in the expansion and mature stages exceed 80% and the investment focus is still placed in the semi-conductor, bio-pharmaceutical and optoelectronic industries whereas the development potential of traditional industries is also highly valued and the capital has also continued to be put in this sector.

Currently, the government is promoting a variety of emerging industries, intelligent industries and focused service industries in order to prompt transformation and re-upgrading of related industries, which will facilitate expansion of the investment business.

#### (4) Research and development:

Strengthen assessment of investment cases, elevate professional quality of post-investment management, offer trans-investment consulting services in due time and help investees smoothly go public so as to cash in on gains. Also, seize industry development trends by participating in industrial seminars and related training courses and adjust investment portfolios in a timely way.

#### (5) Long and short-term business development plans:

- Establish the optimal investment portfolio, strengthen asset quality, and cash in on gains in a timely way, so as to increase the return on investment.
- Keep abreast of the pulse of the industry development, seek for investment opportunities and modify investment tactics in a timely way, so as to enhance the gains from investment portfolios.

### 7. HNAME

#### (1) Business scope

- Major business items

#### A. NPL Investment, Management & Resolution

- ※ Due diligence service for financial institutions
- ※ Acquisition of debt from financial institutions & subsequent resolution service
- ※ Acquisition of accounts receivable

#### B. Assets under Management

- ※ Collection Service Outsourced by Financial institutions
- ※ Collection of overdue accounts

#### C. Direct Investment for Real Estate

- ※ Property Development
- ※ Property Management

#### ● 2014 business ratios:

Item	Ratio
NPL investment and resolution	57.99%
Real-estate direct investment	41.08%
Collection service for enterprise	0.93%

#### (2) 2015 business plan

#### ● Non-performance loan investment and disposal business

##### A. Investment strategies

- ※ Continue to pay attention to the status of the release of non-performing loans in the local market.
- ※ Continue exchanges with local and foreign peer companies and watch for any opportunities to make the business of non-performing loan management in the industry through the profound experiences accumulated by the company from its management of non-performing loans as commissioned by foreign peer companies and its edge in management of existing disposal personnel regional deployment.



B. Resolution strategies

- ※ Accelerate clearance of non-performing loans.
- ※ Take priority in undertaking the collateral of the regions having potential for development, so the income source could be stabilized through rent and current income and expenditure could be leveraged in the short run, and more value could be created in the mid and long run.
- ※ Aggressively activate assets and create the asset value by throwing in some of the resources, so as to gain the rent income and future value increment profit.

● Direct real estate investment business

A. Investment strategies

- ※ Other than the Greater Taipei region, the company will participate in foreclosure bidding in Taichung and Kaohsiung urban regions according to its assessment of the marketability and future development of the cases, in an attempt to expand its investment scope and increase its asset size.
- ※ Select commercial real estate of commercial offices, factory offices and factory buildings in the industrial regions having potential for capital gains as major investment target. On the other hand, the company also chooses to invest in the residences and building sites located at the prominent areas with well-rounded living functions, in an attempt to stably expand its operation scale.

B. Resolution strategies

- ※ Continue to strengthen property management efficiency and expedite promotion of the lease business, so as to increase income.
- ※ Increase the investment objects having development potential, so as to stabilize the income source through rent and leverage

current income and expenditure in the short run and create more value in the mid and long run.

- ※ Aggressively activate assets and create the asset value by throwing in some of the resources, so as to maximize the benefit.

● Contracted collection service

- A. Expand the number of discretionary accounts and the scale of discretionary debts through the Company's joint marketing channels.
- B. Further cultivate existing customer companys and increase customer referral channels.
- C. Aggressively visit the industry associations of targeted customer companys and win the opportunities for the consigned collection demanding business, so as to increase the debt consignment quantity.
- D. Utilize the existing corporate collecting demanding channels to early collect the foreclosure information and expand the asset sales channel.

(3) Industry overview

In recent years, the overdue loan ratio of local financial institutions has remained in the range between 0.3% - 0.5%. Given the fact that the overdue loan ratio was merely 0.3% in 2014, compounding the terms of financial institutions' sale of non-performing loans restricted by the competent authorities, the market case sources have turned out to be in shortfall. The total NPL sales in 2014 were \$7.8 billion, a reduction of 28% from 2013's \$10.9 billion, whereas the NPL release volume in 2015 is also expected in a low level.

The foreclosure cases have decreased year by year in the real estate market as a result of decreasing bank overdue loan cases and rise of real estate prices in the recent years. According to the statistics, after 2009, the foreclosure cases in the three major urban regions of Taipei, Taichung and Kaohsiung have

shown a trend of quick recession, in which the sharp reduction in the three major urban regions from the peak in 2009 was 20%, 65% and 56% respectively. In 2014, except a slight increase in Taipei, the foreclosure cases in other regions showed a year-by-year decreasing trend. Under such circumstances, the competition in the real estate foreclosure market is getting intense and the selection items of the direct investment business are also decreasing accordingly. With the change in the aforementioned NPL and real estate foreclosure markets, the AMC's under local financial holdings and banks have all faced the problem of transformation. On the other hand, the FSC also published the "Operating Principles for Financial Holding Companies (Banks) to trans-invest in AMC's" on December 16, 2014 to specifically define AMC's future development direction.

#### **(4) Research and development**

In response to the MOU signed between Hua Nan Financial Holdings Company and China Huarong Asset Management Corporation, Hua Nan Assets Management Co. will plan the mutual arrangement for professional training courses and have the training participating personnel exchange their opinions and share their viewpoints over the laws, regulations and systems in different markets in the initial period, followed by further studying taxation which will help the Company better understand China's financial market, arrange its deployment and further identify substantive cooperation opportunities for NPL and other related financial businesses.

#### **(5) Long and short-term business development plans**

##### **● Short-term plan**

A. Expand the direct real estate investment business to enlarge the asset scale, pursue growth in earnings, and, at the same time, cultivate the talent specializing in assessment of bidding of secured non-performing loans.

B. Increase ownerships of mid and long-term real estate investment objects, so as to increase the stable rent income.

C. Watch for any opportunities to win a variety of the consigned collection demanding business, and continue to cultivate collection demanding talent.

