

 HUA NAN FINANCIAL HOLDINGS CO., LTD.

2016

ANNUAL REPORT



HUA NAN FINANCIAL HOLDINGS CO.,LTD.

105

2016 Annual Report

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
Name of Deputy Spokesperson: James, H.J. Liu
Title: Executive Vice President
Tel No.: (886-2-2371-3111 Ext. 1865
E-Mail: public@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 Financial Reports

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: <http://www.deloitte.com.tw>

5. Name of Overseas Listing Securities Exchange Office & the way to inquire: 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. 6316/6317
E-Mail: ir@hnfhc.com.tw



CØNTENTS

003 I | *Letter to The Shareholders*

013 II | *Company Profile*

015 III | *Corporate Governance*

024 IV | *Capital Overview*

032 V | *Corporate Social Responsibility*

040 VI | *The Company's Businesses*

068 VII | *Risk Management Summary*

079 VIII | *Financial Information*

2016

ANNUAL REPORT

- *H*onesty
- *E*fficiency
- *A*ctiveness
- *R*esponsibility
- *T*eamwork



I Letter to the Shareholders

CHAIRMAN

Wu, Tang-chieh



1. The Group's Business Results for 2016

(1) Domestic and Foreign Financial Environments for 2016

In 2016, there was financial market turmoil due to Britain's Brexit referendum, the US presidential election, expectations of Fed interest rate hike, etc. As a result, global trades and investments have been sluggish. However, the market began to gain strength during the second half of 2016. The global economic growth rate was estimated at between 2.5% and 3.1%, which has set a record low in recent years. It appears difficult for the economy to transcend this new mediocre predicament in the short term. Preliminary statistics provided by the Directorate-General of Budget, Accounting, and Statistics, Executive Yuan, R.O.C. (Taiwan) indicated that the economic growth rate was 1.50% for 2016, which grew by 0.78 percentage points compared to 0.72% in 2015. The weak export momentum in Taiwan was primarily caused by a poor global economy and the effects of China's exclusion effect due to the policy of improving its own supply chain autonomy.

However, thanks to the improving semiconductor market conditions, price rebound for international agricultural raw material prices, cargo tax reduction measures that have driven the automobile market and energized private consumption, and the semiconductor industry's responses in expanding high-level production capacity to satisfy the emerging demands, the economic performance has benefited from these good news.

(2) Changes to the Company Organizational

Since Hua Nan Financial Holdings Co., Ltd (hereafter "the Company" or "HNFHC") establishment on December 19, 2001, the Company has operated financial services with a foothold in various professional fields of banking, securities, insurance, investment trusts, asset management, and venture capital. In order to reduce operating costs and effectively enhance business performance, Hua Nan Venture Capital Co., Ltd. formally merged with Hua Nan Management Consulting on December 25, 2013. As of the end of 2016, the Company exercises 100% ownership over of all its six subsidiaries.



VICE CHAIRMAN

my ch z

(3) Business Plan and Results of business strategies

The financial sector was affected by the devaluation of Renminbi (RMB), corporate bad debts, and TRF business increases, which caused Taiwan's stock trading volume to continue to shrink. Natural disasters have also led to major claims and other unfavorable factors that caused profits to drop. In 2016, the Group's operating strategy comprised continual promotion of the Six Major Business Developing Strategies. These strategies are (1) diversified revenue sources, (2) balanced Group profit contribution, (3) expand the overseas operation, (4) providing innovation for financial products and services, (5) strengthen management constitution, and (6) good corporate social responsibility as well as emphasizing the "Rule of Law, Risk Management, Cultivation of Talent, and Technology Implementation" orientations in order to strengthen the operating constitution. Net profit for 2016 was NT\$14.087 billion, with earnings per share of NT\$1.34 and a return on equity of 9.03%. Profits were stable and comparable to those of 2015. The momentum of growth was primarily based on Hua Nan Bank, and the main results are detailed as follows:

1. Strengthen Operating Constitution

- (1) Asset quality: As of the end of 2016, Hua Nan Bank's Non-Performing Loan and Loan Loss Coverage ratios were 0.27% and 431.55%, respectively, and the Bank has continued to maintain good asset quality.
- (2) Capital adequacy ratio: The Group's capital adequacy ratio as of the end of 2016 was 125.63%. Hua Nan Bank's capital adequacy ratio for the same period was 12.83% with a Tier 1 capital adequacy ratio of 9.78% and a common equity ratio of 9.63%, which are in full compliance of the provisions of the law.
- (3) Corporate governance:
 - A. Corporate governance implementation: Listed as a top 5% company among all of the listed companies in the Second Corporate Governance Evaluation issued by the Taiwan Stock Exchange and selected by the "Corporate Governance 100 Index Constituent Stocks."
 - B. Strengthen the effectiveness of the Board of Directors: The Company's Board of Directors Performance Evaluation Guideline was

A portrait of President Yun-Peng Chang, a middle-aged man with short dark hair, wearing a dark blue pinstriped suit, a white shirt, and a light blue tie. He is standing with his hands clasped in front of him. The background is a light beige wall with a large, abstract, golden-colored graphic that resembles a globe or a network of lines. The word "PRESIDENT" is written in a small, black, sans-serif font above his signature.

PRESIDENT

Yun-Peng Chang

established in December 2016 to further strengthen the operational efficiency of the Board of Directors.

- C. Promoted the integrity operating culture for the Group, conducted corporate briefings, implemented legal compliance systems and risk control mechanisms, and strengthened information system security.

2. Strengthened Cross-Selling

- (1) Cross-Selling efficiency for the Group: In 2016, Cross-Selling accounted for 27.77%, and contributed up to NT\$958 million of total income.
- (2) Strengthened Group customer quality and scale: We have required the implementation of a group customer relationship management mechanism. In 2016, the scale of the number of natural person clients, total assets, total contribution levels, and high-value customers grew by 2.8%, 3.9%, 5.0%, and 5.2% respectively when compared to those of 2015. The total assets of corporate clients and total contribution levels have grown by 9.1% and 8.0% respectively. Group customer quality is developing in a positive direction.

- (3) Continued to promote the Huadelai point exchange platform: As of the end of 2016, this platform has a total of 226,755 members with a cumulative number of 53,679 exchanges and a total exchange amount of approximately NT\$1,811,500 (the number of members have grown eight times over, the number of exchanges have grown 16 times over, and the total exchange amount has grown by 43.8% compared to those as of the end of 2015).

- (4) Constructed the group employee sales integrated platform: Constructed the Business Lead Delivery and Management Platform between the subsidiaries of the Group to maximize efficiency by using digital processes to rapidly respond to customer needs. In 2016, the platform delivered a total of approximately 25,000 cross-selling cases. This has effectively enhanced the Group's referral and cross-selling momentum.

3. Expand the Overseas Operation

- (1) Hua Nan Bank acquired permission from the Bangko Sentral ng Pilipinas (Central Bank of the Philippines) in September 2016 to establish a Manila branch, which is expected to open by the end of the second quarter in 2017.



- (2) Hua Nan Bank acquired permission from the Central Bank of Myanmar in November 2016 to establish a Yangon Representative office, which is expected to be completed by the end of the second quarter in 2017.
- (3) In 2016, the Bank's OBU and overseas branches contributed a pre-tax profit of NT\$6.107 billion, which generated for 39.19% of the pre-tax surplus for 2016. Compared to the pre-tax profit in 2015, it grew by NT\$2.027 billion, or 49.68%.
- (4) In collaboration with the Government's New Southward Policy, we will pay close attention to the development trends of the new ASEAN emerging countries and carefully assess branch organization, merger, and equity participation feasibility.

4. Promote Digital Finance

- (1) Digital channels: We provide tailor-made financial products and services for younger clients. Hua Nan Bank is the first in the nation to initiate the "Digital Deposit Account" and "Mobile Finance Card" services, the first to launch the "Bound Mobile Device-Accompanying Bodyguard" for the mobile banking, and the first bank to complete the bank3.0 online application services authorized by the Financial Supervisory Commission.
- (2) Physical channels: We launched card-free ATM services on June 22, 2016. In addition, we successively activated smart branches, National Taiwan University, Zouying, Taishan, and Business Center Branch, in order to incorporate digital financial services such as online booking services, interactive teller machines (ITM), payment teller machines (PTM), iBeacon client identification, and interactive digital signage "QuickSnap" services to enhance the experiences of branch clients.
- (3) The first pan-government shareholding business to obtain financial technology (FinTech) patents: Hua Nan Bank obtained 5 new patents approved by the Intellectual Property Office, MOEA in 2016.
- (4) Organized the FinTech Events: We visited campuses in order to gain more opportunities to communicate with young students and understand their innovative ideas for FinTech. We also shared the industry's FinTech promotion related experiences throughout the interactions

between the parties so that young people may understand the practices and integrate theory with actual practice.

5. Corporate Social Responsibilities

- (1) Care for disadvantaged groups: In the spirit of contributing to the society, this Group has led its volunteers to participate in social welfare activities, and held the "Excellent Hua Nan Care for the Elderly" elderly care events in Changhua, Kaohsiung, Nantou, and Yilan areas. The Group has also made donations to Tainan City after the 0206 earthquake disaster, and we assisted in the post-disaster reconstruction for Taitung County after Typhoon Nepartak.
- (2) Support domestic grassroots baseball: To support domestic baseball development and strengthen the youth baseball cultivation program, this Group sponsored the "2016 Hua Nan Financial Holding Cup National Youth Baseball Tournament", the "2016 LLB Junior League Baseball Asia-Pacific Regional Tournament", and the "Hua Nan Financial Holding Taiwan/Japan Legendary Star Charity Show Tournament" to enhance the brand image. The Group has also won the "Sports Activists Award" gold medal for sponsorship and the long-term sponsorship award honors from the Sports Administration, Ministry of Education.
- (3) Support sports, academic, and arts activities: The Group has planned and sponsored 36 sports, academic, and arts activities, which include the 2016 Financial Technology Innovation Trend Forum, the 2016 Hua Nan Financial Group Badminton and Ping-Pong Tournaments, the Third Cross-strait Free Trade Forum, the Ministry of Finance 2016 Unified Invoice Cup Marathon Event (in Taipei), and the Financial Technology Big Data Forum.
- (4) Publish the 2015 Corporate Social Responsibility Report: The Company completed and issued the Corporate Social Responsibility Report in 2016 with the independent and limited assurance provided by PwC Taiwan. The company also actively disclosed its promotional results and fully communicated with the outside world, thereby continuing to strengthen its commitments to the interested parties.

(5) Care for environmental development sustainability:

In 2016, the Company successfully completed the incorporation of the ISO 14001 Environmental Management System and ISO 14064 Greenhouse Gas Accounting and Verification in its efforts to improve the ecological environment. It also obtained the BSI certification.

(4) Budget Implementation, Financial income, and Profitability Analysis

In 2016, the consolidated net profit of the Company and our subsidiaries was NT\$14.087 billion with net profit of NT\$1.34 per share. The consolidated return on assets(ROA) was 0.58% with the consolidated return on equity(ROE) of 9.03%. The profitability of other subsidiaries is described as follows:

1. Hua Nan Commercial Bank(HNCB)

In 2016, net profit was NT\$13.653 billion, providing the net profit of NT\$1.90 per share, the return on assets was 0.57%, and the return on equity was 8.61%.

2. Hua Nan Securities(HNSC)

In 2016, net profit was NT\$249 million, providing the net profit of NT\$0.31 per share, the return on assets was 0.81%, and the return on equity was 2.16%.

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

In 2016, net profit was NT\$601 million, providing the net profit of NT\$3.00 per share, the return on assets was 3.57%, and the return on equity was 13.99%.

4. Hua Nan Investment Trust(HNIT)

In 2016, net profit was NT\$29 million, providing the net profit of NT\$0.93 per share, the return on assets was 3.31%, and the return on equity was 6.10%.

5. Hua Nan Venture Capital(HNVC)

In 2016, net profit was NT\$10 million, providing the net profit of NT\$0.05 per share, the return on assets was 0.58%, and the return on equity was 0.59%.

6. Hua Nan Assets Management Company(HNAMC)

In 2016, net profit was NT\$50 million, providing the net profit of NT\$0.50 per share, the return on assets was 2.09%, and the return on equity was 4.63 %.

(5) Research and Development

1. Hua Nan Financial Holdings

The Company continued to use the "Analytical CRM System" and established the models of "Customer Purchase propensities", "Fund Customer Win-back ", and

"High-value Customer Asset Plummet". Those models also assisted the subsidiaries in enhancing product sales, customer maintenance effectiveness and implemented the group customer relationship management mechanism in order to strengthen the adhesion between customers and the Groups, strengthen the customer structure, and thereby improve the group profit.

Our Company uses technological means to make financial services more efficient in response to the trend of the digital era in order to reduce operating costs, plan to collect the multi-orientation information of the customers, and use internal and external resource integration supplemented by the Big Data analysis technology to accurately analyze the dynamic needs of different customers in order to provide the most immediate and appropriate financial products and services to customers, accelerate the expansion the number of digital customers accounts, and maintain existing customers and enhance their willingness to conduct transactions.

2. Hua Nan Bank

For research and development, our Bank has continued to encourage our employees to actively engage in R&D work. In 2016, a total of 279 individual employee R&D cases were proposed, and 54 cases were adopted.

3. Hua Nan Securities

(1) Build excellent mobile trading systems: The construction of diversified E-services such as the exclusive strategy stock selection function, trading warfare push notification, and research reports. Developed the wealth management and recommission system mobile trading system and the 24-hour online wealth management service.

(2) Provide the best service experiences: Optimized the architecture of the official website to satisfy the multi-carrier application demands. Implemented financial digitalization services and strengthened the online service functions. Upgraded the customer services system and expanded the digitalized services to achieve diversified services and improve customer service efficiency.

(3) Implement the financial holdings digital financial environment 3.0 policy: Established the digital marketing team, took advantage of the financial



holding Big Data systems and environmental analysis tools, established accurate images of customers, and practically promoted the Group's digital financial policy promotion. Strengthened social media operations and continued to communicate with digital customers using mainstream community media platforms such as Facebook, Line@, and the YouTube video platform.

- (4) Implement the competent authority openness policy: Provided unlimited money borrowing, securities firm entrusted fixed time and amount securities trading, and digital central depository book assignment to provide diversified services to customers.
- (5) Provided R&D for emerging stock trades, convertible corporate bond assets exchange transactions, interest rate SWAP transactions, foreign re-entrusted businesses, domestic issuance (subscription) of warrants, index and stock option futures, interest rate futures, gold futures, asset secularization, and other types of new businesses. We also provided the structural financial derivatives in collaboration with administrative policies and decrees and strengthened investments in the banking business, financial engineering, and risk control talent cultivation and recruitment.
- (6) Carried out the following relevant information technology systems planning:
 - (a) In conjunction with the planning blueprint of the financial holdings and digital financial environment 3.0 to proceed with the configuration of Bank 3.0 related systems.
 - (b) In conjunction with the digital financial promotional panel 3.0 project undertaken by HNFHC's marketing department to establish a big data platform and assess the feasibility to introduce the business intelligence (BI) platform.
 - (c) Set up an e-transaction platform with the mobile device to provide customers with consistent services and attain the goal for cross carrier document signature.
 - (d) Systems that work with financial holding channels and establishment of integrated projects.

(e) Planned establishment of a web-based overseas sub-brokerage and transaction platform: A system that allows users to purchase 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.

- (f) Planned expansions for the service management system: Includes planning for customer relationship management, regional supervision system, management system, and decision-making support management system.
 - (g) 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.
 - (h) Corporate employee sales integration platform has been activated and operational since February 2015. Multiple personnel training has been carried out. Corporate sales (cross-selling) bonus systems are also in place in order to encourage employees to carry out joint marketing using this platform and improve joint performance.
- (7) 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.
 - (8) The Hua Nan Investment Consultant subsidiary has conducted in-depth research on the fundamental, technical, and capital aspects of global financial, as well as overall domestic

and international economy, industrial status, and individual company information in order to master investment trends and avoid high risk sectors. In addition to regularly issuing the relevant investment publications and investment seminars, the Consultancy also provided holdings group with the basis and references for investment consultation and credit management.

- (9) After China Pilot Free Trade Zones in Shanghai, Guangdong, Tianjin, and Fujian established, the State Council of the People's Republic of China decided to add 7 more Pilot Free Trade Zones in Liaoning, Zhejiang, Henan, Hubei, Chongqing, Sichuan, and Shaanxi provinces. Our Company will continue to track the relevant financial securities legal conditions for the free trade zones in China.
- (10) Promoted trust-based wealth management businesses, introduced insurance related financial products, provided customers with a variety of product options, and propose the promotion of products priced in RMB.
- (11) Promoted services in offshore securities units (OSU). We will recruit professionals to promote the relevant businesses and increase our niche market.

4. South China Insurance Co., Ltd.

In response to the business channels and consumer demand for diversification, South China Insurance Co., Ltd. has continued to focus on the R&D of new products and innovative portfolios for new marketing projects. In 2016, a total of 188 new products were developed and a total of 108 such products are being marketed in order to meet business development needs and provide a full range of professional services. South China Insurance Co., Ltd. has had a long-term commitment to product innovation, and won the "Faith, Hope & Love Awards of Insurance" for several consecutive years in the "Best Insurance Professionalism" and "Best Insurance Product Innovation" categories, winning the support and trust from all sectors of the society.