##### **● Long-term plan**

A. Set up Taiwan's non-performing loan and real estate research mechanism and provide the channel for exchanges with foreign peer companies, so as to win more consigned management business from foreign investors.

B. Study China's non-performing loan market, and seek for any opportunities for investment in overseas non-performing assets or loans.

## Risk Management Organizational Structure and Policy of the Company

### 1. Company Risk Management Organization Structure

#### (1) Important control mechanisms

- Corporate financial credit risk

When engaging in the corporate financial business, each subsidiary shall follow the Company's corporate financial credit risk management policies and precautions to set up related regulations and management mechanisms. In other words, each subsidiary shall take into account the related risk factors to set up the corporate financial risk limit and periodically assess the asset credit portfolio covering monitoring and controlling credit ratings, a variety of concentration exposures, etc., while simultaneously establishing risk indicators and the pre-warning mechanism and strengthening the mobile management mechanism, in which when the total exposure amount reaches a certain ratio of respective quantitative limits, the management shall be warned and the ensuing countermeasures shall be determined.

In order to further improve the existing risk control mechanism, the company helps its subsidiary, Hua Nan Bank, set up the internal credit rating model and gives independent verification. Currently, the model has been applied to the fundamental functions of case review, pre-warning mechanism, limit setting and review of risk outline. In the future, the default odds, default loss rate and default exposure amount will be used as the three major parameters to structure a variety of quantitative management indicators for the credit risk, so as to head for the advanced functions of capital requirement calculation, loan pricing, credit asset portfolio management, etc.

At the same time, in order to help directors, supervisors and high-rank management executives better understand the company's risk outline and enhance the company's transparency, the company has prepared the company corporate financial credit risk management statement every month, and submitted it to the Company's management committee and board of directors every quarter. The content of the statement mainly covers the exposure amount, concentration risk, asset quality, profit analysis, etc.

- Consumer banking credit risk

Periodically submit the company consumer banking credit risk management related reports to the Company risk committee and the Board to fully present monitoring of the exposure status and asset quality of the Company's consumer banking the portfolio. At the same time, by reviewing changes in the asset quality of various consumer banking products with the leading indicators (30 days delinquency ratio and vintage analysis), the coincident indicator (newly M4+ ratio) and lagged indicator (M4+ ratio) and referring to macroeconomics related indicators, such as GDP growth rate, unemployment rates and house price indexes, recommendations will be proposed as the reference for policy making.

#### (2) Risk management reports

- Total credit exposure amount

As of the end of 2014, the Company's total credit exposure amount was about \$2.2 trillion, in which the credit business took the lion's share, 73%, the bond and bill business accounted for about 19% and other businesses took up about 8%. According to the Credit Risk Standard in the Basel II, if the notional principal is converted into weighted risk assets, the credit weighted risk assets will be about \$1.3 trillion. If this is the case, the average risk weight of the overall credit exposure will be about 59%.

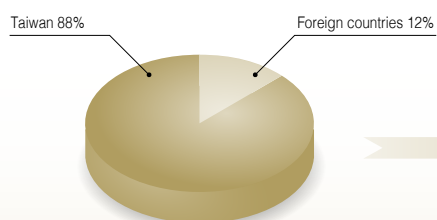
- Concentration risk management

If classified by country, 88% of the Company's credit exposure amount comes from Taiwan whereas the remaining 12% comes from foreign countries. Out of the foreign countries, China, the U.S. and Hong Kong are the top three countries accounting for 63% of the total foreign exposure amount, and other countries take up less than 5% each.

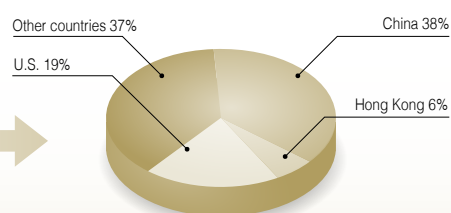


If divided by sector, 55% of the company's credit exposure amount comes from private enterprises, 26% from individuals and 19% from the government and state-run businesses.

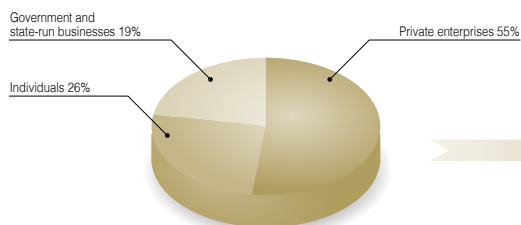
#### Local and foreign exposure



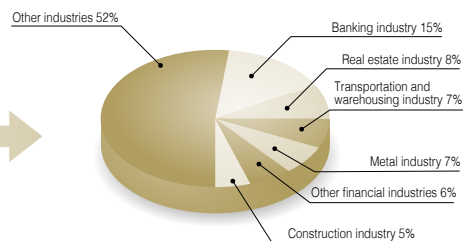
#### Foreign exposure



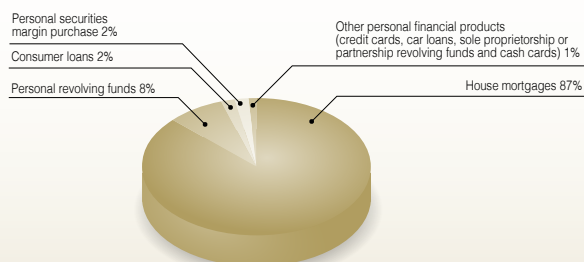
#### Exposure by sector



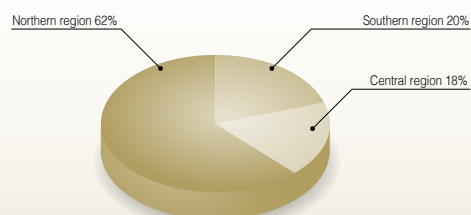
#### Exposure by corporate financial industry



#### Exposure by personal financial product



#### Exposure ratios by personal financial house mortgage channel





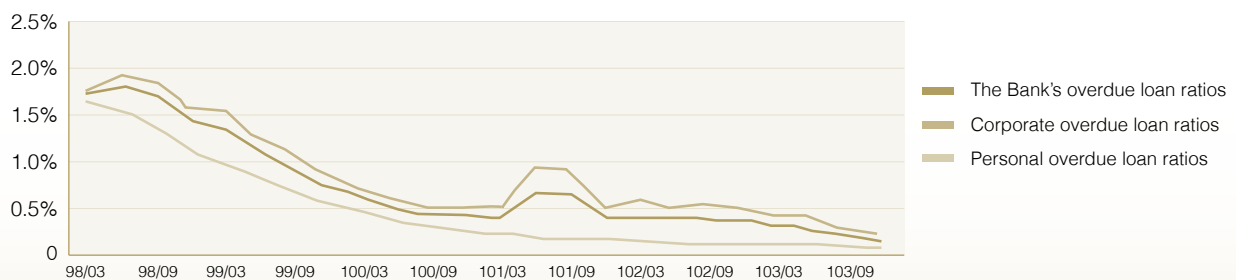
Out of the private enterprises, the top six industries are the banking industry, real estate industry, transportation and warehousing industry, metal industry, other financial industries and construction industry, which account for 48% of the total credit exposure of the private enterprises, whereas other individual industries take up less than 5% each.