Integration, precision, and transparency are the DNA of the core values of our risk management culture. We have also used the audit, legal compliance and discipline, and risk management unit collaboration platform to promote the specific risk management mechanisms to enhance the corporate governance and risk management effect.

Sound operation is the highest business guiding principle for South China Insurance Co., Ltd., which received the ratings of "financial strength: A (excellent), issuance credit a, rating outlook is stable" from the A.M. Best Credit Rating Company. This indicates that South China Insurance Co., Ltd. has strong capital, good underwriting performances, diversified sales channels, and stable investment incomes. In addition, South China Insurance Co., Ltd.'s strong business and financial risk structures, adequate risk management, good implementation strategy capacity, ample liquidity assets, and stable cash flow is recognized by the credit rating of "twAA, stable outlook rating" issued by Taiwan Ratings.

Under our joint efforts, we were able to achieve steady growth in business performances in 2016. The goals of 2017 shall be to focus on both "Quality and Quantity and gain Top 5 continually to create the New Era of Globalization." Our utmost business strategy is to improve operating efficiency. We will continue to provide business innovations and changes in order to offer comprehensive services to customers. We will also continue to expand the information hardware equipment and enhance the information integration management benefits, the overseas expansion, fulfill our corporate social responsibilities, and work together to achieve even better performance.

5. Hua Nan Investment Trust

In 2016, the overall size of the investment fund was approximately NT\$2.12 trillion, which decreased by approximately NT\$80.2 billion or 3.64% compared to that of 2015. The Company's public fund raising scale was approximately NT\$40.955 billion at the end of 2016, which decreased by approximately NT\$1 billion compared to that of 2015. The Company ranked in 18th place in the market, which remains unchanged compared to that of 2015.

Statistics on the overall performances of the funds in the various categories and scales in the market indicated that the domestic currency market funds experienced the greatest reduction in 2016 with the annual reduction of up to NT\$145.183 billion. This primarily reflected the interest rate policy of the U.S. Federal Reserve and the continued growth of the global financial climate. The market funds are moving towards risky assets followed by the reduction of numerous types of domestic equity funds, which



reduced by NT\$29.39 billion in 2016 and showed a reduction in size for five consecutive years. The best selling funds products with the greatest scale increases are overseas ETF, domestic ETV, and transnational balanced funds, which increased by NT\$29.532 billion, NT\$28.479 billion, and NT\$17.45 billion respectively.

6. Hua Nan Venture Capital

We manage to master the industrial development trends by participating in industry seminars and the relevant training courses. Strengthened the investment case assessment and enhanced the professionalism of post-investment management. We also assisted in cross-investment business operations, financial planning, established strategic alliances and partnerships to ensure smooth market listing and profitability.

7. Hua Nan Assets Management Company

Hua Nan Assets Management has already established a diversified business model. In addition to acquiring the management and disposal of non-performing loans, we have also accepted commissions from financial institutions and enterprises to handle bad debt and assets. We also directly invested in court-auctioned real estate. We are the first amongst our peers to initiate the new "Court-auction Bidding Agency Business" in June 2016. The objective is to flexibly adjust the business strategies and human resources based on market changes to avoid the depletion of business sources and prevent the risk of business over-concentration. In addition, HNAMC is actively engaging in the "Tucheng Industrial Zone Minquan Street Urban Renewal Operation Project" in an effort to enhance asset value and accumulate the professionalism and experiences of urban renewal practitioners.



Vice President Hsin-Tien Ting, Vice President David Y. C. Cheng, Vice Chairman Ming-Cheng Lin
Chairman Tang-Chieh Wu, President Yun-Peng Chang, Chief Internal Auditor Pau-Chu Lo (from left)

2. 2017 Group Business Plan and Future Development Strategies

Given the uncertain international political and economic outlook in 2017, the rising tide of populism and protectionism, growing anti-globalization sentiment, China's ongoing economic transition, Brexit process, and global debt hitting a record high, the turmoil in financial markets show no sign of abating. Hence, it is best for financial sector to adopt a conservative strategy. Under such circumstances, the Group shall keep its commitments to promoting Six Major Business Developing Strategies and further strengthening our four fundamental principles: "Rule of Law, Risk Management, Cultivation of Talent, and Technology Implementation".


In addition to raising awareness for compliance with laws and information security, our operational goals are as follows: (1) In response to the Taiwanese government's five-plus-two innovative industries initiative, loans for such business development projects are set to increase NTD18 billion. Also, we plan to earmark NTD9 billion in financing for New Southbound Policy projects. In addition, we encourage both urban renewal projects (e.g., setting up urban renewal task force, providing financing service for builders, inspecting self-use real estate for renewal planning) and expansion of services for charities and trusts which provide elderly care; (2) Take an active role in boosting revenue from various businesses, such as increasing returns on financial instruments or service charges. Our goals include having more than a million credit cards in circulation, and becoming one of the top 10 credit card issuers in Taiwan; (3) Increase the profit proportion of OBU and overseas branches to 40% or more of total profit; (4) Expand the market share of securities brokerage to become the top of the five pan-government-owned securities brokers firms; and (5) Launch innovative financial instruments and services to build digital social circles, and cooperate with Pay2go to attract more young customers.

In the year of the Golden Rooster, we look forward to generating record high revenues by standing on the foundations we have built and welcoming challenges by bringing in new changes and revolutions!

3. Credit Rating

Assessed institution	assessor	Long-term credit assessment	Short-term credit assessment	Future outlook
Hua Nan Financial Holdings	Taiwan Ratings (2017/05)	twAA-	twA-1+	Stable
Hua Nan Commercial Bank	Taiwan Ratings (2017/05)	twAA+	twA-1+	Stable
	Moody's (2016/01)	A2	P1	Positive
	Fitch Ratings (2017/03)	A-	F1	Stable
Hua Nan Securities	Taiwan Ratings (2016/05)	twAA-	twA-1+	Stable
South China Insurance	Taiwan Ratings (2016/12)	twAA	-	Stable
	A.M. Best (2017/01)	A	a	Stable

Chairman 

Vice Chairman 

President 

Honesty

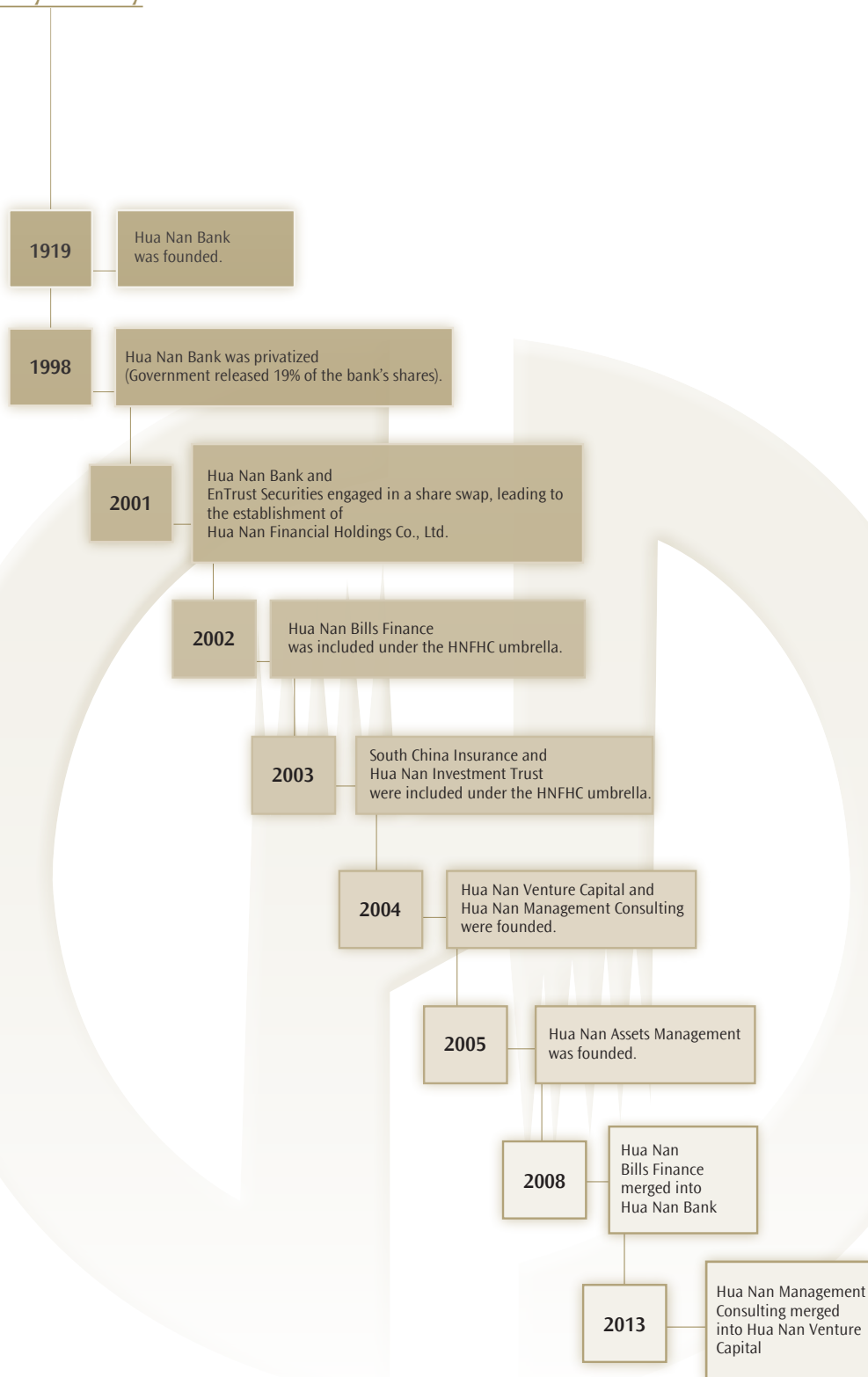


III Company Profile

1. Date of Establishment

The Company was established using the equity conversion method by Hua Nan Commercial Bank and Hua Nan Securities on December 19, 2001, and is headquartered in Taipei with the paid-in capital of NT\$180 billion.

2. Company History

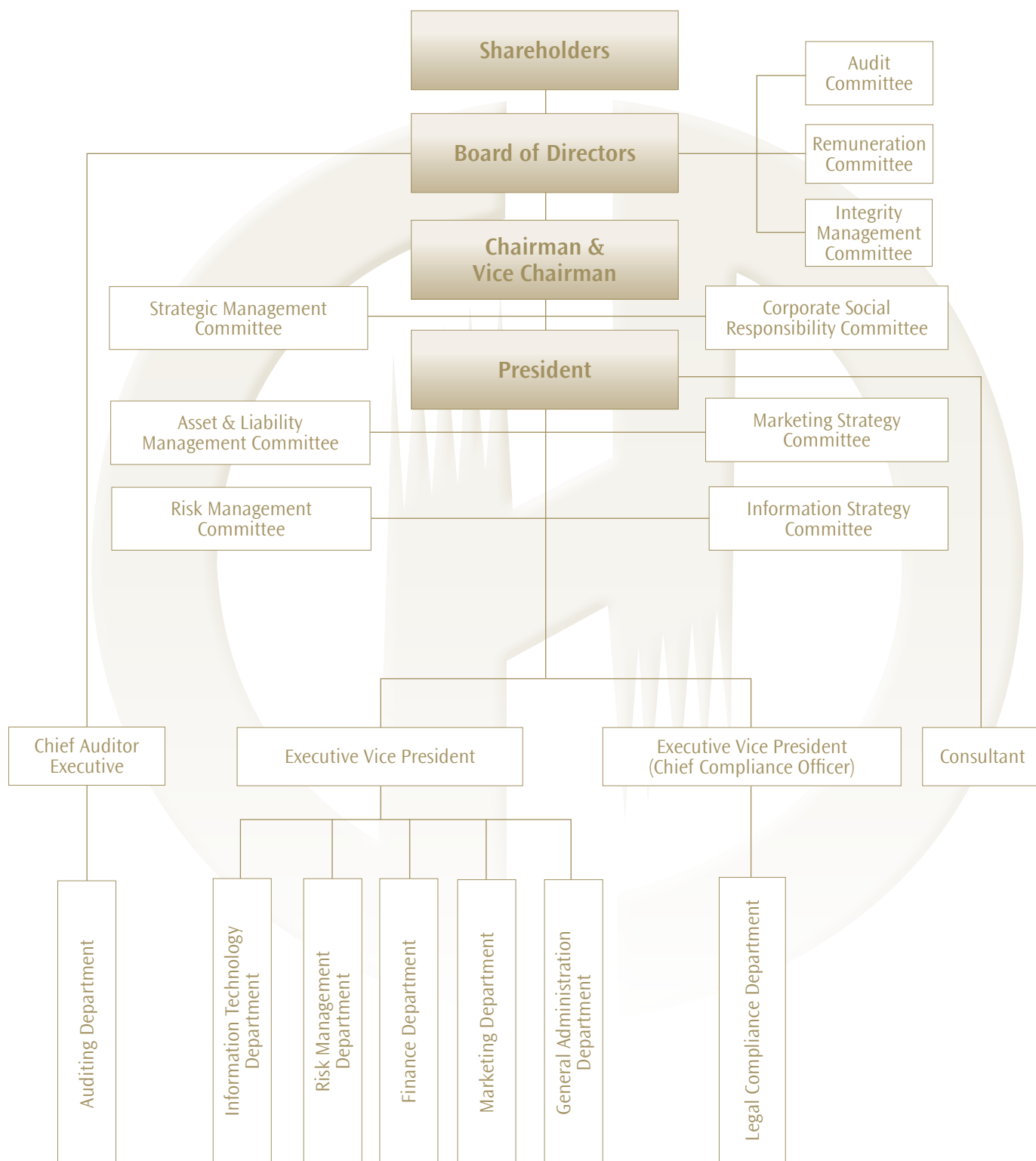


E

fficiency

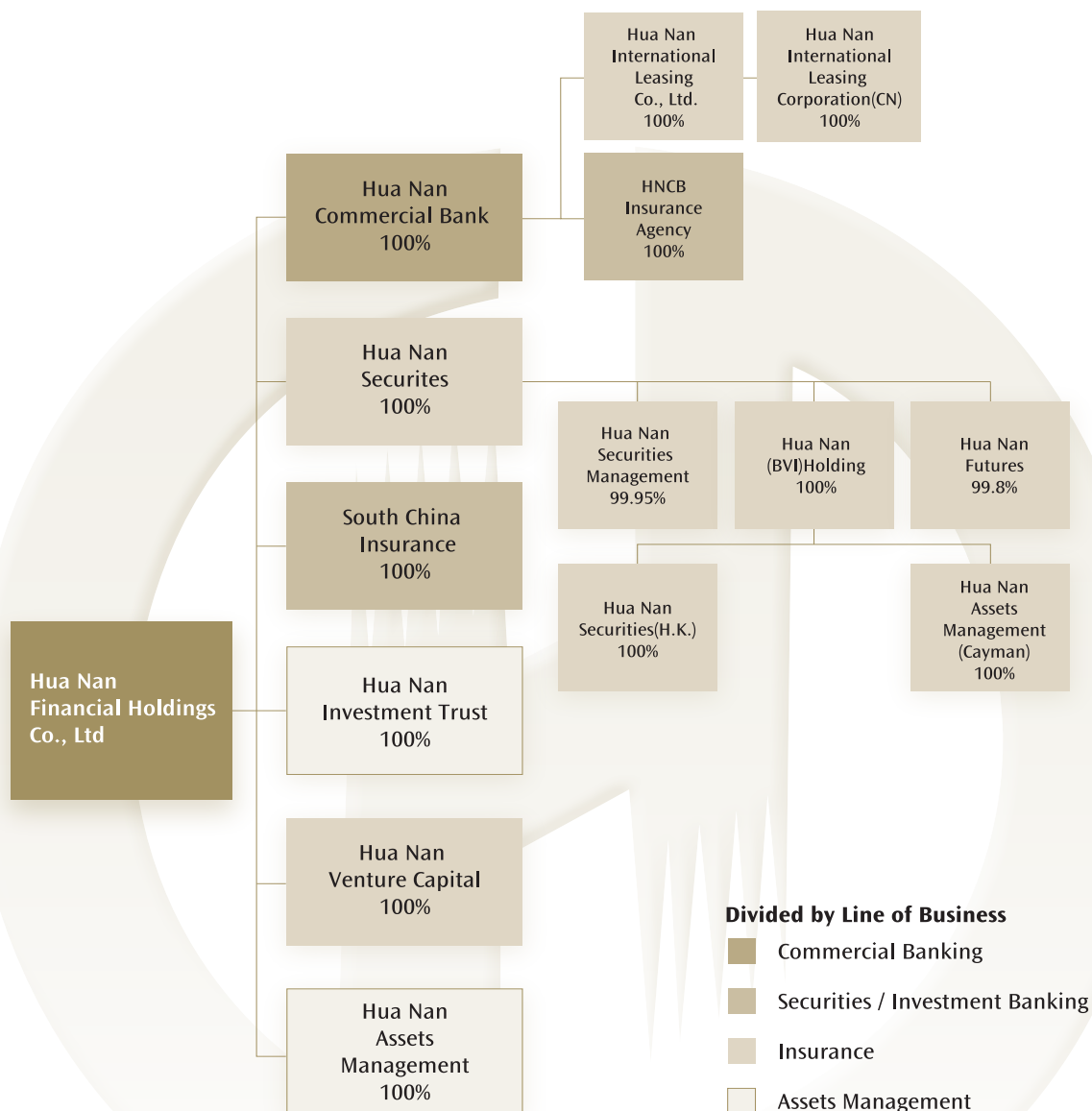


Organization Chart





Company Organization



Directors and Management Team

1. Director Information

Shareholding Date: April 30, 2017

Position	Nationality or Registered Address	Name	Gender	Date of Electing (Appointment)	Term	Date of Initial Electing (Appointment)	Share Holdings as of electing date		Current Share Holdings		Share Holdings 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 second level kin holding other head, director, or supervisor position		
							No. of shares	Share holding Ratio(%)	No. of shares	Share holding Ratio(%)	No. of shares	Share holding Ratio(%)	No. of shares	Share holding Ratio(%)			Job Title	Name	Relationship
Chairman	R.O.C	Ministry of Finance Representative: Tang-Chieh Wu	Male	September 12, 2016	Term expires on June 30, 2019	September 12, 2016	168,393,472	1.70	178,833,867	1.70	0	0	0	0	Vice Chairman of the Financial Supervisory Commission, Deputy Minister of the Ministry of Finance, Chairman of the Land Bank of Taiwan (Master from the Department of Public Finance, National Chengchi University)	Chairman of Hua Nan Bank	None	None	None
Vice Chairman	R.O.C	Memorial Scholarship Foundation to Mr. Lin Hsiung Chen Representative: Ming-Cheng Lin	Male	July 1, 2016	Term expires on June 30, 2019	December 19, 2001	174,952,571	1.77	185,799,630	1.77	0	0	0	0	Chairman of Hua Nan Financial Holdings Co., Ltd., Chairman of Hua Nan Bank, Director of Central Bank, Director of Taiwan Asset Management Corporation, Supervisor of Taiwan Financial Asset Service Corporation, (Master of Laws of Keio University, Japan)	Director of Lin Pen Yuan Industrial Co., Ltd.	Director Director	T. Lin Chih-Yu Lin	Father and Son Father and Son
Director	R.O.C	Ministry of Finance Representative: Yun-Peng Chang	Male	July 1, 2016	Term expires on June 30, 2019	July 3, 2016	168,393,472	1.70	178,833,867	1.70	0	0	0	0	Manager of Hua Nan Bank Singapore Branch / Manager of New York Branch / Manager of Corporate Finance / Executive Vice President of Hua Nan Bank (Business Administration, National Taiwan University)	Manager of Hua Nan Financial Holdings, Managing Director and President of Hua Nan Bank, Director of Taiwan Small Business Integrated Assistance Center, Director of Commerce Development Research Institute, Director of the Taiwan Asset Management Corporation	None	None	None
Director	R.O.C	Bank of Taiwan Representative: Chih-Wen Hsu	Male	July 1, 2016	Term expires on June 30, 2019	September 9, 2014	2,103,232,337	21.23	2,233,632,741	21.23	0	0	0	0	Manager of Bank of Taiwan Singapore Branch Deputy / Manager of Hong Kong Branch / Manager of International Department (Department of Economic, Soohow University)	Director, Hua Nan Bank, Manager, Bank of Taiwan Corporate Finance	None	None	None
Director	R.O.C	Bank of Taiwan Representative: Shi-Tien Chiang	Male	July 1, 2016	Term expires on June 30, 2019	October 1, 2012	2,103,232,337	21.23	2,233,632,741	21.23	0	0	0	0	Department of Planning SVP and General Manager of Central Trust of China Executive Vice President of Central Trust of China (Dept. of International Trade, Tamkang University)	Director, Hua Nan Commercial Bank Executive Vice President, Bank of Taiwan, Director, Bank of Taiwan Insurance Brokers Co., Ltd.	None	None	None
Director	R.O.C	Bank of Taiwan Representative: Shih-Ching Jeng	Female	July 1, 2016	Term expires on June 30, 2019	July 1, 2016	2,103,232,337	21.23	2,233,632,741	21.23	0	0	0	0	Associate Professor in the Department of Risk Management and Insurance for National Chengchi University, Deputy Director of the National Chengchi University Risk and Insurance Research Center, Member of the Council of Indigenous Peoples (Ph.D in Financial Insurance, University of Rhode Island, U.S.A.)	Associate Professor in the Department of Risk Management and Insurance for National Chengchi University	None	None	None
Director	R.O.C	Bank of Taiwan Representative: Lung-Huei Tai	Male	July 1, 2016	Term expires on June 30, 2019	July 1, 2016	2,103,232,337	21.23	2,233,632,741	21.23	0	0	0	0	Deputy Supervisor of National Treasury Administration, Ministry of Finance; Deputy Director of Finance Department, New Taipei City Government; Deputy Director of National Treasury Administration, Ministry of Finance (College of Law, National Chengchi University)	Deputy Director of National Treasury Administration, Ministry of Finance	None	None	None
Director	R.O.C	Bank of Taiwan Representative: Kuo-Wen Kuo	Male	January 16, 2017	Term expires on June 30, 2019	January 16, 2017	2,103,232,337	21.23	2,233,632,741	21.23	0	0	0	0	Director of Tainan County Government Administrative Office, Part-time Assistant Professor, of Mass Communication Department, Chang Jung Christian University, Tainan City Councilor, Deputy Minister of the Ministry of Labor (Ph.D from the Institute of Political Economy, National Cheng Kung University)	Deputy Minister of Ministry of Labor	None	None	None
Director	R.O.C	Bank of Taiwan Representative: I-Hui Lee	Female	February 23, 2017	Term expires on June 30, 2019	February 23, 2017	2,103,232,337	21.23	2,233,632,741	21.23	0	0	0	0	Director of the Taxation Administration, Ministry of Finance (Master from the Department of Public Finance, National Chengchi University)	Director-General of the Department of Planning, Ministry of Finance	None	None	None
Director	R.O.C	Memorial Scholarship Foundation to Mr. Lin Hsiung Chen Representative: T. Lin	Male	July 1, 2016	Term expires on June 30, 2019	December 19, 2001	174,952,571	1.77	185,799,630	1.77	0	0	0	0	Fund Manager of Mercury Asset Management (MSc, Real Estate Economics and Finance, London School of Economics and Political Science)	Vice Chairman of Hua Nan Bank	Vice Chairman Director	Ming-Cheng Lin Chih-Yu Lin	Father and Son Brother



Position	Nationality or Registered Address	Name	Gender	Date of Electing (Appointment)	Term	Date of Initial Electing (Appointment)	Share Holdings as of electing date		Current Share Holdings		Share Holdings 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 second level kin holding other head, director, or supervisor position		
							No. of shares	Share holding Ratio(%)	No. of shares	Share holding Ratio(%)	No. of shares	Share holding Ratio(%)	No. of shares	Share holding Ratio(%)			Job Title	Name	Relationship
Director	R.O.C	Memorial Scholarship Foundation to Mr. Lin Hsiung Chen Representative: Chih-Yang Lin	Male	July 1, 2016	Term expires on June 30, 2019	January 14, 2005 (Note: Interrupted from July 1, 2013 to June 30, 2016)	174,952,571	1.77	185,799,630	1.77	0	0	0	0	Attorney of Taipei Bar Association (Master of Business Administration, National Taiwan University)	Managing Director of Hua Nan Bank, Yongqi Asset Management Company Chairman, Yongshi Development Company Director, Yongqing R&D Company Director, Xunyu Company Director, Tianye Construction Company Director, Taiwan Mineral Industry Company Director	None	None	None
Director	R.O.C	Memorial Scholarship Foundation to Mr. Lin Hsiung Chen Representative: Chih-Yu Lin	Male	July 1, 2016	Term expires on June 30, 2019	July 1, 2016	174,952,571	1.77	185,799,630	1.77	0	0	0	0	Hua Nan VC Assistant Vice President (Master of Business Administration from University of California, Los Angeles, U.S.A.)	Director of Hua Nan Bank, Hua Nan VC Vice President	Vice Chairman Director	Ming-Cheng Lin T. Lin	Father and Son Brother
Director	R.O.C	Entrust Foundation Representative: An-Lan Hsu Chen	Female	July 1, 2016	Term expires on June 30, 2019	December 19, 2001	342,114	0.003	363,325	0.003	0	0	0	0	Chairman of Hua Nan Securities, Director of Hua Nan Bank (Department of Foreign Languages and Literature, Tunghai University)	Chairman of Yuan Ding Investment Co., Ltd.; Chairman of Yong Chang Investment Co., Ltd.; Chairman of He Quan Investment Co., Ltd.; Director of Han Ting Industry Co., Ltd.; Supervisor of He Qing Investment Co., Ltd.; Supervisor of Mao Tong Investment Co., Ltd.; Director of Entrust Foundation Managing.	Director	Michael, Yuan Jen Hsu	Mother and Son
Director	R.O.C	Entrust Foundation Representative: Michael, Yuan-Jen Hsu	Male	July 1, 2016	Term expires on June 30, 2019	May 16, 2009	342,114	0.003	363,325	0.003	0	0	0	0	Vice Chairman of Hua Nan Securities Co., Ltd. (MBA from the Wharton School of the University of Pennsylvania)	Director of Hua Nan Bank, Vice Chairman of Hua Nan Securities, Director of Hua Nan Securities (Hong Kong) Limited, Managing Director of Entrust Foundation, Director of Ru Yuan Enterprise Company, Supervisor of AppWorks Fund II, Chairman of Polywide Investment Limited, Director of Taiwan Futures Exchange.	Director	Representative: An-lan Hsu Chen	Mother and Son
Director	R.O.C	China Man-Made Fiber Corporation Representative: Vivien, Chia-Ying Shen	Female	July 1, 2016	Term expires on June 30, 2019	August 31, 2005	49,413,600	0.50	52,477,243	0.50	0	0	0	0	Vice President of Hongkong and Shanghai Banking Corporation Limited (HSBC) (Doctor of Public Health Administration from John Hopkins University)	Director of Hua Nan Bank	None	None	None
Independent Director	R.O.C	Kuei-Sun Wu	Male	July 1, 2016	Term expires on June 30, 2019	July 1, 2016	0	0	0	0	0	0	0	0	Director General of Central Bank Accounting Department, Chairman of Taiwan Clearing House Development Foundation (Master of Business Administration, National Taiwan University)	None	None	None	None
Independent Director	R.O.C	Chung-Yuan Hsu	Male	July 1, 2016	Term expires on June 30, 2019	July 1, 2007	72,358	0.00	76,844	0.00	0	0	0	0	Professor/Department Head, Accountant of the Department of Accounting, National Chengchi University (Doctor of Accounting from University of Memphis)	Independent Director of Hua Nan Bank; Professor of the Department of Accounting, National Chengchi University; Independent Director of TONS Lightology Inc.	None	None	None
Independent Director	R.O.C	Chun-Pin Chen	Male	July 1, 2016	Term expires on June 30, 2019	July 1, 2007	60,298	0.00	64,036	0.00	0	0	0	0	Lei Shi Law Firm partner attorney, Lecturer for Department of Public Administration, Tamkang University/Department of Law, Soochow University Master of Law, National Taiwan University	Independent Director of Hua Nan Bank	None	None	None
Independent Director	R.O.C	Ching-Hsiou Chen	Male	July 1, 2016	Term expires on June 30, 2019	July 1, 2010	60,298	0.00	64,036	0.00	0	0	0	0	Professor of the School of Law, Soochow University; Director of Personnel Administration, Executive Yuan. (Doctor of Law, National Taiwan University)	Professor of the School of Law, Soochow University; Director of the Yuan-Zhang Weng Culture and Education Foundation.	None	None	None

2. Presidents, Executive Vice Presidents, and various Department Supervisors

Shareholding Date: April 30, 2017

Position	Nationality	Name	Gender	Date Elected/ Appointed	Shares Held		Shares Held by spouse and underage children		Shares Held in the names of others		Highest educational attainment/Work experience	Positions held in other companies	Manager who is a spouse or a relative within second degree		
					Spouse or second level kin holding managers	Share holding Ratio %	Spouse or second level kin holding managers	Share holding Ratio %	Spouse or second level kin holding managers	Share holding Ratio %			Job Title	Name	Relationship
President	R.O.C	Yun-Peng Chang	Male	July 3, 2015	160,959	0	0	0	0	0	Manager, New York Branch, Hua Nan Bank; Manager, Corporate Banking Dept., Hua Nan Bank, Vice President, Hua Nan Bank Dept. of Commerce, National Taiwan University	Managing Director and President of Hua Nan Bank, Director of Taiwan Small Business Integrated Assistance Center, Director of Taiwan Small Business Integrated Assistance Center, Director of Commerce Development Research Institute	None	None	None
Executive Vice President	R.O.C	David Y.C. Cheng	Male	July 29, 2009	212,145	0	0	0	0	0	Director of General Administration Management Department, HNFHC; 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	Director of South China Insurance Co., Ltd.; Director of the Taiwan Asset Management Corporation	None	None	None
Executive Vice President	R.O.C	James H.J. Liu	Male	March 18, 2002 (Dismissed on July 1, 2016)	2	0	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., D	None	None	None
Executive Vice President & Chief legal compliance officer for the head office.	R.O.C	Hsin-Tien Ting	Male	February 6, 2015	173,914	0	6,932	0	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 China Real Estate Management Co., Ltd.; Supervisor of Hua Nan Securities Investment Management	None	None	None
Chief Auditor	R.O.C	Pau-Chu Lo	Female	July 30, 2015	103,045	0	0	0	0	0	Manager of Audit Office of Board of Directors, Manager of E-Financial Dept., Manager of Operating Management Dept. of Hua Nan Bank; Associate Manager of Overseas Management; Associate Manager of International Financial Dept. of Hua Nan Bank Dept. of Public Finance, National Chung Hsing University (reorganized to National Taipei University)	None	None	None	None
G.M. of General Administration Department	R.O.C	Sarah C. T. Hsu	Female	February 14, 2014	656	0	0	0	0	0	Associate Professor of Central Bank; Senior Researcher of the American Institute in Taiwan; Deputy Director of Department of Economic Research, Bank of Taiwan Ph.D in Economics, National Chengchi University	Director of Hua Nan Venture Capital Co., Ltd. Director of Hua Nan Securities Investment Management Co., Ltd.	None	None	None
G.M. of Marketing Department	R.O.C	Tony Jang	Male	March 22, 2005	83,807	0	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
G.M. of Finance Department	R.O.C	King-Huo Lu	Male	August 1, 2012	0	0	0	0	0	0	Manager of Hua Nan Bank, London Branch 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
G.M. of Information & Technology Department	R.O.C	Michael Duh	Male	March 1, 2008	55,538	0	0	0	0	0	Vice President 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
G.M. of Risk Management Department	R.O.C	Robert Li	Male	December 1, 2015	76,844	0	0	0	0	0	Associate Manager, Transaction Banking Dept., CTBC Bank; Vice manager, Risk Management Division, Hua Nan Financial Holdings Co., Ltd.; Master, Graduate School of Commerce, Washington University in St. Louis, U.S.A.	Manager of Risk Management Dept., Hua Nan Bank; Director of Hua Nan Investment Trust Corp	None	None	None
G.M. Law and Ordinance Compliance Department	R.O.C	Su-Rong Xu	Female	November 1, 2016	87,958	0	0	0	0	0	Associate Manager of Creditor's Rights Management Dept., Hua Nan Bank; Manager of Legal Affairs Dept., Hua Nan Bank; Manager of Law Compliance and Legal Department, Hua Nan Bank College of Law, National Chengchi University	Manager of Law Compliance and Legal Department, Hua Nan Bank	None	None	None
G.M. of the Audit Office of Board of Directors	R.O.C	Fang-Ling Zhou	Female	November 1, 2016	106,340	0	0	0	0	0	Associate Manager of the Corporate Banking Dept. of Hua Nan Bank; Associate Manager of the Enterprise Credit Management Dept. of Hua Nan Bank; Associate Manager of the Board of Directors Audit Dept. of Hua Nan Bank Department of Economics, Fu Jen Catholic University	None	None	None	None



3. Remuneration of Directors (including Independent Director), President, and Executive Vice Presidents

(1) Remuneration of Directors (including Independent Director) (summarized pay-grade name disclosure method)

Job Title	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)		Earnings (C)		Professional Fees (D)		This company
		This company	All companies mentioned in the finance report	This company	All companies in the finance report	This company	All companies in the finance report	This company	All companies in the finance report	
Chairman	Finance Department Kuang-Si Shiu (Discharged on Aug 16, 2016) Tang-Chieh Wu (Appointed Sept 12, 2016)									
Vice Chairman	Memorial Scholarship Foundation to Mr. Lin Hsiung Chen Ming-Cheng Lin									
Director	Finance Department Yun-Peng Chang									
Director	Bank of Taiwan Shih-Tien Chiang									
Director	Bank of Taiwan Chih-Wen Hsu									
Director	Bank of Taiwan Yun Lin									
Director	Bank of Taiwan Ai Wei (Retired June 30, 2016) Chao-Hsi Huang (Appointed July 1, 2016)									
Director	Bank of Taiwan Ming-Jui Hsieh (Retired June 30, 2016) Lung-Huei Tai (Appointed July 1, 2016)									
Director	Bank of Taiwan Yue-Qin Qiu (Mar 15, 2016 ~ June 30, 2016) Shih-Ching Jeng (Appointed July 1, 2016)									
Director	Memorial Scholarship Foundation to Mr. Lin Hsiung-Chen T. Lin									
Director	Memorial Scholarship Foundation to Mr. Lin Hsiung-Chen Hui-Jan Yen (Retired June 30, 2016) Chih-Yu Lin (Appointed July 1, 2016)									
Director	Memorial Scholarship Foundation to Mr. Lin Hsiung Chen Chih-Yang Lin (Appointed July 1, 2015)									
Director	Shin Kong Life Insurance Foundation Jung-Fu Hsieh (Retired June 30, 2016)									
Director	Entrust Foundation An-Ian Hsu Chen									
Director	Entrust Foundation HSU, MICHAEL YUAN JEN									
Director	China Man-Made Fiber Corporation Vivien, Chia-Ying Shen									
Independent Director	A-Wang Huang (Retired June 30, 2016)									
Independent Director	Kuei-Sun Wu (Appointed July 1, 2016)									
Independent Director	Ching-Hsiou Chen									
Independent Director	Chung-Yuan Hsu									
Independent Director	Chun-Pin Chen									
Total		9,332	25,569	640	2,553	140,565	140,565	6,710	11,516	1.12%

*In addition to those disclosed in the table above, the amount of remuneration for services (such as non-employee consultants, etc.) provided to all of the companies by the company directors in the financial report for the last year: 0.