On the personal front, the mortgage loan takes the lion's share, 87%, distantly followed by personal working capital at 8%, consumer loans at 2%, personal securities margin purchase at 2% and other personal financial products (credit cards, car loans, sole proprietorship or partnership revolving funds and cash cards) at 1%. For the exposure ratio of mortgage loan, by dividing according to regions, the northern region takes the highest ratio at 62%, distantly second by the central area at 20%.

- Credit asset quality

The credit asset quality of the subsidiary, HNCB, can be evaluated by analyzing the change in M4+ loans, credit score band and M2+ ratios. By taken M4+ loans for example, HNCB's overdue loan ratio has continued to decline in recent years, in which its M4+ ratio at the end of 2014 was 0.19%, posting the lowest ratio in the recent years.

Tendency of Hua Nan Bank's overdue loan ratios



### (3) Market risk

The Company has set up the group market risk management policies and precautions for each market's risk management with the goal to control the company market risk exposure within the tolerable range of the Company's capital.

- Important control mechanisms

Market risk's important control mechanisms include ex-ante management prior to trading and risk control after trading.

A. Ex-ante management prior to trading: approval of new financial products.

Prior to trading new financial products, each subsidiary of the Company shall submit the new financial product to be traded for review. The trading shall not be conducted before the risk the product in question is identified.

B. Risk control after trading: Limit management

In order to control the market risk or loss of each subsidiary's trading book position within the tolerable range and avoid excess impact on the Company's capital, the Company's subsidiaries shall be in conjunction with the annual budget procedure to daily control the market risk related limits set by the Company.

● Risk management reports

With rapid changes in the capital market, other than subsidiaries' daily control of the limits, the financial holding company shall also daily compile the exposure status of the Company's trading book. In case of any irregularity, it shall immediately take required measures. In addition, the limit control status of the Company's market risk shall be reported to the deputy general manager of the financial holding company and the president every two weeks and to G. M and president every month, whereas the report shall be submitted to the Company's risk management committee and its board of directors every quarter.

A. Outline of the Company's 2014 trading book position risk

The Company adopts VaR (Value at Risk) as the instrument to measure the market risk of its trading book position.

B. VaR

VaR is used to figure out the maximum loss possibly occurring in a certain period of time (e.g. within one or ten days) in the future with a certain level of confidence (e.g. 99% or 95%) under the normal market status according to the observation of the historical data in the past period. Its function mainly applies to financial product's risk measurement and limit control. For instance, under a confidence level of 99%, if a subsidiary's one day VaR is \$30 million, it represents that, within 100 business days, a loss of more than \$30 million is likely to occur in a day, whereas the daily loss of the remaining 99 days is expected to be lower than \$30 million.

C. The methodology adopted by the Company for calculating the VaR and the parameters set up by the Company are as follows:

c.1 "Methodology": adopt the historical simulation method.

c.2 "Confidence level": adopt the 99% confidence level.

c.3 "Length of the holding period: estimation of the maximum loss which may occur in the coming day.

c.4 "Period of historical data": observation of the historical data of the past year (about 250 transaction days).

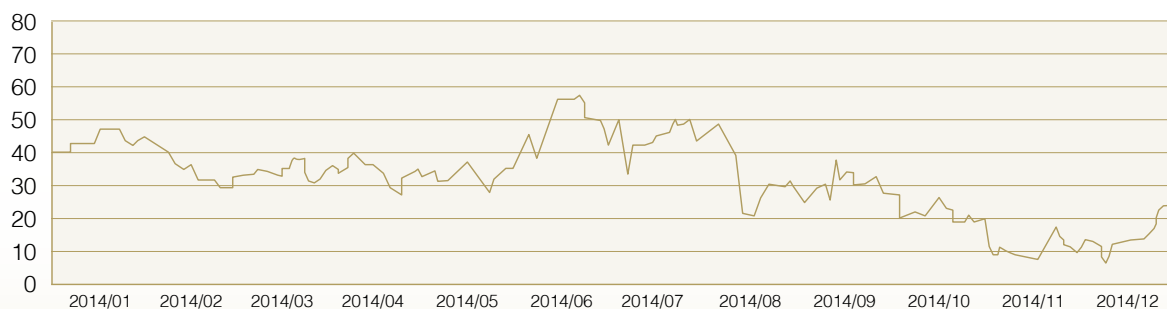
D. The trend of changes in the VaR of the Company's 2014 trading book position

For the Company's 2014 trading book position, the lowest VaR was \$7 million, the highest VaR was \$58 million and the average VaR was \$32 million.



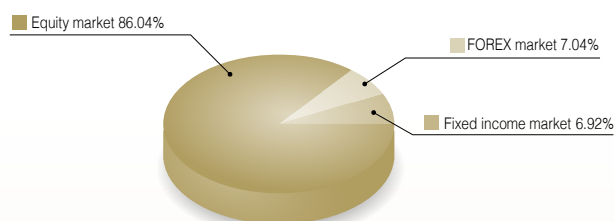
The VaR of the Company's trading book position at the end of 2014 was \$27 million, a decrease of \$10.96 million from the \$37.56 million in 2013.

(Unit: in millions of NT dollars)



#### E. Summary of the VaR of the Company's trading book position at the end of 2014

The VaR of the Company's trading book position at the end of 2014 was \$27 million, taking up 0.02% of the Company's net value at the end of 2014, which was within the Company's tolerable range. By classifying the risk factors, it is found that the risk is mostly concentrated in the equity products, for which the VaR accounts for 86.04% of the Company's VaR, as opposed to 7.04% from foreign exchange products and 6.92% from fixed income products.