Unit: NT\$1,000

	Relevant pay received by 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 reinvestment enterprise outside the subsidiary
Salaries, bonuses, and special expenditures (E)		Separation and Pension Pay (F)		Employees' Earnings (G)							
All companies in the finance report	This company	All companies in the finance report	This company	All companies in the finance report	This company		All companies in the finance report		This company	All companies in the finance report	
					Cash amount	Share amount	Cash amount	Share amount			
1.28%	7,872	9,111	422	476	0	0	0	0	1.18%	1.35%	89



(2) Director remuneration grade table

Range of the Remunerations paid to each Director of the Corporation	Director Names			
	Sum of the 4 Remunerations (A+B+C+D)		Sum of the 7 Remunerations (A+B+C+D+E+F+G)	
	This company	All companies in the finance report	This company	All re-investment enterprises
Less than NT\$2,000,000	Kuang-Si Shiu, Tang-Chieh Wu, Yun-Peng Chang, Shih-Tien Chiang, Chih-Wen Hsu, Yun Lin, Wei Ai, Xhao-Xi Huang, Ming-Jui Hsieh, Lung-Huei Tai, Yue-Qin Qiu, Shih-Ching Jeng, T. Lin, Hui-Jan Yen, Chih-Yu Lin, Chih-Yang Lin, Rung-Fu Hsieh, An-Lan Hsu Chen, Yuan-Jen Hsu, Chia-Ying Shen, A-Wang Huang, Kuei-Sun Wu, Ching-Hsiou Chen, Chung-Yuan Hsu, Chun-Pin Chen	Yun-Peng Chang, Shih-Tien Chiang, Chih-Wen Hsu, Yun Lin, Wei Ai, Xhao-Xi Huang, Ming-Jui Hsieh, Lung-Huei Tai, Yue-Qin Qiu, Shih-Ching Jeng, Hui-Jan Yen, Chih-Yu Lin, Chih-Yang Lin, Rung-Fu Hsieh, An-Lan Hsu Chen, Chia-Ying Shen, A-Wang Huang, Kuei-Sun Wu, Ching-Hsiou Chen, Chung-Yuan Hsu, Chun-Pin Chen	Kuang-Si Shiu, Tang-Chieh Wu, Shih-Tien Chiang, Chih-Wen Hsu, Yun Lin, Wei Ai, Xhao-Xi Huang, Ming-Jui Hsieh, Lung-Huei Tai, Yue-Qin Qiu, Shih-Ching Jeng, T. Lin, Hui-Jan Yen, Chih-Yu Lin, Chih-Yang Lin, Rung-Fu Hsieh, An-Lan Hsu Chen, Yuan-Jen Hsu, Chia-Ying Shen, A-Wang Huang, Kuei-Sun Wu, Ching-Hsiou Chen, Chung-Yuan Hsu, Chun-Pin Chen	Shih-Tien Chiang, Chih-Wen Hsu, Yun Lin, Wei Ai, Xhao-Xi Huang, Ming-Jui Hsieh, Lung-Huei Tai, Yue-Qin Qiu, Shih-Ching Jeng, Hui-Jan Yen, Chih-Yu Lin, Chih-Yang Lin, Rung-Fu Hsieh, An-Lan Hsu Chen, Chia-Ying Shen, A-Wang Huang, Kuei-Sun Wu, Ching-Hsiou Chen, Chung-Yuan Hsu, Chun-Pin Chen
NT\$2,000,000 (including) to NT\$5,000,000 (excluding)	Shin Kong Life Insurance Foundation	Tang-Chieh Wu, Yuan Jen Hsu, Shin Kong Life Insurance Foundation	Shin Kong Life Insurance Foundation	Tang-Chieh Wu, Yuan Jen Hsu, Shin Kong Life Insurance Foundation
NT\$5,000,000 (including) to NT\$10,000,000 (excluding)	Ming-Cheng Lin, China Man-Made Fiber Corporation	Kuang-Si Shiu, Ming-Cheng Lin, T. Lin, China Man-Made Fiber Corporation	Ming-Cheng Lin, Yun-Peng Chang, China Man-Made Fiber Corporation	Kuang-Si Shiu, Ming-Cheng Lin, Yun-Peng Chang, T. Lin, China Man-Made Fiber Corporation
NT\$10,000,000 (including) to NT\$15,000,000 (excluding)				
NT\$15,000,000 (including) to NT\$30,000,000 (excluding)	Entrust Foundation	Entrust Foundation	Entrust Foundation	Entrust Foundation
NT\$30,000,000 (including) to NT\$50,000,000 (excluding)	Ministry of Finance, Memorial Scholarship Foundation to Mr. Lin Hsiung Chen, Bank of Taiwan	Ministry of Finance, Memorial Scholarship Foundation to Mr. Lin Hsiung Chen, Bank of Taiwan	Ministry of Finance, Memorial Scholarship Foundation to Mr. Lin Hsiung Chen, Bank of Taiwan	Ministry of Finance, Memorial Scholarship Foundation to Mr. Lin Hsiung Chen, Bank of Taiwan
NT\$50,000,000 (including) to NT\$100,000,000 (excluding)				
Over NT\$100,000,000				
Total	32	32	32	32

Note 1: The Company rented a car for its chairman and vice chairman, of which the car rental and fuel expenses were included in the business execution costs. The company rented a car for its president, of which the car rental and fuel expenses were included for calculation in column (E).

Note 2: 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 these expenses.

Note 3: The amounts disclosed in (B) are the contribution amounts set aside for expenditure-based separation and pension pay.

Activeness



IV Capital Overview

1. Stocks and Dividends

1. Sources of Capital Stock

Unit: Shares; NTD

Period	Price at issuance	Authorized Capital		Paid-in Capital		Remarks	
		Number of shares	Amount	Number of shares	Amount	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

Period	Price at issuance	Authorized Capital		Paid-in Capital		Remarks	
		Number of shares	Amount	Number of shares	Amount	Sources of Capital Stock	Other
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
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
Sep. 2015	\$10	10,000,000,000	100,000,000,000	9,906,304,245	99,063,042,450	Capitalization of Earnings: 5,783,341,460	Ministry of Economic Affairs – Sep. 24, 2015-Letter No. of Ching-shou-shang-tzu-ti-10401204820
Sep. 2016	\$10	18,000,000,000	180,000,000,000	10,520,495,108	105,204,951,080	Capitalization of Earnings: 6,141,908,630	Ministry of Economic Affairs – Sep. 20, 2016-Letter No. of Ching-shou-shang-tzu-ti-10501226210

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	10,520,495,108	7,479,504,892	18,000,000,000	Listed stock

2. Shareholder Structure

Unit: Shares: April 30, 2017

Shareholder StructureQuantity	Government Agency	Financial Institution	Other Corporation	Individual	Foreign Company or Foreigner	Total
Number (people)	8	34	699	233,122	930	234,793
Shares of holding (shares)	2,542,056,265	1,019,470,270	2,221,786,106	2,578,731,031	2,158,451,436	10,520,495,108
Shareholding ratio (%)	24.16	9.69	21.12	24.51	20.52	100.00

3. Status of Stock Dispersion

Date: April 30, 2017

Level of Shares Held			Numbers of Shareholders	Number of Shares Held	Shareholding ratio (%)
1	~	999	87,607	14,064,992	0.13%
1,000	~	5,000	83,598	181,989,035	1.73%
5,001	~	10,000	22,669	161,150,868	1.53%
10,001	~	15,000	11,603	142,567,191	1.36%
15,001	~	20,000	6,010	104,288,954	0.99%
20,001	~	30,000	7,052	173,250,656	1.65%
30,001	~	40,000	3,675	127,065,713	1.21%
40,001	~	50,000	2,326	104,422,542	0.99%
50,001	~	100,000	5,220	362,735,323	3.45%
100,001	~	200,000	2,817	385,947,447	3.67%
200,001	~	400,000	1,136	309,212,093	2.94%
400,001	~	600,000	276	135,466,814	1.29%
600,001	~	800,000	168	115,665,385	1.10%
800,001	~	1,000,000	122	109,536,055	1.04%
1,000,001	above		514	8,093,132,040	76.93%
Total			234,793	10,520,495,108	100.00%

4. List of Major Shareholders

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

Date: Year Month Day

Name of Major Shareholders	Shares	Number Held (shares)	Shareholding Ratio (%)
Bank of Taiwan		2,233,632,741	21.23%
Bank Taiwan Life Insurance Co., Ltd.		404,261,113	3.84%
First Commercial Bank		256,877,287	2.44%
Yuan Ding Investment Co., Ltd.		228,697,017	2.17%
Shin Kong Life Insurance Co., Ltd.		203,177,609	1.93%
Yung Tsai Investment Co., Ltd.		202,570,433	1.93%
The Memorial Scholarship Foundation to Mr. Lin Hsiung Chen		185,799,630	1.77%
Ministry of Finance		178,833,867	1.70%
Dedicated investment account of Vanguard Emerging Market Stock Index Fund in the custody of Standard Chartered Bank		144,606,688	1.37%
Trust Account under HWATAI Bank		142,026,682	1.35%
Taiwan Tobacco & Liquor Corporation		106,018,593	1.01%

5. Market Value Per Share, Net Values, Earnings, Dividends, and Related Information for Past 2 Years

Item		Year	2016	2015	From the beginning of the year to March 31, 2017 (Note 8)
Market value per share (Note 1)	Highest		17.85	19.45	17.15
	Lowest		13.90	14.40	16.15
	Average		16.13	16.97	16.73
Net value per share (Note 2)	Before issuance		15.11	15.45	15.31
	After issuance		Note 9	14.55	Note 10
Earnings per share	Weighted average of shares (thousand shares)		10,520,495	9,906,304	10,520,495
	Earnings per share - before adjustment (Note 3)		1.34	1.42	0.22
	Earnings per share - after adjustment (Note 3)		Note 9	1.34	Note 10
Dividend per share	Cash dividend		0.70	0.63	Note 10
	Scrip issue	Shares allocated from earnings	0.50	0.62	Note 10
		Dividend from capital reserve	None	None	Note 10
	Accumulated undistributed dividends (Note 4)		None	None	Note 10
Return on Investments	Price/earnings ratio (Note 5)		12.04	11.95	19.01
	Dividend ratio (Note 6)		23.04	26.94	Note 10
	Cash dividend yield (Note 7)		4.34%	3.71%	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 2016 earnings distribution will be resolved in the 2017 shareholders' meeting.

Note 10: The 2017 earnings have yet to be distributed.

**6. Dividend Policy and Execution 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.

The earnings (if any) left from the company's annual settlement of final accounts shall be first used to pay the tax due and cover the loss accumulated over the years by law, followed by setting aside a legal surplus reserve. Then, a special surplus reserve shall be allocated or reversed according to statutory laws and regulations or as required by business needs. The undistributed earnings of the previous year can be added to the special surplus reserve and the shareholder's meeting shall resolve the distribution of the shareholder's dividend and bonus according to 30% to 100% of the distributable amount. Shareholder's 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 the case that the cash dividend per share is less than NT\$0.1, unless otherwise separately resolved by the board of shareholders, it shall not be distributed.

- (2). Dividend distribution to be proposed in 2017 shareholder's meeting: Cash dividends at NT\$0.7 per share for NT\$7,364,346,576 and stock dividends at NT\$0.5 per share for NT\$5,260,247,550 (NT\$1.20 per share in total) will be proposed in this general shareholder's meeting.

7. The Effects of the Stock Grant Proposed by the Shareholder's Meeting on Business Performance and Earnings per Share:

		2017 (estimate)
Paid-up capital at the beginning of the period		NT\$105,204,951,000
Dividend distribution status for this year	Cash dividend per share	NT\$0.7
	Surplus to capital increase shares allocated per share	0.05 shares
	Capital reserve to capital increase shares allocated per share	-
Changes in business performance	Operating income	Not applicable
	Operating profit increase (decrease) ratio over the same period last year	
	Net income after tax	
	Post-tax net profit increase (decrease) ratio over the same period last year	
	Earnings per share	
	Earnings per share increase (decrease) ratio over the same period last year	
	Annual average return on investment (reciprocal of average annual interest rate)	
Pro-forma earnings per share and P/E ratio	Change the distribution to all cash dividends in case of surplus to capital increase	Pro-forma earnings per share
		Pro-forma average annual return on investment
	If capital reserve to capital increase has not yet been undertaken	Pro-forma funding per share
		Pro-forma average annual return on investment
	If capital reserve to capital increase has not yet been undertaken and the surplus to capital increase is changed to cash dividend distribution	Pro-forma earnings per share
		Pro-forma average annual return on investment

8. 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, the company should set aside a certain ratio as employee compensation based on the profit before tax, deducting the aforementioned employee compensation. The employee compensation shall be determined each year by the Board of Directors authorized to do so. However, this company's accumulated losses shall have been covered:

A. Director remuneration shall be no more than 1%.

B. Employee bonuses range from 0.02% to 0.15%. If employee bonuses will be distributed by issuing new shares, the Board of Directors will set rules specifying the requirements that the employee must meet.

- (2) Accounting handling for any differences between the estimates of the current period's employee bonuses and director remuneration amounts, calculation basis of the shares, and actual distributed amount:

The estimated 2016 employee bonuses and director remuneration amounts are pursuant to the Articles of Incorporation of the company and profits in 2016. The 2016 earnings distribution was approved by both the Remuneration Committee and the Board of Directors with the actual distributed amount being the same as the estimates. The company does not distribute share bonuses.

- (3) Information on the distribution of employee bonuses and director remuneration approved by the Board of Directors:

A. In 2016, NT\$140,565,000 was distributed to directors for remuneration, and NT\$11,268,000 was distributed to employees for remuneration. The total amount was distributed in cash.

B. The ratio of employee share bonuses to the stand-alone net profit after tax and the total employee bonuses: Not applicable as the company does not plan to distribute shares bonuses.

- (4) Distribution of employee bonuses and director remuneration from the earnings of the previous year:

In 2016, the 2015 director remuneration and employee bonuses are NT\$137,662,000 and NT\$11,215,000 respectively.

9. Buy-back of the company's shares by a financial holding company: As of the date of publication for this annual report, there has not yet been any treasury share buy-back.



2. Corporate Bonds

Type of Corporate Bonds	2012 First term of unsecured corporate bonds
Date of Issuance (Undertaking)	January 21, 2013
Face Value	NT\$10,000,000
Place of Issuance and Transaction	Taiwan
Issuing Price	Issued according to 100% of 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 issuing conditions. Issue A amounts to NT\$5 billion and Issue B amounts to NT\$4.9 billion.
Coupon Rates	The coupon rate of Issue A is a fixed annual rate of 1.23%. The coupon rate of Issue B is a fixed annual rate of 1.55%.
Term	The issuance period for Issue A is five years, maturing on January 21, 2018. The issuance period for Issue B is seven years, maturing on January 21, 2020.
Priority order of compensation	Creditors holding Issue A have the same order of compensation priority as the other holders of the company's unsecured liabilities. Creditors holding Issue B are only placed slightly ahead in the right to claim for the distribution of residual property of company shareholders. They are placed behind all other company creditors.
Warranty Agency	None
Trustee	Trust Department, Yuanta Bank
Underwriting Agency	None
Legal Service Signatory:	Chan Kang-Jung Attorney Office: Attorney 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, but 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: May 12, 2016 Rating of Issue A: twAA- Rating of Issue B: twA
Other appended rights	Number 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
	Measures for issuance and conversion (swaps or warrants)
The effects that the measures for issuance and conversion, trade, or warrants may have on the potential dilution of equity and current shareholder's equity	
None	
Name of the custodian institution entrusted with swapped collateral	
None	

*R*esponsibility



Corporate Social Responsibility

Evaluation Item	Operation Scenario			Differences with Corporate Social Responsibility Best Practice Principles for TWSE/TPEx Listed Companies and their root causes
	Yes	No	Brief Description	
I. Promoting Implementation of Corporate Governance (1) Has the Company established Corporate Social Responsibility (CSR) policies or systems and reviewed the performance implementations?	√		(1) The Company established a CSR Committee for the Group in 2014 which main task is to carry out major CSR strategies so that the entire company can actively perform its CSR obligations from top to bottom. A CSR report was published in 2015. Existing social responsibility activities in the 5 major fields of corporate governance, customers' rights and interests, staff care, environmental sustainability, and societal participation are presented in a report format; sufficient communication and timely reviews are conducted with stakeholders.	Compliant
(2) Does the Company conduct CSR education and training on a regular basis?	√		(2) The Company organizes regular social welfare activities to promote CSR and corporate ethics to its Board of Directors, supervisors, and employees. The Board and the staff have also participated in internal and external ethics-related training sessions.	Compliant
(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 Group. The Department of General Administration will be in charge of planning CSR related matters and will be reporting to the Board on the implementation plan and execution status.	Compliant
(4) Has the Company established a relevant salary and remuneration policy, and combined its employee performance assessment system with the CSR policies? Has the Company established a clear reward and penalty system?	√		(4) As part of the performance management system, the supervisors will meet with the employees during the beginning, middle, and end of each year to set annual goals; discuss their progress and development needs; provide appropriate assistance and counseling; and continue to care for employees. The supervisors will also conduct various briefing sessions to communicate and listen to the voices of the employees for issues that may have significant impacts on employees.	Compliant
II. Developing a Sustainable Environment (1) Has the Company endeavored to maximize the use of the various resources and utilize renewable materials that have the least environmental impact?	√		(1) The Company abides by government energy conservation policies, adjust the air-conditioning system temperatures, and use energy conserving illumination fixtures to reduce power consumption. The Company has also set up an electronic documentation system to promote paperless operations and reduce paper use. The Company has installed water-saving equipment to conserve water.	Compliant
(2) Has the Company established an appropriate environmental management system according to the specific nature of the industry?	√		(2) The Company is in the financial service industry, and its operating environment and business establishments are committed to maximizing resource 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.	Compliant
(3) Has the Company paid attention to the impacts of climate change in terms of operational activities, implemented greenhouse gas inventory, and drafted energy carbon and greenhouse gas reduction strategies?	√		(3) The Company has strictly enforced budget control, set goals for conserving water and power within the Company, established energy saving measures, and disseminated the relevant information on reducing the impact of climate change on operational activities. In December 2014, the Company moved to its new building in the Xinyi District and has completed the greenhouse inventory at the end of 2016, and the data is going to serve as the basis for future data comparisons.	Compliant
III. Maintaining Social Welfare (1) Has the Company drafted the management policies and procedures according to the relevant laws and the International Conventions on Human Rights?	√		(1) The Company has established "Employee Work Rules" in accordance with the Labor Standards Act and other relevant laws to clearly define employee rights and responsibilities as well as the management procedures. In addition, the Company has established an "Employee Welfare Committee" to take charge of the various welfare measures and handle pension disbursements to ensure a secure life for employees after retirement.	Compliant

Evaluation Item	Operation Scenario			Differences with Corporate Social Responsibility Best Practice Principles for TWSE/TPEX Listed Companies and their root causes
	Yes	No	Brief Description	
(2) Has the Company established the employee appeal system and channels, and are the employee appeals handled appropriately?	✓		(2) To maintain good communication with employees, the Company has established an evaluation commission, an employee welfare committee, and a complaint hotline to protect the interests of staff members.	Compliant
(3) Has the Company provided employees with safe and healthy work environments as well as regular classes on health and safety?	✓		(3) In accordance with relevant laws and regulations, the Company has organized regular health check-ups for employees as well as fire safety checks to ensure the safety and well-being of its employees.	Compliant
(4) Has the Company established a system to regularly communicate with its employees, and used appropriate means to notify the employees of operation changes that may result in material impacts?	✓		(4) As part of the performance management system, the supervisors will meet with the employees during the beginning, middle, and end of each year to set the annual goals; discuss the achievement status and development needs; provide appropriate assistance and counseling; and continue to care for employees. The supervisors will also conduct various briefing sessions to communicate and listen to the voices of the employees for issues that may have significant impacts on employees.	Compliant
(5) Has the Company established an effective competency development career training program for employees?	✓		(5) The Company plans diverse training programs for staff members in the various professional fields, and provides job rotation opportunities based on the employee's professional expertise, performance contributions, and career development. It also encourages employees to continue learning and provide resources for their development.	Compliant
(6) Has the Company drafted the relevant consumer protection policies and complaint procedure for R&D, procurement, operations, and customer services?	✓		(6) To protect consumer interests, the Company has established a firewall policy and cross-selling management regulations. In addition, the competent authorities have clear rules about confidentiality regarding customer information. A privacy statement is posted on corporate websites.	Compliant
(7) Does the Company follow the relevant regulations and international norms with regard to the marketing and labeling of products and services?	✓		(7) The Company and its subsidiaries have established the relevant internal regulations in accordance with the "Financial Consumer Protection Act," "Inter-subsidary Cross-selling Management Regulations," and other relevant laws.	Compliant
(8) Has the Company evaluated whether the suppliers have had past records of adverse impact on the society and the environment before conducting businesses with them?	✓		(8) The Company double checks the relevant stakeholder information in its dealings with suppliers, and evaluates the information regarding each supplier's social and environmental impacts as one of the requirements for the awarding of supply contracts.	Compliant
(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 have caused any adverse impacts on the society and the environment?	✓		(9) The Company formulated a Supplier Commitment Form in September 2016 that requires its suppliers to abide by internationally recognized human rights and commit to environmental protection as well as pollution prevention.	Compliant
IV. Strengthening Information Disclosure Does the Company disclose important and reliable information pertaining to CSR on its website and the Market Observation Post System (MOPS)?	✓		The Company does disclose important information about corporate social responsibility on the official website and MOPS.	Compliant
V. If the Company has drafted its CSR Code of Policies in accordance with the "Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies," please state any differences between the 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 code. The Company is currently drafting a CSR Code of Policies applicable to the whole Group to fulfill its corporate responsibility.				
VI. Additional important information that may assist in the understanding of CSR operations: Please refer to the descriptions of the "2016 Public Welfare Activity Undertakings" in the 2016 Annual Report as well as the 2016 CSR Report.				
VII. Please state if the Company's CSR report has passed the verification standards of relevant verification bodies: The Company's 2015 Corporate Social Responsibility Report adopted the international standard ISAE 3000 authentication method.				



Major Charity and Other Events in 2016

(1) Tainan City “0206 Earthquake Disaster” Reconstruction Work

A major earthquake struck Tainan in Southern Taiwan in the morning of February 6, 2016 and caused more than 100 casualties. In response to the rescue operations and to deliver on its CSR commitments, the Group made special donations to help with the disaster relief.

(2) “2016 FinTech Innovation Trend Forum”

The Company and Global Views Monthly jointly held the “2016 FinTech Innovation Trend Forum” on March 28, 2016 and invited Li-Ling Wang, then Chairperson of the Financial Supervisory Commission; Xi-Jun Gao, founder of Commonwealth Publishing Group; Guang-Cheng Liu, Chairperson of National Credit Card Center of R.O.C.; Li-Yan Yang, former general manager of Hua Nan Bank; Guo-Lie Ceng, Chairperson of E.SUN Commercial Bank; Xing-Yang Hu, Associate Dean of College of Management, National Taiwan University; and others to explore the financial industry, smart technology integration, industry trends and changes, as well as banks’ transformation strategies in light of financial technologies (FinTech).

(3) “Your Generation, our Future: the Face-to-Face Symposium with President Ing-Wen Tsai”

The Company sponsored the “Your Generation, our Future: the Face-to-Face Symposium with President Tsai Ing-Wen” held at the National Taiwan Normal University Auditorium on April 14, 2016 by TIME magazine. President Tsai was invited to speak about her schooling and life experiences, and interacted face-to-face with the national high school female student representatives to inspire their interest in civic matters for the new generation.

(4) “Dandelion Love Delivery Plan”

To support the “Dandelion Love Delivery Plan” jointly founded by National Chengchi University student Yu-Shan Lin and other volunteer teachers and students to enable ethnic Chinese students in northern Thailand to attend school safely, the Company ordered the “Dandelion Coffee Love Delivery to Northern Thailand” public welfare gift boxes. All of the funds raised by the gift boxes were used to assist the student volunteers to settle the outstanding balance of school bus loans in northern Thailand and help them to continue to fulfill their international volunteer dreams.

(5) “2016 Hua Nan Financial Group Badminton and Table Tennis Tournament”

To cultivate a lively sports atmosphere for Group employees, promote physical and mental health, and enhance staff interaction and networking within the Group, the Company held the “2016 Hua Nan Financial Group Badminton and Table Tennis Tournament” at the National Taiwan University Sports Center on May 28, 2016. The theme of the event was “Express Yourself, Play for the Future.” The subsidiaries of the Group were called upon to form teams, and a total of 12 teams participated in the event.

(6) “2016 Hua Nan Financial Holdings Cup National Youth Baseball Tournament”

To continue the care for future baseball generations and cultivate links between enterprises and baseball, the Company held the national youth baseball tournament in its name. The preliminary matches for the event were held from June 2, 2016 to June 5, 2016 at National Taiwan University of Physical Education and Sport and Douliu Baseball Stadium. The top 8 teams played the finals from June 9, 2016 to June 12, 2016 at Xinzhuang Baseball Stadium and Taoyuan International Baseball Stadium. The Taoyuan City representative team won the championship.

(7) Donation of Baseball Gear, the “Dream Baseball Camp”

The Company held the baseball gear donation ceremony on June 28, 2016 at the Pingtung Baseball Field. General Manager Yun-Peng Zhang represented the Company to make donations to 8 schools in Pingtung, including the Fuxing, Taishan, Gaoshu, and Guanghua Elementary School little league baseball teams as well as the Hesheng, Gaotai, Gaoshu, and Hengchun Junior High School senior league baseball teams. The “Dream Baseball Camp” was also held on the same day. A total of 9 little league baseball teams (including Fuxing, Taishan, Gaoshu, Gaunghua, Xinnan, Futian, Daping, Yutian, and Xinfeng elementary schools) participated. Professional baseball players were invited to personally teach baseball skills to the participants in hopes of establishing a learning platform between the athletes and the participants. The professional players passed on valuable experiences, and the students got to witness the charm and style of the baseball stars and learn from them.

(8) “2016 LLB Asia Pacific Junior League Baseball Tournament”

The “2016 LLB Asia Pacific Junior League Baseball Tournament” sponsored by the Company was held from June 28, 2016 to July 3, 2016 in the Pingtung Baseball Field. This company made the contribution to promote international baseball tournaments domestically and to provide sufficient tournament participation resources and funding for the Chinese teams.

(9) The “2016 18th World Cup Junior League Baseball Tournament” Pre-game Cheering Ceremony and Cheerleading Group for the Chinese Taipei Team

The Chinese Taipei Junior Baseball Representative Team was selected from the “2016 Hua Nan Financial Holdings Cup National Youth Baseball Tournament,” which was part of the “2016 18th World Cup Junior League Baseball Tournament” from July 29, 2016 to August 7, 2016 in Fukushima, Japan. To appropriately show care and encourage the players, Deputy General Manager Yong-Chun Zheng visited the Taoyuan International Baseball Stadium before the tournament to visit the players and donate the training fund. Between June and July of 2016, lucky fans drawn from the “Hua Nan Financial Holdings Cup National Youth Baseball Tournament,” “Hua Nan Financial Holdings Cup National Youth Baseball Tournament,” and “Baseball Dream Come

True FB Fan Group” sites won free round trip tickets and accommodation to form an aid group that went to Tokyo to cheer on the Chinese Taipei Team!

(10) The Chinese Taipei Team Won the Championship for the “2016 LLB Asia Pacific Junior League Tournament”

The Chinese Taipei Junior Baseball Representative Team, consisting mainly of the Hsin Ming Junior High School of Taoyuan City, won a spot in the LLB Asia Pacific Junior League Tournament in July 2016, and flew to Michigan, USA for the world championship challenge. The Chinese Taipei team members have lived up to expectations and won five games in a row to win the “2016 LLB Asia Pacific Junior League Tournament” gold medal, creating the brilliant record of four consecutive gold medals for the Chinese Taipei team. The Company’s General Manager Yun-Peng Zhang personally visited the Hsin Ming Junior High School baseball team at the Pingzhen Baseball Field on September 1, 2016 to award monetary prize as an encouragement after the team’s return to Taiwan.

(11) “Sports Activists Award” Sponsorship Gold Medal and Long-term Sponsorship Award

Since 2007, the Company and the Chinese Taipei Baseball Association have invested in the Indigenous People Youth Baseball Cultivation Program, launched the “Baseball Dream Come True” charity events to hold little league care camps on a regular basis, organized Baseball Dream Come True Classrooms, etc., to gradually solidify the baseball foundation in Taiwan, benefit numerous youth baseball teams in rural areas, provide long-term sponsorships, and hold baseball tournaments and other relevant events.

In addition, the Company has jointly held the Unified Invoice Cup Marathon Events with the Ministry of Finance and the various Internal Revenue Service Districts since 2011 to promote jogging as a national sport. The Company has also held the “Group Badminton and Ping Pong Tournament” each year to inspire Group employees to participate in sports and promote sports in a diversified manner.

In 2016, the Company received the “Sports Activists Award” Sponsorship Gold Medal and the Long-term Sponsorship Award from the Sports Administration, Ministry of Education.

(12) “Third Cross-strait Free Trade Forum”

This company sponsored the “Third Cross-strait Free Trade Forum” jointly organized by Economic Daily News and the Shanghai Academy of Social Sciences and held in the Taipei International Convention Center on June 23, 2016. The most influential cross-strait economic elites were invited to discuss how cross-strait cooperation should be planned after China’s “13th Five-Year Plan” policy gets underway, Taiwan’s new political situation, as well as future cross-strait cooperation prospects. Mr. Yun-Peng Zhang, General Manager of the Company, served as the moderator for the “Cross-strait Innovation and Entrepreneurship Cooperation Development Opportunity” discussion forum.

(13) Taitung County “Typhoon Nepartak” Post-disaster Reconstruction Work

On July 8, 2016, Typhoon Nepartak struck Taiwan. Extremely forceful winds reaching force 17 of the Beaufort scale devastated the Taitung area and caused serious damage to agriculture fields and related facilities. The Group responded by making special donations to help with the disaster relief.

(14) “2016 Wealth Influence Forum”

This company sponsored the “2016 Wealth Influence Forum” organized by Wealth Magazine on July 13, 2016 at hotel Regent Taipei. The topic of the forum was “Next Step for the Global Economy? The Economic Countermeasures of Taiwan’s New Government and How to Save the Economy.” The forum was personally convened by Jin-He Xie, the president and editor-in-chief of the magazine. The presenter was Mr. Richard C. Koo, Chief Economist of the Nomura Research Institute in Japan. Mr. Chen, Chun, former Premier of the Republic of China (Taiwan) and Mr. Ming-Xin Gong, Deputy Minister of the National Development Council, also spoke at the forum.

(15) Yarlane Chen Taiwanese opera “Legend of the Cowherd and the Weaver Girl”

The Company sponsored for the second time the “Legend of the Cowherd and the Weaver Girl” jointly produced by Yarlane Chen Taiwanese opera and United Daily News. The opera ran from August 5, 2016 to August 9, 2016 at the Jhihde Hall of Kaohsiung Cultural Center and combined traditional opera and modern technology. The objectives were to cultivate local art, endorse Taiwanese culture, promote Taiwan’s traditional art, and enhance the Company’s public relations and marketing efficiency.

(16) “Secret Love for the Peach Blossom Spring: 30th Anniversary Edition”

The “Secret Love for the Peach Blossom Spring” is a beloved classic, and the commemorative stage play celebrated its 30th anniversary in 2016. The Company sponsored the stage play performances throughout northern, central, and southern Taiwan, facilitating interaction by the Group’s customers across Taiwan and enhancing the corporate image.

(17) Taiwan Futures Exchange “Food (Goods) Bank” Plan

In response to the Financial Supervisory Commission’s call for the financial industry to engage in social welfare, Taiwan Futures Exchange launched the “Food (Goods) Bank” and held the donation ceremony in the Taiwan Futures Exchange on August 8, 2016. Donations were jointly made by this Company, the Taiwan Futures Exchange, Taiwan Depository & Clearing Corporation, Joint Credit Information Center, Taiwan Cooperative Bank, and Taiwan Business Bank.

(18) “2016 Taiwan Competitiveness Summit”

The Company sponsored the “2016 Taiwan Competitiveness Summit” held by policy think tank Taiwan Competitiveness Forum on August 8, 2016 at the GIS Taipei Tech Convention Center. It was hoped that the summit would shed light on new government economic policies.



(19) “Swim in Arts – Rural Students Visiting National Palace Museum”

The Company sponsored the “Swim in Arts – Rural Students Visiting National Palace Museum” program to treat students from rural areas to a visit to the Southern Branch of the National Palace Museum. The press conference was held at the Southern Branch on August 9, 2016 to announce the initiation of the program. The program also provided an opportunity for the students to learn more about the beauty of Asian artifacts and expand their international perspectives.

(20) Accounting Research and Development Foundation 2016 Public Welfare Advocacy Event

The Accounting Research and Development Foundation is committed to improving professional standards for the long term and promoting the correct concept guidelines. The Company attaches much importance to the development of the accounting profession in Taiwan, and considering that the Foundation has been engaging in the increase of accounting professionalism and promotion of correct concepts in accounting standards, the Company sponsored the “Accounting Mascot Design Selection,” “Accounting Do Re Mi 101 Flash,” “Cross-strait Accounting Culture Training Camp,” and “2016 Accounting Standards Seminar” public welfare events organized by the Foundation in 2016.