#### F. Back testing

Back testing is the instrument to verify the VaR model. In order to strengthen accuracy and reliability of the VaR, the Company has routinely executed back testing.

#### ● Asset and liability management

Asset and liability management is based on the overall business planning, in which, within the tolerable exposure level, asset and liability deployment policies have continued to be drafted and executed, risks have been measured and monitored, strategies have been adjusted as required, and, through the adjustment of non-trading position's asset and liability structure deployment, the interest rate risk, liquidity risk and currency risk of on and off balance sheet's non-trading position have been controlled.

The Company has set up the company asset and liability management policies and precautions for respective related risks, periodically compiled each subsidiary's asset and liability management reports and submitted them to the Company's Risk Management Committee and Board of Directors.

According to its size, operating range and business characteristics, each subsidiary may plan their risk management structure and measurement instrument applicable to them, and set up related limits to monitor and manage asset and liability management related risk exposures.

#### A. Non-trading book interest rate risk

Non-trading book interest rate risk refers to the risk in impairment of the earnings of any of the Company members or the economic value of shareholders' equity caused by changes in market interest rates, in which the net interest income sensitivity and shareholders' equity economic value sensitivity are generally adopted as the measurement instruments.

#### a. Important control mechanisms

After considering the business characteristics of the company and its subsidiaries and the impact of the interest rate change on the balance sheet, currently, HNCB is the only member of the Company adopting the non-trading book interest rate risk management structure.

The instruments adopted by Hua Nan Bank for measuring non-trading book interest rate risk cover the interest rate re-pricing gap statement, net interest income sensitivity and shareholders' equity economic value sensitivity. They all have limits for the aforementioned measurement indicators and the risk is periodically monitored through the instruments. At the same time, the structure of the balance sheet can be adjusted through the mechanisms such as non-trading book investment portfolios, derivative financial products and the internal capital transfer pricing system, so as to effectively manage the exposure of Hua Nan Bank's non-trading book interest rate risk.

#### b. Risk management report

According to Hua Nan Bank's asset and liability structure at December 31, 2014 and assuming that no management is implemented in related hypotheses, the analysis of the change of the net interest income under the scenario where the interest rate is different in the year to come shows that, if the market interest rate slowly rises by 100 basis





points, the net interest income is estimated to increase by 11.9% compared with the situation where the interest rate remains unchanged. On the contrary, if the market interest slowly declines by 100 basis points, the net interest income is estimated to decrease by 12.2%.

Change in the market interest rate in the year to come	Change in the net interest income in the year to come (compared with the situation where the interest rate remains unchanged)
Slowly rise by 100 basis points	+11.9%
Slowly decline by 100 basis points	-12.2%

In terms of the shareholders' equity economic value, if the market interest rate slowly rises by 100 basis points, the shareholders' equity economic value is estimated to decrease by 4.69% compared with the situation where the interest rate remains unchanged. If, on the other hand, the market interest rate slowly declines by 100 basis points, the shareholders' equity economic value is estimated to increase by 4.93%.

Change in the market interest rate in the year to come	Change in shareholders' equity economic value (compared with the situation where the interest rate remains unchanged)
Slowly rise by 100 basis points	-4.69%
Slowly decline by 100 basis points	+4.93%

## B. Liquidity risk

Liquidity risk refers to the circumstance where a Company member fails in liquidating the due debt or has to suffer a grave loss before being able to acquire the capital for repayment, which results in the possible impairment risk for current or future earnings or shareholders' equity.

### a. Important control mechanisms

After taking into account the business characteristics of the company and its subsidiaries, currently, the liquidity risk management structure is applicable to HNFHC, HNCB, HNSC, SCIC, HNITVI and HNAME.

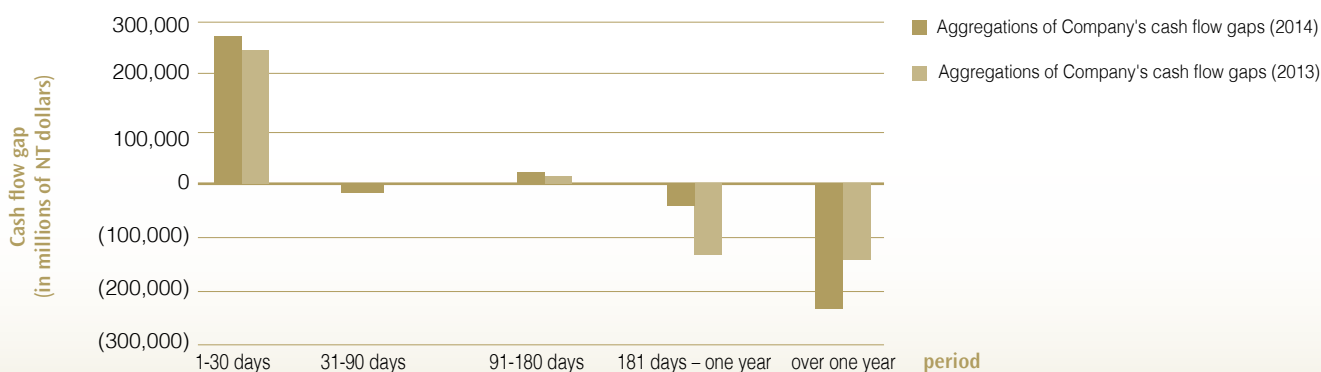
The instruments adopted by the company to measure liquidity risk include the balance sheet liquidity ratio, cash flow gap statement, cash source dispersion analysis, and the ratio of high liquidity assets to fund's net assets. Different measurement instruments have been adopted according to each subsidiary's business characteristics. Also, the limit has been set up for each measurement indicator and supervision and control have been periodically conducted.

According to the crisis scenario, the company has periodically conducted liquidity stress tests, analyzed the interval and accumulated cash flow gap, so as to come up with coping strategies and plan the optimal capital source.

## b. Risk management report

The Company's total cash flow gap of 1 – 30 days at December 31, 2014 was \$272,842 million, increasing \$21,689 million from \$251,153 million of the cash flow gap of 1 – 30 days at December 31, 2013.