(21) “The 28th Accounting Elite Cup Debate Competition”

The 28th “Accounting Elite Cup Debate Competition” was organized by the Accounting Research and Development Foundation and co-organized by the Department of Accounting, Soochow University. It was held at Soochow University from October 15, 2016 to October 17, 2016. This Company sponsored the event to promote interaction between practitioners and students, encourage debate, and help to produce elites in the business and academic circles.

(22) “Hua Nan Financial Holdings Taiwan/Japan Legendary Stars Charity Exhibition Contest”

The “Hua Nan Financial Holdings Taiwan/Japan Legendary Star Charity Exhibition Contest” sponsored in the name of the Company was held at the Taichung Intercontinental Baseball Stadium on Sunday, November 20, 2016 for the charity exhibition game between the Chinese Taipei team and Japan’s Yomiuri Giants Legendary Stars. During the opening ceremony, the Company invited hundreds of young players who had benefited from the “Baseball Dream Come True” to watch the game. At the event, the Company’s Chairperson, Mr. Dong-Jie Wu, accepted the “Baseball Dreams Come True: A Decade of Accomplishments” trophy from the Chinese Taipei Baseball Association. The trophy recognizes Hua Nan Financial Holdings’ efforts to promote baseball as a grassroots sport in Taiwan. Baseball legend Mr. Sadaharu Oh (Chen-chih Wang) witnessed the awarding of the trophy.

(23) “2016 MOF Uniform Invoice Road Run Cup (Taipei)”

In support of the government’s efforts to encourage public enterprises to organize charity events, the Company jointly held the 2016 MOF Uniform Invoice Road Run Cup (Taipei) on November 27, 2016 with the Ministry of Finance and the National Taxation Bureau of the Southern Area at the Presidential Palace square. The Group mobilized 3,000 staff, family members and clients to participate in the event. The event raised a total of over 360,000 invoices that went to charity groups.

(24) “Mischa Maisky Cello Recital”

The “Mischa Maisky Cello Recital” planned by Media Sphere Communications Ltd. was held at the National Music Hall on December 4, 2016. World-class cellist Mischa Maisky and his pianist daughter Lily Maisky performed on the same stage. Considering that promoting international high-quality art events helps to elevate our corporate image, the Company thus sponsored the event.

(25) “FinTech Big Data Forum”

The Company sponsored the “FinTech Big Data Forum” organized by Economic Daily News and held at the Hua Nan Head Office Building International Conference Center on December 19, 2016. International experts and domestic industry representatives were invited to participate and discuss the practical applications of Big Data in the FinTech field and future development trends, and to share their business success stories.

(26) “Excellent Hua Nan Care for the Elderly”

The Company has been jointly holding the “Excellent Hua Nan Care for the Elderly” charity event with the Hondao Senior Citizen’s Welfare Foundation since 2012. The event travels all over Taiwan at the end of each year to care for disadvantaged elderly persons in rural areas who live alone. The Changhua, Kaohsiung, Nantou, and Yilan events were planned for 2016. In addition to holding dinner parties and donations for the elderly, kits such as the “Destination Light Travel,” “Old Wisdom Inheritance and Sharing,” “Elderly Baseball Dreams,” “Break Through Fun,” “Meal Delivery Service,” and “Year-end Cleaning” were also incorporated. The Company also continued to support the “Love Meal Delivery Program” of the Hondao Senior Citizen’s Welfare Foundation by delivering meals to 30 disadvantaged elders in Taichung for an entire year. Meal deliveries to 20 disadvantaged elders in Yilan were added, and 200 sets of tableware were updated.

T

eamwork





Figure 1. "2016 FinTech Innovation Trend Forum" group photo.

Figure 2. "Third Cross-strait Free Trade Forum" group photo.

Figure 3. "Fintech Big Data Forum" group photo.

Figure 4. Mr. Yun-Peng Chang (first row, third from right), president of Hua Nan Financial Holdings, attended the "Food (Goods) Bank" joint donation ceremony.

Figure 5. "2016 Hua Nan Financial Group Badminton and Table Tennis Tournament" opening ceremony.

Figure 6. "Baseball Dreams Come True" baseball gear donation ceremony.

Figure 7. "Dream Baseball Camp" team members group photo.

Figure 8. Taoyuan City Representative Team won the "2016 Hua Nan Financial Holdings Cup National Youth Baseball Tournament" championship.

Figure 9. Hua Nan Financial Holdings held the "2016 18th World Cup Junior League Baseball Tournament" Pre-game Cheering Ceremony for the Chinese Team and donated the training fund.

Figure 10. Hua Nan Financial Holdings organized a fan group to cheer for the Chinese Taipei team during the "2016 18th World Cup Junior League Baseball Tournament" in Japan.

Figure 11. Mr. Yun-Peng Chang, president of Hua Nan Financial Holdings (last row, center) personally met the Chinese Taipei team at the Pingzhen Baseball Field and congratulated them for winning the "2016 LLB Asia Pacific Junior League Tournament" championship.

Figure 12. Hua Nan Financial Holdings received the 2016 "Sports Activists Award" Sponsorship Gold Medal and Long-term Sponsorship Award from the Sports Administration, Ministry of Education. President Ing-Wen Tsai personally presented the award to Mr. Yong-Chun Cheng, executive vice president of Hua Nan Financial Holdings.





Figure 13. "Baseball Dream Come True Tn Year Accomplishment" witness ceremony (from left: Tang-Chieh Wu, Chairperson of Hua Nan Financial Holdings; baseball legend Mr. Sadaharu Oh (Chen-chih Wang); and Zheng-Jing Liao, Associate Chairperson of the Chinese Taipei Baseball Association).

Figure 14. "2016 MOF Uniform Invoice Run Cup (Taipei)". A total of 368,188 invoices were raised.

Figure 15. Mr. Yun-Peng Chang, president of Hua Nan Financial Holdings (second row, fifth from left) attended the "Excellent Hua Nan Care for the Elderly" (Nantou) charity event.

VI The Company's Businesses

(1) HNFHC

1. Scope of Business:

(1) 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 the management of investing and invested businesses.

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

- (1) Financial holding business
- (2) Banking business
- (3) Bills financial business
- (4) Credit card business
- (5) Trust business
- (6) Insurance business
- (7) Securities business
- (8) Futures business
- (9) Venture capital business
- (10) Foreign financial institutions approved by the competent authorities for investment
- (11) 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 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 managerial personnel for the business. The total amount of investment in other businesses shall not exceed 15% of the financial holding company's net value. The financial holding company's investment in other businesses shall not exceed 5% of the voting shares issued by the invested business.

D. According to Article 6 of the Regulations Governing Cross Selling Management between Financial Holding Subsidiaries, cross selling businesses can be conducted between the subsidiaries of a financial holding company, in which the businesses cover the opening of deposit accounts, credit cards, securities brokerage, futures, funds and insurance.

(2) Business Ratios over the Past two Years:

Unit: NT\$1,000

Item	Year	2016		2015	
		Amount	%	Amount	%
Operating Income					
Share of Profit of Associates & Joint Ventures Accounted for Using Equity Method		14,591,924	100	14,250,348	100
Hua Nan Commercial Bank Ltd.		13,653,155	94	13,241,175	93
Hua Nan Securities Co., Ltd.		249,025	2	351,020	2
South China Insurance Co., Ltd.		600,590	4	606,101	5
Hua Nan Investment Trust Corp.		28,536	-	33,588	-
Hua Nan Venture Capital Co., Ltd.		10,436	-	6,151	-
Hua Nan AMC		50,182	-	12,313	-

2. 2017 Business Plan

The Company's 2017 business plan will continue the six orientations of diversified income sources, leveraged profit contribution, aggressive and integrated overseas deployment, innovation of financial products and service, enhancement of business operating quality and fulfillment of corporate social responsibility, in which the details are explained as below:

(1) Diversify income sources: Elevate the ratio of non-interest income

A. Use the surplus capital to elevate investment positions and operation efficiency; complying with investment regulations stringently in order to increase investment income.

- B. Increase the number of qualified wealth management business specialists, establish comprehensive sales services, continue the cross-selling culture, and actively strive to be the leading bank of syndicated loan and serve as a managing bank to enhance the Company's professional image and increase its fee income sources.
 - C. Take advantage of the Company's high-quality brand and extensive clients list, continue to cultivate quality customers, and expand the scale of credit assets to secure interest incomes.
 - D. Accelerate the disposal of non-performing assets, improve the performance of non-performing assets recovery, activate idle assets, and increase lease incomes in order to improve other incomes.
- (2) 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 merger opportunity to expand the Company's market size.
 - C. Maximize the Company's cross-sale comprehensive effects with cross selling and co-marketing referral mechanisms.
- (3) Aggressively integrate overseas deployment: Increase overseas footholds and profit contribution
- A. Greater China region:
 - a. Banking business: By working with leasing companies and the Company's subsidiaries to engage in cross-selling and the existing business locations in Shenzhen, Shanghai, Fuzhou, Baoan, etc., continuously evaluate and prepare to deploy branch office locations in China and their sub-branch office locations in order to deepen the markets in the Greater China Region.
 - b. Leasing business: In conjunction with Hua Nan Bank's branches in China to promote the business.
 - c. Securities business: Seek to establish the cross-strait joint venture with quality securities companies in mainland China and evaluate the feasibility of establishing investment strategic partnerships.
 - d. Property insurance business: In conjunction with the opening of international insurance operation branches, the Company plans a comprehensive integration of the strategic layout in the overseas market. The preliminary target for the future is to expand the reinsurance businesses in the Greater China region.
 - e. Investment trust business: Hua Nan Investment Trust has prepared the RQFII fund product plan in hopes of harnessing the business opportunity created after opening RQFII.
- B. Southeast Asia Region:
- a. Actively establish the Manila branch in the Philippines.
 - b. Actively apply for setting up of Yangon representative office in Myanmar.
 - c. Aggressively apply for the upgrade the Hanoi Office in Vietnam to a branch.
 - d. Keep an eye on the development trends of ASEAN emerging countries and carefully assess the feasibility of establishing branch agencies, mergers, acquisitions or equity participations.
 - e. Grasp the RMB internalization business opportunity and expand the scale of overseas OBU financing business to increase the profits of overseas units.
- (4) Innovation of financial products and services: Develop digital finance and financial innovations
- A. Adjust the access points of physical channels, strengthen the virtual and physical channel cross-over integration, flexibly use the banking facility spaces, introduce the commercial space design concepts, and develop a unique operational model.



- B. Accelerate digitization in operation, investment digital infrastructure, and apply emerging information technologies such as incorporate Big Data, Artificial Intelligence, and Cloud technology to facilitate the development of simple and secure digital financial products and services to enhance customer experiences and loyalty.
 - C. Respond to the trends of population aging and low birth rate, implement the focus operation concept, and launch the various debt and finance management products that meet the financial needs of different generations of customers.
 - D. Aggressively invest in the new FinTech business and apply a non-conventional business model of shared economy to promote business through horizontal alliances. Embrace the economic trends of digital banking and the Internet of Things.
- (5) Enhance business operational quality: Elevate asset quality and capital utilization efficiency and implement legal compliance, risk management, and internal control and auditing.
- A. Elevate asset quality and capital utilization efficiency.
 - B. Implement legal compliance, anti-money laundering, risk management, and internal control and auditing.
 - C. Promote happiness enterprise values, treasure people-oriented concepts, and use the right personnel for the right job in order to meet business development requirements.
 - D. Create a young brand image, promote SnY digital financial products, incorporate co-branded credit card cooperation opportunities, endeavor to attract new young or regional customers, and drive the consumer financial business opportunities.
- (6) Fulfill corporate social responsibility:
- A. Strengthen corporate governance: Protect shareholder's equity, elevate the operating efficiency of the Board of Directors, promote business integrity, perfect regulatory compliance, and maintain a risk management mechanism.
 - B. Protect customer rights and interests: Ensure customer rights and interests, stress the protection of personal information, and place a premium on product liability.
 - C. Place a premium on personnel care: Set up a well-rounded employee remuneration and welfare system, reinforce personnel training, maintain smooth communication with personnel, and perfect the complaint system.
 - D. Maintain environmental sustainability: Introduce the office site energy management project in due time and continue to purchase green environmental items. Endeavor to participate in related international initiatives in conjunction with the policies of competent authorities.
 - E. Social participation: Continue to actively promote charitable trusts established for the purpose of public interests. Enrich the security, pleasure, and heritage trust services for the care of the elderly and the disabled. Sponsor public welfare activities and care for community groups that require assistance.
 - F. Prepare the corporate social responsibility report: Compile the Company Corporate Social Responsibility Report based on the aforementioned activities in accordance with the latest version of the sustainability reporting guidelines published by Global Reporting Initiatives (GRI) to indicate how HNFHC values its stakeholders in its operational processes.
- ### 3. Industry Overview:
- (1) Financial management
- A. Status of the banking industry: The entire banking profits for 2016 were approximately NT\$300.1 billion, which decreased by NT\$19.5 billion or 6% compared with NT\$319.6 billion in profits for 2015. This decrease was primarily caused by profit reductions from OBU and overseas branches, RMB exchange losses, and an increase in bad debt reserve preparations for corporate loans and TRF. It is estimated that the overall economy will stabilize in 2017 and businesses will continue to prosper. However, there are still challenges such as lending growth stagnations, low interest rates, and rising legal compliance costs.

B. Status of the security industry: The entire security profits for 2016 were NT\$19.3 billion, which decreased by NT\$6.7 billion, or 25%, compared with the NT\$26 billion in profits for 2015. The primary causes for this were that although the TAIEX increased by 10.98%, trade volumes decreased by 15% and the brokerage fee income reduced by approximately NT\$6.6 billion. Additionally, the net proceeds of the warrants issued and derivative profits have decreased and caused business profits to decrease by approximately NT\$1.5 billion. Underwriting profits have decreased by approximately NT\$570 million as well. In 2017, it is anticipated that policies such as the tax reduction on day trading and dividend tax reform will help to enhance the TAIEX's trading volumes.

C. Status of the property insurance industry: In 2016, the profits of the entire property insurance industry were approximately NT\$10.712 billion, which decreased by NT\$205 million, or 1.87%, compared with 2015 profits. The primary causes of this included successive natural disasters that led to numerous major claims. However, thanks to the commodity tax reduction leading to the increase of new car sales, and the Company's appropriate hedging measures, the rate of decline was insignificant. In recent years, the industry as a whole has experienced a stable income of more than NT\$10 billion per year. However, the local market has reached a mature stage, and its growth has thus been limited

(2) Marketing

Competition has become increasingly intense in the already highly competitive financial market environment. This has occurred together with digitalization development trends in areas such as the Internet of Things, social media, mobile communications, Big Data analysis, and Cloud technologies as well as the successive establishments of new companies that focus on FinTech applications and cross over into the financial field (such as integration of block chain, AI asset management, and biometrics integrating into financial services).

In response to customer demand changes in light of technological progress and the digital era, the Group has focused on continuous innovation, new technology application, and ultimate customer service orientations to adjust the Group's businesses and operating models in a steady and sustained manner. This has been as a strategy to ensure market advantages under this intensively competitive and rapidly changing digital era.

4. Research and Development

(1) The R&D expenditures of the Company for 2016 and 2015 were NT\$1,191,000 and NT\$970,000 respectively, and they primarily comprised of staff training costs. In the future, the Company's R&D plans will be devised based on company development strategies, and the Company will deploy colleagues in different professional fields to participate in diversified training courses and seminars in order to strengthen professional knowledge and cultivate high quality talents.

(2) Marketing

A. Research and development expenses over the past two years:

The R&D expenditures for 2015 and 2016 were NT\$26,000 and NT\$145,000 respectively. In the future, the R&D contents will primarily cover the following: the Internet of Things and related financing, digital financial era channels using O2O customer operations, implementation plans to upgrade existing customers into digital customers, new customer addition implementation plan (including digital customers), and comprehensive digital financial platform planning and design.

B. Research and development results over the past two years:

a. Customer operating and management mechanism

Organized and established HNFHC's customer relationship management operation mechanism to specifically define the customer operating attributes of respective subsidiaries. Also selected the Company's prioritized customers according to customer values. The customers were divided into three groups, including "high value,"



“potential,” and “general” according to their varying attributes and requirements. HNFHC established a consistent customer relationship management operating mechanism within the Group, and improved system process, data analysis and personnel training continuously. The concrete operating effects included making priorities of stabilizing the growth of prioritized customer’s average product quantity year by year, growing the scale and adherence of high value customers, and expanding the pool of investing customers, all of which can facilitate the increase of the Company’s fee income.

b. Preliminary results of digital finance promotion

At present, the various subsidiaries are optimizing their products, channels, technologies, and personnel in terms of the existing market fundamentals and technological developments in order to satisfy the habits and experiences of digital customers:

- i. Complete digital channels and continue to promote the transformation of physical channels.
- ii. Optimize the online application process, the payment environment, and strengthen customer usage convenience.
- iii. Operate social media bilateral interactions through the establishment of a dedicated digital marketing team.

c. Business Intelligence analysis techniques

Decision tree and logistic regression algorithms were adopted to establish the models of “Customer Product Purchase Propensities”, “Fund Customer Win-back”, and “High-value Customer Asset plummet Forecast”. It assisted the subsidiaries in enhancing product sales and customer maintenance effectiveness.

d. HNFHC employee’s sales integration platform

The newly established HNFHC employee sales integration platform is the first in the industry created for case entry, dispatch, and management. The platform is used by all of the Company’s subsidiaries, and it facilitates the smoothing of the sales process across the

subsidiaries through systematic management. Also, by employing the “CRM system” and “KPI system”, the efficiency of marketing analysis, sales application, and effect management can be enhanced.

C. Future research and development plans:

In response to the digital finance trend, the Group will construct a comprehensive Big Data processing environment and create a digital marketing platform that is fully digitalized, well designed, and flexible. We will continue to cultivate Big Data analysis energy and strengthen FinTech technology application capabilities:

a. Big Data processing environment

Enhance hardware and software equipment and establish a system environment that can collect, store, and process large volume structured and unstructured data. Introduce customer networking, financial, and digital channels behavior Big Data analysis techniques. Optimize current data exploration and model construction performance and convert the massive volume of data into information that can facilitate business promotion.

b. Comprehensive digital marketing platform:

- i. Establish a 360° View of the Customer using customer-oriented information (attributes, behaviors in transactions, customer service records, website visitor tracking, etc.) via Big Data collection. Optimize customer segmentation and management to enable first-line personnel to thoroughly understand customer needs and gain insight into potential business opportunities.
- ii. Construct an automatic real-time interactive marketing platform that integrates various contact channels to incorporate digital marketing into the real-life scenarios of customers by instantly recommending the best solutions and providing more refined and accurate multi-band marketing services. Tracking customer dynamics in order to improve the business achievement rate.

c. Big Data analysis:

- i. Through rigorous training courses and mechanisms, we cultivate a Big Data analysis team in hopes of imparting successful experiences, allowing Big Data energy to take root in the Group, and expanding practical applications in the various business units.
- ii. To master the latest Big Data analysis technologies and applications, hold lectures and invite experts to share Big Data analysis practical application points and future trends to ensure that the Group can develop, maintain, and disseminate the results of Big Data energy.
- iii. Plan industry/academia cooperation events and establish campus financial exchange platforms to absorb financial service innovations. Discover potential talent and cultivate the future talent energy of the Group as early as possible.

d. FinTech technology application capability:

The Group closely monitors FinTech development trends, actively participate in any financial technology development promotion projects proposed by the Financial Supervisory Commission, and research and evaluate the development and feasibility of new business application technologies such as decentralized bookkeeping technology, Usage-Based Insurance (UBI) policy products, and identification technologies, etc.

(3) Risk Management

A. Reach a balance between risk and return

In order to achieve a balance between risks and returns, HNFHC plans to use the Risk-Adjusted Return on Capital (RAROC) to evaluate its respective businesses and understand each business' risk-adjusted profitability. Then, we will draft business development strategies beforehand to elevate capital allocation efficiency and measure risk-adjusted performance after the execution of these strategies.

B. Renew the asset and liability management system

The Company will assist its subsidiaries in renewing their asset and liability management system and 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.

C. Management of non-financial risk

To meet global trends and comply with the main supervision points carried out by the competent international authorities, HNFHC will strengthen its study and management in other non-financial risk special fields, e.g. operational conduct risk, in order to obtain an outline of Company's overall risk.

D. In addition to having a review mechanism for subsidiary financial management and asset management related new products, HNFHC also implements a second layer review mechanism for financial holding related products. This is done to offer customers products which can create value for them, protect customer rights and interests, and maintain the Company's reputation based on its fulfillment of social responsibility.

5. Long-term and short-term business development plans

(1) On the financial management front

A. Short-term aspects

- a. Diversify income sources
- b. Leverage the Group's profit contributions
- c. Aggressively integrate overseas deployment
- d. Innovate financial products and services
- e. Enhance business operating quality
- f. Fulfill corporate social responsibility



B. Long-term aspects

Other than its spontaneous growth, in the face of the over-competition of local financial institutions and acceleration of deployment in the overseas market, HNFHC hopes to acquire or merge good quality financial institutions (those with complementary strength) to broaden its business size, enhance its global competitiveness, and make headway towards the greater vision of being an excellent global financial institution in the Asia Pacific region.

(2) On the Marketing Front

A. Short-term business development plans:

- a. Continue to focus on the customer management strategy directions of “expanding the scale of high value customers” and “increasing the ratio of the active customers holding high-contribution products”. Additionally, concentrate on “increasing the ratio of the active customers using digital product and service” in response to digital financial environment trends.
- b. The customers of the Group shall be managed by categories based on their customer values. Conduct research on applying the membership economy concept to customer management and plan more diverse digital products and services to accurately grasp the needs of customers. Provide consistent experiences to our customers on different channels, and implement a “customer-centric” business philosophy.
- c. Integrate subsidiaries’ products, promote composite-product marketing campaigns, satisfy customer requirements for well-rounded banking products, and maximize HNFHC’s marketing synergy.
- d. Integrate the Company’s marketing resources, enhance HNFHC’s brand image and reinforce the advertising and publicity of the focused products in which digital advertising is used as the media to elevate the digital banking brand image.

e. Establish a “corporate banking integration marketing team” across subsidiaries, and use the cross-industry marketing platform to continue to promote corporate banking integration marketing and increase the volumes of corporate banking business.

f. Utilize the HNFHC employee sales integration platform to systematically manage case entry and dispatch across subsidiaries so the sales process across subsidiaries can be smoother and cross-selling strength can be elevated.

g. Establish a comprehensive digital marketing platform using the real-time decision-making and the design and management interactive precision marketing platforms that offer the best personalized content and customized pricing marketing strategy to provide consistent experiences to the target customers in order to achieve accurate marketing purposes.

h. Guide employees to garner various business marketing licenses to aggressively strengthen the professional image and business capacity of all employees and attain the goal of marketing across the board.

B. Long-term business development plans:

- a. Continue to increase the ratio of cross selling businesses to maximize the HNFHC cross-business marketing synergy.
- b. Execute the concept of “Internet- and Technology-based Financial Services and Products that Integrate into the Customer’s Life” to enhance the volume of digital customers. Accumulate Big Data analysis results in order to accurately meet customers’ needs, facilitate rapid decision implementation, and support instant error corrections. Gradually construct a comprehensive digital financial platform to continue to optimize customer experiences, strengthen the promotional performance of the various businesses, and strive to become a high-quality digital financial institution.

- c. Elevating the long-term satisfaction achieved through customer services: Continue to increase the number of the members of the HNFHC's IE Life Reward points Redemption Platform and expand the redemption business so as to assist respective subsidiaries in reinforcing the business adherence between customers and the Company.

(2) Hua Nan Commercial Bank (HNCB)

1. Businesses scope:

(1) Major business items:

Business items currently undertaken by the HNCB are as follows:

- ※ Accept a variety of deposits (including checking deposits, demand deposits, time deposits, savings deposits, etc.).
- ※ Issue bank debentures.
- ※ Engage in the loan business (provide short-term, mid-term, long-term, deposit certificate pledge, 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 a collecting and payment agent.
- ※ Act as an 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 an agent to sell gold bullion, gold coins, and silver coins.
- ※ Trade gold bullion, gold coins, and silver coins.
- ※ Engage in international businesses covering export and import businesses exchange, 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.
- ※ 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 trusts.
- ※ 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 discretionary investment services in a form of trust.
- ※ Act as an agent to issue, transfer and register securities. Also distribute stock dividends, interest, and bonuses.
- ※ Offer consulting services for issuance and placement of securities.
- ※ Act as a certifying agent for 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.
- ※ Actual transaction funds for collection and payment agency.
- ※ Stored funds received.
- ※ Fund transfers between e-payment accounts.

(2) Primary operating income ratio contents

Summary Table of Incomes from Main Business

Unit: Millions of NT dollars

Year Business item	2016		2015		Increase / (decrease)	
	Amount	Share (%)	Amount	Share (%)	Amount	Ratio %
Corporate banking	12,635	25	13,053	27	(418)	(3)
Consumer banking	12,399	25	13,429	28	(1,030)	(8)
Banking transactions	7,267	15	5,934	12	1,333	22
Foreign exchange	12,666	25	11,056	23	1,610	15
Trust and wealth management	3,596	7	3,348	7	248	7
Other	1,644	3	1,647	3	(3)	0
Total amount of main incomes	50,207	100	48,467	100	1,740	4

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

(3) New financial products and services planned to be developed in the future:

- ※ Aggressively promote the digital banking business, expand the customer group of the digital business, and establish the foundation for digital banking operations.
- ※ Introduce automated service equipment, integrate the virtual and physical channels to supplement the physical branches, provide diversified self-service and interactive experiences, shorten processing times, and save on labor costs for the branches.
- ※ Aggressively develop the e-payment business. Collaborate with payment industry counterparts such as HCE and EasyCard to maximize the Company's comprehensive effect and create a win-win success.
- ※ Plan and execute the customer service channel marketing project (including inbound and outbound telephone marketing) to increase joint marketing business volumes and enhance customer business adherence and contributions.
- ※ Plan and construct the "Smart Text Dialogue" and "Voice to Text" platforms in response to the financial digital development in order to provide novel customer service experiences.
- ※ Plan and implement the HNFHC IE Life Reward points platform, the "Come Together" project, in order to facilitate a full range of financial products and services and link platform gift points.
- ※ Plan and implement the upgrade project of the "full customer service system".
- ※ Plan and build "Smart Voice Dialogue and Navigation".
- ※ Take advantage of the "5+2" key innovation industry opportunities promoted by the government to actively increase the number of corporate customers with development potential by providing customized project financing products to such customers.
- ※ Strengthen the cross-sectoral integration functions via the "Regeneration Operation Promotion Team," and partner with large-scale construction corporations and real-

estate management companies to provide regeneration plans and financing services to comprehensively master regeneration business opportunities.

- ※ In response to the New Southward Policy, the Bank has continued to apply to upgrade the Hanoi representative office to a branch, establish a branch in Manila, the Philippines, and establish a Yangon representative office in Myanmar. The Company hopes to participate in their local economic growth, serve the local Taiwanese enterprise, and enhance the profit performance of the Bank.
- ※ Under consideration of credit and loan quality, the Bank has planned to launch the new product “Good Luck Home Credit” (mortgage companion fund) to raise the other individual loan amounts.
- ※ Actively introduce young customers. Jointly issue co-branded cards with President Chain Store Corporation and Warner Bros.
- ※ Expand the electronic ticket market and co-branded card businesses. Plan the issuance of a co-branded card with the Far Eastern Group, strive for an opportunity to issue a second department store co-branded card by this Bank, and bring in new credit card customer groups.
- ※ Develop diversified individual financial products. Distinguish the three target customer groups of youth, prime, and elderly generation. Engage in sub-group client cultivation to strengthen the debt and financial management services and satisfy the diversified financial needs of the various generations of customers.
- ※ Continue to add subsequent foreign funds into fee collection types as trustee investment subjects in order to enhance trust product diversity.
- ※ Strive to win over the business opportunities in the retirement security needs market. Continue to promote the safety and health-care trust and incorporate individual investment products, loans, and credit cards to jointly create happy lives for customers.

- ※ Strengthen customer awareness of foreign bonds. Employ funds and insurance as part of the asset allocation plan for customers.
- ※ Establish the Bank’s image as the trust business brand for the elderly.
- ※ Properly adjust the allocation of excess NTD current assets and elevate the yield of current capital.
- ※ Collaborate with the international financial status changes to strengthen foreign currency securities investments and increase capital gains and dividend incomes.
- ※ Flexibly leverage the net FX swap position to increase the Banks’ income.
- ※ The Bank is anticipated to initiate an investment product that includes two to three item combinations among interest rate, exchange rate, commodity, and equity. This product will be based on the principal-guarantee framework.

2. 2017 Business plan:

- (1) Promote new demand deposit customer sources and construct a qualitative and quantitative deposit structure.
- (2) Continue to increase the share of the gold passbook market and reinforce the gold coin sales business to increase service incomes.
- (3) Strengthen the cross-sale group securities brokerage, property insurance, and investment trust fund business products to elevate the Bank’s ratio of joint marketing with the Group and increase service incomes.
- (4) Promote physical channel transformation, screen suitable branch offices, incorporate local characteristics and the integration of new technology applications, and develop different operational formats such as smart branches or localized branches to strengthen the brand image and optimize customer experiences.
- (5) Strengthen e-banking competitiveness:
 - ※ Provide personal digital financial services originating from the daily living scenarios of the consumers to create a “digital living circle”.
 - ※ Use the latest dual B technologies (Big Data and Block Chain) to accurately grasp customer needs, create value, and enhance competitiveness.



- (6) Plan and execute the customer service channel marketing project (including inbound and outbound telephone marketing) to increase joint marketing business volumes and enhance customer loyalty and contribution.
- (7) Plan and construct the “Smart Text Dialogue” and “Voice to Text” platforms in response to financial digital development to provide novel customer service experiences.
- (8) Plan and implement the HNFHC IE Life Reward points platform “Come Together” project to facilitate a full range of financial products and services. Link platform gift points.
- (9) Plan and implement the replacement of the “full customer service system” project.
- (10) Continue to adjust the corporate finance lending structure in the currency of NTD. Improve the profitability of small and medium enterprises lending, and take advantage of the various relevant policy preferential loan projects and credit guarantee mechanisms to reduce the Bank’s credit risks and improve credit business competitiveness for mid- and small-size businesses.
- (11) Actively promote bank loan business sponsorship and management. In addition to cultivating quality customers, the Bank will strengthen its cooperation with financial peers to participate in international loans. This will improve the Bank’s market share in the loans market and increase service charge incomes.
- (12) Enhance corporate finance commission incomes. Strengthen corporate finance personnel professional knowledge and marketing abilities to provide individualized customer financing programs and expand the sources of revenues.
- (13) Take advantage of the “5+2” key innovation industry opportunities promoted by the government to actively increase the number corporate customers in the relevant industry, provide customized project financing products, and strengthen customer loyalty.
- (14) Continue to promote online e-financing operations, fight for customer supply chain financing opportunities, and cultivate new business customers using the online financing promotion activities and the center factory suppliers list. Increase customer business exchange adhesion and increase the average financing balance of this business to increase revenues.
- (15) Expand the self-liquidating loan businesses, reward business units for actively searching for customer sources using the development supplier list and conduct regular promotion activities. Strengthen cooperation with financial industry peers to search for large receivables acquisition sources to increase the credit business volumes and revenues.
- (16) Strengthen contacts with large-scale construction companies and visit the primary construction companies in the industry via the “Regeneration Operation Promotion Team”. Actively participate in regeneration forums or seminars in order to fully take advantage of regeneration business opportunities.
- (17) The Bank’s bases in the Greater China region include Hong Kong, Macau, Shenzhen, Fuzhou, and Shanghai. Our scope of operations covers Southern China, Western Taiwan Straits Economic Zone, and Yangtze River Delta regions, where Taiwanese corporations have the strongest presence in mainland China. The abundant business outlets and flexible financial products and services can provide comprehensive financial flow solutions to our Taiwanese corporation customers in mainland China.
- (18) In response to the New Southward Policy, the Bank has continued to apply to upgrade the Hanoi representative office to a branch, establish a branch in Manila, the Philippines, and establish a Yangon representative office in Myanmar. This has been done to participate in local economic growths, serve the local Taiwanese corporations, and enhance the Bank’s profit performance.
- (19) Continue to practice client segmentation, precision marketing, strengthen management of high-quality customers, increase customer loyalty, and increase product profitability.

- (20) Integrate personal financial products, develop diverse individual financial products, distinguish and cultivate the targeted customer groups, and strengthen debt and financial management services in order to satisfy the diverse financial needs of the customers.
- (21) Under consideration of credit and loan quality, the Bank has planned to launch the new product "Good Luck Home Credit" (mortgage companion fund) to raise the other individual loan amounts.
- (22) Actively introduce young customers and jointly issue co-branded cards with President Chain Store Corporation and Warner Bros.
- (23) Expand the electronic ticket market and co-branded card businesses. Plan to issue a co-branded card with the Far Eastern Group, strive for an opportunity to issue a second department store co-branded card by this Bank, and bring in new credit card customer groups.
- (24) Establish credit card comprehensive customer services and promote suitable credit card products for different customer groups.
- (25) Continue to cultivate consumer channel concessions in areas such as food, tourism, wholesale, 3C, online shopping, fuel, and department stores to enhance card owner contribution levels and actively expand new cooperation channels.
- (26) Enhance customer's investment performance in conjunction with a high-value customer investment proposal system to recommend asset allocation for customers to increase the overall portfolio benefits.
- (27) Comprehensively increase the quality and quantity of financial management personnel and counselors to strengthen the counter personnel's ability to provide assistance and exert full personnel marketing functions.
- (28) Develop new customers and maintain old customers to establish a comprehensive post-sales procedure. Distinguish customer groups based on asset scale and attributes, effectively operate customer groups at all levels using diversified activities, and activate and energize the existing financial customers.
- (29) Continue to add subsequent fee collection type foreign funds as trustee investment subjects to enhance trust product diversity.
- (30) Strive to win retirement security needs business opportunities. Continue to promote safety and health-care trust, and incorporate individual investment products, loans, and credit cards to jointly create happy lives for customers.
- (31) Properly adjust allocation of excess NTD current assets and elevate the yield of current capital.
- (32) Collaborate with international financial status changes to strengthen foreign currency securities investments and increase capital gains and dividend incomes.
- (33) Flexibly leverage the net FX swap position to increase the Bank's income.
- (34) The Bank is anticipated to initiate an investment product that involves two to three item combinations among interest rate, exchange rate, commodity, and equity. The product will be based on the principal-guarantee framework.
- (35) Attract larger scale credit risk-free professional customers whose primary need is hedging supplemented by financial operations. Steadily promote the exchange rate derivative financial commodity businesses and increase product type diversity (e.g., investment products with different linked subjects, currencies, and periods), especially for low-risk principal-guarantees products to satisfy customer investment needs under risk considerations.