Aggregations of Company's cash flow gaps



## C. Non-trading book currency risk

The Company adopts the effect of the currency unfavorable change of the non-trading foreign currency unclosed position to measure its non-trading book currency risk. By taking into account the business characteristics of the company and its subsidiaries, currently, the non-trading book currency risk management structure is applicable to HNCB, HNSC, and SCIC. Also, the limit has been set up for each measurement indicator and supervision and control have been periodically conducted. In case of any currency unfavorable change, the effect on the shareholders' equity of respective subsidiaries is all smaller than 0.5%. Hence, the non-trading book currency risk is not significant.

### ● Insurance risk management

For the risks in commodity design, pricing, underwriting, reinsurance, catastrophe and reserves involved in the property insurance business, the Company has set up the proper management mechanism, assisted its subsidiary, South China Insurance, in instituting its insurance risk management policies, defining the intact management procedure and monitoring as well as pre-warning mechanism for the underwriting risk, reserves risk and reinsurance risk, in the hope of controlling the insurance risk under the tolerable range and maximizing the return after risk adjustment.

#### A. Important control mechanisms

Approval of new insurance products: Prior to promoting any insurance products, subsidiaries shall prudently consider insurance products' features and targeting companys before properly planning the control procedures for each stage of the insurance product in question. On the other hand, the subsidiary's conduct and discipline unit shall help identify the faced risk, assess various risk control methods, and put forth the recommendations regarding



the control mechanism which will be used as the reference for the insurance product proposal. The proposal will be submitted to the Company's risk management committee for review. In so doing, profit and risk control can then be concurrently covered.

Limit management: In order to control the insurance risk under the tolerable range, and avoid excess impact on the Company's capital, the following risk management indicators have been set up, and the observation value under the 95% confidence level based on the experiences and data of respective indicators in the past years is used as the reference for setting up the pre-warning value.

- Set up the underwriting risk management indicator and control it.
- Set up the reserves risk management indicator and control it.
- Set up the retention loss limit for each risk unit in each type of insurance and reinsurance risk management indicators, and control them.

When the indicator reaches the pre-warning value standard, the involved units shall submit the action plan. On the other hand, for the case which does not reach the pre-warning value standard but shows irregularity as judged by the risk management unit, the involved units shall also submit the report.

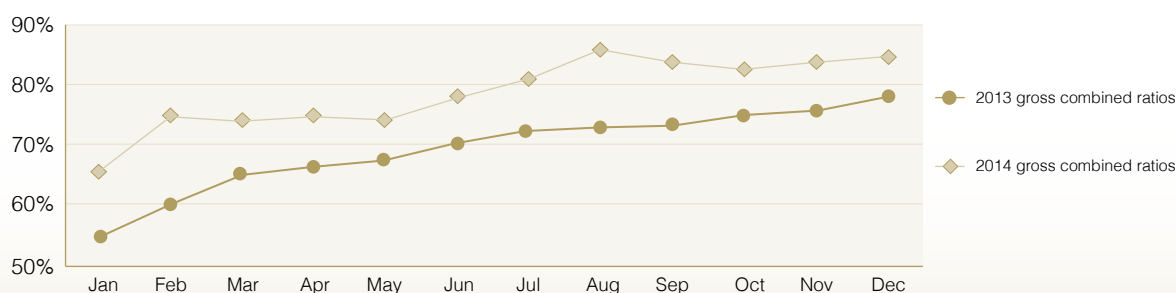
#### B. Insurance risk reports

Periodically submit the insurance risk management report to the Company's risk management committee and disclose the insurance risk outline and limit control status.

##### a. Underwriting risk management

Gross combined ratio is the aggregation of gross loss ratio and gross operating expense ratio, in which gross loss ratio is the ratio of gross claim amount to gross premium earned and it is mainly used to review the underwriting quality. On the other hand, the gross operating expense ratio is the ratio of the gross operating expense to the underwriting gross premium which is mainly used to review the business expense. Given that the company had larger claim cases in 2014, its gross combined ratio rose from 2013. Nevertheless, according to the continuous internal observation for the loss development, the loss is still within the tolerable range.

Trend of Gross Combined Ratios



Note: The calculation of the indicators in the above chart does not cover compulsory auto insurance, nuclear insurance and policy-oriented earthquake insurance.

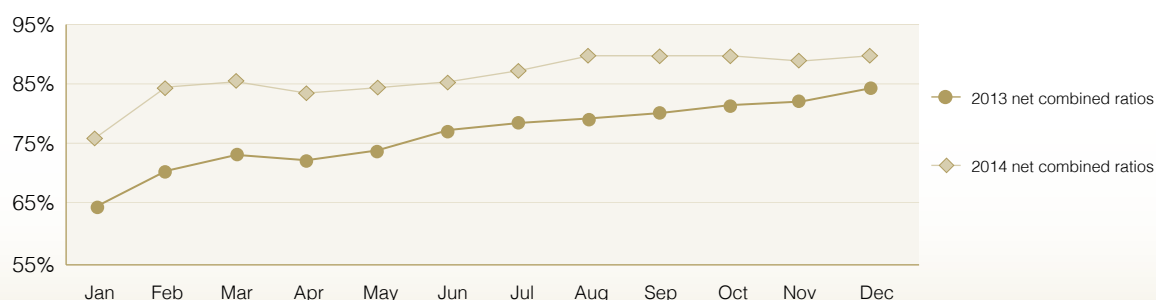
#### b. Re-insurance risk management

Net combined ratio is the aggregation of net loss ratio and net operating expense ratio, in which the net loss ratio is the ratio of the net claim to net premiums earned and it is mainly used to review the loss of retained policy after reinsurance is arranged. The net operating expense ratio is the ratio of net operating expense to the net premium which is mainly used to review the operating expense of the retained policy after reinsurance is arranged. Given that the company had larger claim cases in 2014, its net combined ratio rose from 2013. Nevertheless, according to the continuous internal observation for the loss development, the loss is still within the tolerable range.

#### c. Control of the retention loss limit for each risk unit

Set up the retention loss limit for each risk unit, control the maximum loss amount possibly caused by a singular accident, so as to avoid too much concentration on the risk of a singular accident. After inspection, it is found that the 2014 actual retained insurance amount of each risk unit all complied with the limit and was within the tolerable range.

Trend of Net Combined Ratios



Note: The calculation of the indicators in the above chart does not cover compulsory auto insurance, nuclear insurance and policy-oriented earthquake insurance.

#### ● Operational risk

Our company has company-wide operational risk management policy and relevant guidelines. The main purpose is to establish a consistent operational risk management framework and mechanism within the company. 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.

##### A. 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 property and casualty 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 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 company 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 company 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 company.

**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 company to meet the minimum basic requirements of internal control.

**e. KRI: Key Risk Indicator**

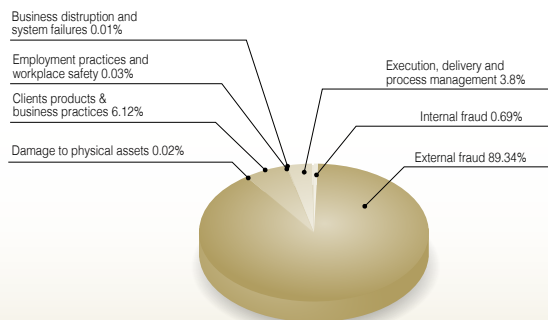
Key Risk Indicator performs the early warning purpose by detecting potential changes in the Company operational risk profile. This tool provides trend analyses and activates relevant actions to mitigate operational risks.

**B. Risk management report**

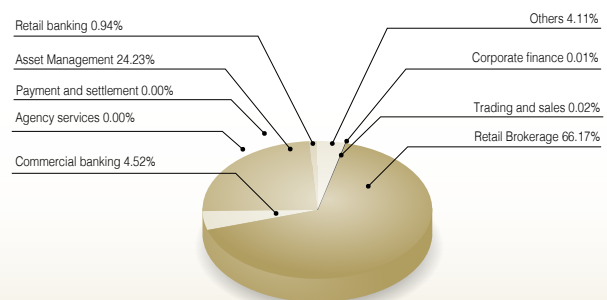
a. By executing operational risk management tools or mechanisms, any business unit finds vulnerability should perform a review and seek remedies and regularly report the improvements made. Our company regularly drafts reports on the results of the company implementation outcome of all operational risk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

b. The ratios of the Basel event categories and business categories classified according to the internal operational loss data collected by the Company are as follows:

**Loss ratios – by event category**



**Loss ratios – by business category**





# VIII | Financial Information

## HUA NAN FINANCIAL HOLDINGS CO., LTD. AND SUBSIDIARIES

### CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2014 AND 2013 (In Thousands of New Taiwan Dollar)

ASSETS	2014		2013	
	Amount	%	Amount	%
CASH AND CASH EQUIVALENTS	\$ 65,139,086	3	\$ 49,164,202	2
DUE FROM THE CENTRAL BANK AND OTHER BANKS	126,840,184	6	122,085,753	6
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS	53,560,052	2	44,612,847	2
AVAILABLE-FOR-SALE FINANCIAL ASSETS, NET	94,466,936	4	86,877,259	4
DERIVATIVE FINANCIAL ASSETS FOR HEDGING	4,191	-	6,132	-
SECURITIES PURCHASED UNDER AGREEMENTS TO RESELL	458,591	-	610,822	-
RECEIVABLES, NET	45,646,598	2	48,490,908	2
CURRENT TAX ASSETS	1,710,467	-	2,022,777	-
DISCOUNTS AND LOANS, NET	1,478,084,933	66	1,406,686,928	65
REINSURANCE CONTRACTS ASSETS, NET	2,822,021	-	2,563,184	-
HELD-TO-MATURITY FINANCIAL ASSETS, NET	267,054,720	12	310,957,337	15
INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD, NET	70,641	-	75,532	-
OTHER FINANCIAL ASSETS, NET	74,834,104	3	44,373,098	2
PROPERTY AND EQUIPMENT, NET	33,263,607	2	32,173,716	2
INVESTMENT PROPERTIES, NET	8,239,124	-	7,517,333	-
INTANGIBLE ASSETS, NET	372,480	-	403,916	-
DEFERRED TAX ASSETS	2,142,488	-	2,347,229	-
OTHER ASSETS, NET	5,240,659	-	3,759,598	-
<b>TOTAL</b>	<b>\$ 2,259,950,882</b>	<b>100</b>	<b>\$ 2,164,728,571</b>	<b>100</b>
<b>LIABILITIES AND EQUITY</b>				
DEPOSITS FROM THE CENTRAL BANK AND BANKS	\$ 100,435,752	4	\$ 131,875,899	6
FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS	22,934,698	1	20,794,876	1
DERIVATIVE FINANCIAL LIABILITIES FOR HEDGING	41,968	-	86,820	-
SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE	32,648,320	2	24,494,364	1
COMMERCIAL PAPER PAYABLE, NET	7,058,369	-	5,456,332	-
PAYABLES	34,973,240	2	29,717,876	2
CURRENT TAX LIABILITIES	1,369,891	-	2,194,257	-
DEPOSITS AND REMITTANCES	1,828,517,934	81	1,737,742,713	80
BONDS PAYABLE	47,343,318	2	41,541,653	2
OTHER BORROWINGS	1,557,000	-	938,000	-
PROVISIONS	16,483,857	1	15,560,087	1
OTHER FINANCIAL LIABILITIES	13,795,307	1	8,664,716	1
DEFERRED TAX LIABILITIES	6,118,592	-	6,101,863	-
OTHER LIABILITIES	2,728,859	-	3,898,365	-
Total liabilities	2,116,007,105	94	2,029,067,821	94
EQUITY ATTRIBUTABLE TO OWNER OF THE PARENT				
Share capital				
Ordinary shares	93,279,700	4	90,562,816	4
Capital surplus	17,758,986	1	17,758,986	1
Retained earnings				
Legal reserve	9,528,669	-	8,523,548	-
Special reserve	6,492,093	-	6,492,093	-
Unappropriated earnings	17,263,153	1	14,467,312	1
Total retained earnings	33,283,915	1	29,482,953	1
Other equity				
Exchange differences on translating foreign operations	863,958	-	( 20,632)	-
Unrealized losses on available-for-sale financial assets	( 1,244,286)	-	( 2,124,839)	-
Total other equity	( 380,328)	-	( 2,145,471)	-
Total equity attributable to owner of the parent	143,942,273	6	135,659,284	6
NON-CONTROLLING INTERESTS	1,504	-	1,466	-
Total equity	143,943,777	6	135,660,750	6
<b>TOTAL</b>	<b>\$ 2,259,950,882</b>	<b>100</b>	<b>\$ 2,164,728,571</b>	<b>100</b>



**HUA NAN FINANCIAL HOLDINGS CO., LTD. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

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

					Percentage Increase (Decrease) %
	2014		2013		
	Amount	%	Amount	%	
INTEREST REVENUE	\$ 39,285,697	101	\$ 35,315,843	99	11
INTEREST EXPENSE	<u>13,762,267</u>	<u>35</u>	<u>12,083,476</u>	<u>34</u>	14
NET INTEREST	<u>25,523,430</u>	<u>66</u>	<u>23,232,367</u>	<u>65</u>	10
NET REVENUES OTHER THAN INTEREST					
Commission and fee revenues, net	7,509,973	19	6,353,628	18	18
Income from insurance premiums, net	2,301,440	6	2,194,319	6	5
Gain on financial assets and liabilities at fair value through profit or loss	4,155,467	11	3,253,055	9	28
Gain on investment properties, net	274,055	1	272,050	1	1
Realized gain on available-for-sale financial assets	675,753	2	760,329	2	( 11)
Foreign exchange loss, net	( 2,123,600)	( 6)	( 1,183,886)	( 3)	79
Impairment loss on assets	( 89,412)	-	( 106,315)	-	( 16)
Share of loss of associate	( 4,891)	-	( 5,518)	-	( 11)
Other noninterest net revenues	<u>594,823</u>	<u>1</u>	<u>752,050</u>	<u>2</u>	( 21)
Total net revenues other than interest	<u>13,293,608</u>	<u>34</u>	<u>12,289,712</u>	<u>35</u>	8
TOTAL NET REVENUES	<u>38,817,038</u>	<u>100</u>	<u>35,522,079</u>	<u>100</u>	9
ALLOWANCE FOR DOUBTFUL ACCOUNTS AND GUARANTEES	( <u>1,639,955</u> )	( <u>4</u> )	( <u>3,874,858</u> )	( <u>11</u> )	( 58)
CHANGE IN PROVISIONS FOR INSURANCE LIABILITIES, NET	( <u>307,088</u> )	( <u>1</u> )	( <u>117,470</u> )	( <u>1</u> )	161
OPERATING EXPENSES					
Employee benefits	( 13,952,098)	( 36)	( 12,958,111)	( 36)	8
Depreciation and amortization	( 923,416)	( 2)	( 932,919)	( 3)	( 1)
Others	( <u>6,445,916</u> )	( <u>17</u> )	( <u>5,753,584</u> )	( <u>16</u> )	12
Total operating expenses	( <u>21,321,430</u> )	( <u>55</u> )	( <u>19,644,614</u> )	( <u>55</u> )	9

## HUA NAN FINANCIAL HOLDINGS CO., LTD. AND SUBSIDIARIES

### CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

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

	2014		2013		Percentage Increase (Decrease) %
	Amount	%	Amount	%	
NET PROFIT BEFORE INCOME TAX	15,548,565	40	11,885,137	33	31
INCOME TAX EXPENSE	( 2,417,544)	( 6)	( 1,833,875)	( 5)	32
NET PROFIT FOR THE YEAR	<u>13,131,021</u>	<u>34</u>	<u>10,051,262</u>	<u>28</u>	31
OTHER COMPREHENSIVE INCOME					
Exchange differences on translating foreign operations	884,590	3	209,774	1	322
Unrealized gain on available-for-sale financial assets	882,281	2	1,694	-	51,983
Actuarial (loss) gain arising from defined benefit plans	( 330,015)	( 1)	119,352	-	( 377)
Income tax relating to the components of other comprehensive income	<u>54,585</u>	<u>-</u>	<u>( 21,290)</u>	<u>-</u>	356
Other comprehensive income for the year	<u>1,491,441</u>	<u>4</u>	<u>309,530</u>	<u>1</u>	382
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>\$ 14,622,462</u>	<u>38</u>	<u>\$ 10,360,792</u>	<u>29</u>	41
NET PROFIT ATTRIBUTABLE TO:					
Owner of the parent	\$ 13,130,945	34	\$ 10,051,213	28	31
Non-controlling interests	<u>76</u>	<u>-</u>	<u>49</u>	<u>-</u>	55
	<u>\$ 13,131,021</u>	<u>34</u>	<u>\$ 10,051,262</u>	<u>28</u>	31
COMPREHENSIVE INCOME ATTRIBUTABLE TO:					
Owner of the parent	\$ 14,622,386	38	\$ 10,360,743	29	41
Non-controlling interests	<u>76</u>	<u>-</u>	<u>49</u>	<u>-</u>	55
	<u>\$ 14,622,462</u>	<u>38</u>	<u>\$ 10,360,792</u>	<u>29</u>	41
EARNINGS PER SHARE					
Basic and diluted	<u>\$ 1.41</u>		<u>\$ 1.08</u>		



## HUA NAN FINANCIAL HOLDINGS CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY  
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

(In Thousands of New Taiwan Dollars)

	Capital Stock	Capital Surplus				
		Share Premium	Treasury Stock	Donated Assets Received	Others	Total
BALANCE AT JANUARY 1, 2013	\$ 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 equity method	-	( 7)	-	-	-	( 7)
BALANCE AT DECEMBER 31, 2013	90,562,816	17,702,376	52,349	2,936	1,325	17,758,986
Appropriation of 2013 earnings (Note)						
Legal reserve	-	-	-	-	-	-
Cash dividends	-	-	-	-	-	-
Share dividends	2,716,884	-	-	-	-	-
Net profit for the year ended December 31, 2014	-	-	-	-	-	-
Other comprehensive (loss) income for the year ended December 31, 2014	-	-	-	-	-	-
Total comprehensive income for the year ended December 31, 2014	-	-	-	-	-	-
BALANCE AT DECEMBER 31, 2014	<u>\$ 93,279,700</u>	<u>\$ 17,702,376</u>	<u>\$ 52,349</u>	<u>\$ 2,936</u>	<u>\$ 1,325</u>	<u>\$ 17,758,986</u>

Note: The remuneration to directors and supervisors amounting to \$90,461 and \$79,839 and employees bonus amounting to \$7,382 and \$6,387 had been charged against earnings of 2013 and 2012, respectively.

Retained Earnings				Exchange Differences on Translating Foreign Operations	Unrealized (Loss) Gain on Available-for-sale Financial Assets	Non-controlling Interests	Total Equity
Legal Reserve	Special Reserve	Unappropriated Earnings	Total				
\$ 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	-
8,523,548	6,492,093	14,467,312	29,482,953	( 20,632)	( 2,124,839)	1,466	135,660,750
1,005,121	-	( 1,005,121)	-	-	-	-	-
-	-	( 6,339,397)	( 6,339,397)	-	-	( 38)	( 6,339,435)
-	-	( 2,716,884)	( 2,716,884)	-	-	-	-
-	-	13,130,945	13,130,945	-	-	76	13,131,021
-	-	( 273,702)	( 273,702)	884,590	880,553	-	1,491,441
-	-	12,857,243	12,857,243	884,590	880,553	76	14,622,462
<u>\$ 9,528,669</u>	<u>\$ 6,492,093</u>	<u>\$ 17,263,153</u>	<u>\$ 33,283,915</u>	<u>\$ 863,958</u>	<u>(\$ 1,244,286)</u>	<u>\$ 1,504</u>	<u>\$ 143,943,777</u>





## HUA NAN FINANCIAL HOLDINGS CO., LTD. AND SUBSIDIARIES

**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**  
(In Thousands of New Taiwan Dollars)

	2014	2013
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net profit before income tax	\$ 15,548,565	\$ 11,885,137
Adjustments for:		
Depreciation expenses	744,617	751,623
Amortization expenses	185,319	193,787
Allowance for doubtful accounts and guarantees	1,639,955	3,874,858
Interest expense	15,780,313	13,629,346
Interest revenue	( 40,632,213)	( 36,650,093)
Dividend income	( 231,807)	( 158,079)
Change in provisions for insurance liabilities, net	307,088	117,470
Share of loss of associate	4,891	5,518
(Gain) loss on disposal of property and equipment	( 881)	1,888
Gain on disposal of investment properties	( 63,566)	( 58,569)
Loss (gain) on disposal of other assets	1,328	( 81,059)
Impairment loss on financial assets	88,769	97,745
Impairment loss on non-financial assets	643	8,570
Gain on disposal of collaterals assumed	( 3,052)	( 20,305)
Changes in operating assets and liabilities		
Decrease in due from the Central Bank and other banks	7,740,493	1,842,338
Increase in financial assets at fair value through profit or loss	( 8,947,205)	( 2,368,498)
Increase in available-for-sale financial assets	( 6,690,470)	( 16,057,652)
Decrease (increase) in derivative financial assets for hedging	1,941	( 6,132)
Decrease in receivables	2,162,157	4,769,361
Increase in discounts and loans	( 72,723,661)	( 36,231,364)
Increase in assets under reinsurance contracts	( 31,560)	( 99,462)
Decrease (increase) in held-to-maturity financial assets	43,906,940	( 27,767,454)
Increase in other financial assets	( 30,577,414)	( 11,802,431)
(Decrease) increase in deposits from the Central Bank and banks	( 31,440,147)	42,076,483
Increase (decrease) in financial liabilities at fair value through profit or loss	2,139,822	( 2,523,990)
Decrease in derivative financial liabilities for hedging	( 44,852)	( 26,474)
Increase (decrease) in securities sold under agreements to repurchase	8,153,956	( 1,815,701)
Increase (decrease) in payables	5,521,176	( 14,258,044)
Increase in deposits and remittances	90,775,221	73,768,386
Decrease in provisions	( 600,494)	( 434,857)
Increase (decrease) in other financial liabilities	5,130,591	( 3,185,565)
Decrease in other liabilities	( 1,080,385)	( 265,480)
Cash generated from operations	6,766,078	( 788,699)
Interest received	40,252,203	36,597,476
Dividend received	231,807	158,079
Interest paid	( 15,404,175)	( 13,905,297)
Income tax paid	( 1,873,333)	( 1,230,346)
Net cash provided by operating activities	29,972,580	20,831,213
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisition of property and equipment	( 1,929,571)	( 1,147,305)
Proceeds from disposal of property and equipment	1,329	2,452
Acquisition of intangible assets	( 116,623)	( 57,345)
Proceeds from disposal of collaterals assumed	45,035	53,371
Acquisition of collaterals assumed	( 33,560)	( 7,484)
Acquisition of investment properties	( 473,531)	( 33,166)
Proceeds from disposal of investments properties	290,464	203,855
Increase in other assets	( 2,021,907)	( 333,104)
Net cash used in investing activities	( 4,238,364)	( 1,318,726)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Increase (decrease) in short-term borrowings	619,000	( 795,000)
Increase (decrease) in commercial paper payables	1,602,037	( 509,533)
Corporate bonds issued	-	9,891,653
Repayment of corporate bonds on maturity	-	( 4,700,000)
Bank debentures issued	15,000,000	-
Repayment of bank debentures on maturity	( 9,200,000)	-
Repayment of long-term borrowings on maturity	-	( 7,000,000)
Cash dividends	( 6,321,174)	( 4,336,602)
Net cash provided by (used in) financing activities	1,699,863	( 7,449,482)
EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES	883,498	193,446
NET INCREASE IN CASH AND CASH EQUIVALENTS	28,317,577	12,256,451
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	102,344,768	90,088,317
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	\$ 130,662,345	\$ 102,344,768
Reconciliation of the amounts in the consolidated statements of cash flows with the equivalent items reported in the consolidated balance sheets at December 31, 2014 and 2013:		
Cash and cash equivalents in consolidated balance sheets	\$ 65,139,086	\$ 49,164,202
Due from the Central Bank and other banks that meet the definition of cash and cash equivalents in IAS 7	65,064,668	52,569,744
Securities purchased under agreements to resell that meet the definition of cash and cash equivalents in IAS 7	458,591	610,822
Cash and cash equivalents in consolidated statements of cash flows	\$ 130,662,345	\$ 102,344,768



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