3. Industry overview: Industry's current status and development

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 overseas. Given that China's economy has slowed down and faced industrial structure adjustment, many Taiwanese enterprises have turned their investment attentions to the emerging markets in Southeast Asia. Local banks have also aggressively assessed the development potential of other countries such as Southeast Asian countries, and they have examined the feasibility of expanding their deployment in those countries to have more sources of profit.

4. Research and development:

List the R&D expenditures and results incurred over the past two years, and roughly describe the future R&D plan.

R&D costs for the last two years: NT\$11,464,000 for 2015 and NT\$11,222,000 for 2016. Primarily used for commissioned survey and research, newspaper and magazine purchases, lecture fees, royalties, and printing and binding costs.

R&D items for the last two years: A total of 156 cases have achieved results, which has significantly benefited the Bank's business performance, operational efficiency, and service quality improvement. In the future, this bank will continue to encourage employees to conduct R&D work in order to generate high level performance and contribute to business success.

5. Long-term and short-term business development plans:

(1) Short-term business development plan:

- a. Continue to undertake the charity lottery wholesale and prize distribution operations to increase risk-free service charge income.
- b. Construct a qualitative and quantitative deposit structure and increase service charge income.
- c. Offer diversified mobile digital banking services to fight for more mobile business opportunities.

- d. Adjust the corporate finance loan structure to increase lending operations to more successful small- and mid-sized enterprises.
- e. Actively promote bank loan business sponsorships and managements to improve the Bank's market share in the loan market and increase the service charge incomes.
- f. Reinforce the integration of banking product marketing services through the corporate banking integration marketing work team to provide customers with well-rounded banking service planning and elevate high-end customer group contribution.
- g. Employ niche marketing method for theme products to provide both customized and differential services to satisfy customer demands and increase the Bank's income
- h. Value customers' investment performance in conjunction with a high-value customer investment proposal system to recommend asset allocation for customers to augment the size of the assets dealt through the Bank.
- i. Continue to expand financial management teams, strengthen counter personnel's referral ability and maximize the all-out marketing function.
- j. Strengthen the customers' awareness of foreign bonds and use funds and insurance as part of the asset allocation plan for customers.

(2) Long-term business development plans:

- a. Continue to promote operating unit's transformation plan to elevate the channel effect.
- b. Strengthen the physical and digital channels and development cross-industry cooperation and innovative technologies. Construct digital life circles, and continue to enhance customer satisfaction.
- c. Plan and build "Smart Voice Dialogue and Navigation".
- d. Continue to adjust the bank's revenue structure, actively explore corporate finance service charge sources, and increase the ratio of risk-free service fee charge sources.

- e. Develop diversified individual finance products. Distinguish the three target customer groups of youth, prime, and elderly generations and use sub-group marketing to strengthen the debt and financial management services and satisfy the diversified financial needs of the various generations of customers.
- F. Provide diversified products and services to customers, enhance the quantity and quality of financial management and counseling personnel, and satisfy customer integration planning needs.
- g. Continue to enhance the information system and customer data analysis capabilities to execute customer segmentation management.
- h. Establish the Bank's image as the trusted business brand for the elderly.

- ※ Engage in the wealth management business.
 - A. Provide consulting services for asset allocation, 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.

(2) Business operating income ratios over the past two years:

Unit: Thousands of NT dollars

Year Business item	2016		2015	
	Amount	Share (%)	Amount	Share (%)
Brokerage	1,852,280	88.20	1,926,747	91.43
Underwriting	78,792	3.75	48,342	2.30
Proprietary business	168,997	8.05	132,188	6.27
Total	2,100,069	100.00%	2,107,277	100.00

(3) Hua Nan Securities

1. Businesses scope:

(1) Major businesses 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 purchases, and short sales.
- ※ Consigned trading of foreign securities.
- ※ Engage in securities related auxiliary futures trading services.
- ※ Concurrently engage in the securities related futures business.

Elaboration on changes in contribution of respective major businesses to operating incomes:

A. Brokerage business: The average daily volume for the overall stock market in 2016 was approximately NT\$97.89 billion, which decreased by approximately NT\$114.947 billion, or 14.84%, compared with that of 2015. The Company's average market share for 2016 was 2.72%, which grew by 3.82% compared with 2.62% in 2015. Brokerage business revenues for 2016 were reduced to NT\$1.583 billion compared with NT\$1.853 in 2015. The brokerage fee net income achieving rate was 83.37%. The TAIEX and trade volumes of the domestic stock market for the fourth quarter were weak, and the overall brokerage business profits were NT\$240 million. This was due to the U.S. Fed rate hike, NTD devaluation, excessive capacity in regions except for the U.S., such as China, poor fundamentals for other regions, raw material price decrease, geopolitical conflicts, domestic political party alternation, and other factors during the second half of 2016.



B. Underwriting business: The total underwriting income for 2016 was NT\$94,445thousands which grew by 108.58% compared with that of 2015. This was primarily due to the active development of fund raising businesses in the market. In 2016, we handled 11 SPO organized underwriting cases and ranked number 5 throughout all brokerage firms. We also cleared out inventory with poor operation and development prospects and achieved SPO, emerging stock, and inventory underwriting sales profits to significantly increase the securities revenue compared with that of 2015. Therefore, pre-tax transformed from deficit loss into a profit of NT\$1,788thousands in 2016.

C. Proprietary business: Stock proprietary business profits for 2016 were NT\$45,896thousands, an improvement from NT\$38,447,000 compared with those of 2015. However, the budget achieving rate was not ideal. The primary cause was for this was that Taiwan stocks are too focused on small-cap stocks and tend to miss out on the investment opportunities in large stocks. The proprietary business unit improved the shortcomings of 2015 in 2016 and will oversee these issues in order to achieve the expected profit. We will also increase ETF investment parts to reduce the impacts of stock selection in hopes to improving investment performance in the coming year.

(3) New financial products and services planned for development in the future:

Given that many securities related laws and regulations are being lifted, various new financial products will be successively introduced. Under such circumstances, Taiwan's major securities firms have been up and running, proactively worked on research and planning and cultivating required talent. On the outlook for this year, Hua Nan Securities will evaluate and plan the following new products and related businesses according to the progress made by the competent authorities in lifting related laws and regulations:

A. Promote trust type wealth management businesses, introduce insurance related financial management commodities, provide customers with a variety of commodity choices, and research and develop RMB commodities.

B. Aggressively develop a well-rounded investment banking business: As encouraged by the government to transform securities firms into investment banks, Hua Nan Securities has developed its financial consulting business to include services such as corporate re-organizations, acquisitions, or mergers. We have also included other broadly defined brokerage and underwriting businesses to endeavor toward establishing a well-rounded investment bank.

C. Aggressively prepare for the opening up of Taiwan to Chinese nationals to invest in funds, ETF and stocks, and plan to promote related businesses.

D. While expecting the Shenzhen-Hong Kong Stock Connect, the Company will look for any cooperation with a broker securities firm in Hong Kong to develop the Shenzhen-Hong Kong Stock Connect re-consigned trading business in response to investor demand Shenzhen A shares through the Shenzhen-Hong Kong Stock Connect.

E. Design and promote derivatives such as call/put warrants, asset swaps and structured products.

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

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

H. Study the feasibility of introducing the new-type international offshore securities units (OSU) business to expand the space of business operations.

2. 2017 Business plan:

Looking forward to this year, global financial risk is expected to rise sharply. The U.S. Federal Reserve (Fed) announced interest rate increases of 0.25%, officially declaring that the United States has entered a rate hike cycle. This means the end of the hot money flowing around the global financial disorder phenomenon, and financial leverage will become the new norm. Although the quantitative easing of Europe and Japan continues, the economic impact of monetary policy has significantly declined. Employing aggressive fiscal policy to replace the monetary policy has gradually become an international consensus. Political risk is another variable for the global economy this year. There are endless black swans in the global market that disturb the global economy, such as Britain's Brexit referendum, Trump's victory for the U.S. presidency, and the constitutional amendment referendum failure in Italy. With President Trump taking office, the commencement of Brexit, the French presidential election, and the German federal election are key factors to whether the global political and economic climates will become more inclined to populism. China's economic climate changes and the 19th National Congress of the Communist Party of China are also related to the stability and future development of China.

As policies with high degrees of uncertainty continue to be doled out in Britain and the United States, future outlook risks include increasing protectionist pressures, financial market chaos, and worse-than-expected growth for the major economies. World Bank's global economic growth forecast was revised to 2.7% on January 10, 2017 from the 2.8% prediction made in June 2016. Its US economic growth forecast for the year remains unchanged at 2.2%. Domestically, the Directorate-General of Budget, Accounting, and Statistics estimated the economic growth rate of Taiwan to be 1.87% for this year, which is slightly higher than the 1.35% for last year. The several major domestic institutions also hold a more conservative view. Taiwan's economy this year may

face the problem of whether the economic growth can stay at least at 2%, which signals instability in the near future and is indeed worrisome.

The brokerage operating environment must undergo rapid changes due to the continued shrinkage of Taiwan stock volumes and the arrival of the Financial 3.0 digital environment. The brokerage channel strongholds will continue last year's progress in working to strengthen consolidation, save costs, supervise the transformation of salespersons into all-rounded financial management commissioners, and increase the operating niche for insurance, funds, and overseas recommission wealth management operations. Meanwhile, we will also expand new service lines such as unrestricted usage loans to increase the overall profit. The government will also implement revitalization measures by reducing the day trading transaction tax, rich tax, and regular fixed time and amount Taiwan stock transactions. It will also reduce or revise unreasonable tax policies such as different taxes for internal and external funds, in hopes of encouraging the momentum of recovery and injecting energy into the Taiwan stock market. The Company's supervisors and colleagues plan to take advantage of these opportunities and continue to work hard. The Company's operating principles are as follows:

- (1) Cultivate and recruit related business talents so as to elevate the standard of overall business workforce of the future.
- (2) Adjust the operating models of the branch offices. Educate the existing salespersons and transform them into comprehensive finance specialists. Promote the relevant wealth management products, such as funds and insurance, and provide more product selections to customers in response to the advent of Financial 3.0 Digital Era.
- (3) Strengthen the channel marketing strategy domestically to improve channel operating performance.
- (4) Reduce operating costs through channel mergers and relocations, and seek any acquisition opportunities to increase the Company's market share.
- (5) Combine related study resources to steadily conduct stock dealing operations and strictly abide by the stop-loss mechanism.



- (6) Promote the internationalization project in mainland China and Southeast Asia to enhance the Company's overseas niche edge.
- (7) In conjunction with the opening up of laws and regulations, continue to promote new types of businesses to increase the relevant niche, such as "unrestricted use capital loan" or "securities firm entrusted fixed time and amount securities trading".
- (8) Promote international securities branch OSU business and trust-type wealth management business.

3. Industry overview:

- (1) The securities industry consolidation continues, and the total number of securities firms has been decreasing each year. In addition to the continual consolidation of large brokerage or financial control companies by professional brokers, brokerage channels have also executed consolidations. This has been due to the arrival of the Financial 3.0 digital era, gradually maturing e-transactions, the continual growing proportion of corporate transactions, and a reduced demand for physical sites to cut costs.

List of securities firms in recent years

Year	Item	Total number of securities firms		
		Headquarters	Branch	Total
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
2015		144	989	1,133
2016		138	951	1,089

Data source: Taiwan Securities Association Website

The local securities industry has encountered the problems of withering trading volumes, international competition, and the offshore relocation of many securities firms. Therefore, as its organizational development strategy, the Company will head in the direction of financial holdings or strategic alliances. As its business development strategy, the Company will set aim

for new business covering wealth management, cash deposit accounts, trusts, etc. In conclusion, innovation is the Company's goal to develop its organization, business, and commodities.

- (2) • Booming development of securities firm network and mobile e-transactions

At present, there are a total of 74 domestic brokers providing e-trading services and e-transactions, accounting for 47.5% of all securities trades. For the same period, e-transactions account for 52.5% of all trades by Hua Nan Securities, which is higher than the average performance of the overall securities firms. This indicates that Hua Nan Securities e-trading system has received affirmation and positive reviews by the customers and the market.

Financial information technology is changing on a daily basis, and smartphone and tablet mobile devices are become increasingly popular. In the future, e-trades are expected to keep growing, given that foreign corporate direct market access (DMA) trades have become the trend and authorities have put in all efforts in the promotion of the digital financial environment. In response to this trend, Hua Nan Securities will continue to plan new e-trade systems, provide excellent stock picking platforms, and significantly enhance the various trade functions for mobile communication equipment. These implementations to improve system stability and application execution speed and continue to win over customers to increase the Company's market share.

- (3) In response to the Financial 3.0 Digital Era, we shall continue to gradually adjust the branch business model as follows:

- A. Miniaturize the business stronghold using the concentrated order acceptance center concept to reduce the number of employees within branches and reduce operating expenses.
- B. Encourage customers to abandon the traditional manual ordering method and use the e-trading method so that operators do not need to wait at the operating center full days to receive orders.

C. Educate the existing salespersons and transform them into comprehensive financial specialists. During the trading time, they can form teams to expand the businesses outward, take care of specific needs of clients in terms of services and products, enhance the service quality, create customer loyalty, and increase sales.

4. Research and development

The future R&D focuses for Hua Nan Securities are planned as follows:

- (1) Build excellent mobile trading systems: The construction of diversified e-services, such as the exclusive strategy stock selection function, stock market push notifications, and research reports; development of the wealth management and recommission system mobile trading system and the 24-hour online banking service.
- (2) Provide the best service experiences: Optimize the official website architecture to satisfy multi-carrier application demands. Implement financial digitalization services and strengthen the online service functions. Upgrade the customer services system and expand the digitalized services to achieve diversified services and improve customer service efficiency.
- (3) Implement the policy of financial holdings digital financial environment 3.0: Establish the digital marketing team and take advantage of financial holding Big Data systems and environmental analysis tools. Establish accurate profiles of customers and promote the Group digital financial policy. Strengthen social media operations and continue to communicate with digital customers using mainstream social media platforms such as Facebook fan pages, Line@, and YouTube.
- (4) Implement the competent authority's openness policy: Provide unlimited money borrowing, securities firm entrusted fixed time and amount securities trading, and digital central depository book assignment to provide diversified services to customers.
- (5) Provide R&D for emerging stock trades, convertible corporate bond assets exchange transactions, interest exchange rate transactions, foreign re-entrusted businesses, domestic issuance

(subscription) of warrants, index and stock option futures, interest rate futures, gold futures, asset secularization, and other types of new businesses. Structural financial derivatives in collaboration with administrative policies and decrees and strengthened investments in banking, financial engineering, and risk control talent cultivation and recruitment.

(6) Carried out the following relevant information system planning:

- A. Collaborated with the financial holding and company digital financial environment planning blueprint Bank 3.0 to execute the various Bank 3.0 system constructions.
- B. Collaborated with the financial holding market sales digital financial project Bank 3.0 to establish a Big Data platform and evaluate the introduction of the business intelligence (BI) platform.
- C. Constructed a mobile device electronic trading platform to provide consistent customer service experiences and completes the cross-device file signature objectives.
- D. Collaborated with the financial holding sales channels to integrate project construction related systems.
- E. Overseas re-commissioned web trading platform construction planning: Constructed the multi-nation trading platform that allows clients to conduct trade operations for a variety of commodities simultaneously on a same platform. The NTD currency pricing subsystem is also being built to increase transaction convenience for customers.
- F. Business management system expansion plan: Includes customer relationship management planning, district supervision system planning, manager system planning, and decision support management system planning.
- G. Special needs order demand management: In terms of the information needs of the branch companies, we have assisted the branches in investigating the demands and analyzing the construction of the financial holding sales channel integrated project system.



H. The “Group Employee Sales Integration Platform” has been online since February 2015. Numerous relevant personnel education, training, and relevant group cross-sales (joint sales) incentive systems have also been established. This platform will be used to encourage employee cross-sales to enhance the performance of joint sales.

(7) Combined the professional knowledge of the Overseas Commodity Unit, Financial Commodity Unit, and Futures Self-Operation Unit and committed to the financial commodity arbitrage R&D endeavors and developed the spreads, arbitrage, and hedging computer trading programs for a variety of new financial derivatives. Use technical judgments such as artificial intelligence graphs to master long-short operational directions and grasp the perfect trading times to maximize profits.

(8) The Hua Nan Securities Investment Management subsidiary has conducted in-depth research in the fundamental, technical, and financial aspects of global financial. The subsidiary has also researched overall domestic and international economy, industry, and individual company information to master the investment trends and avoid risky industries. In addition to issuing the relevant investment publications and investment seminars regularly, we have also provided the basis for the financial holding group related unit investment information and credit references.

(9) After China established four Pilot Free Trade Zones in Shanghai, Guangdong, Tianjin, and Fujian, the State Council of the People’s Republic of China decided to add seven more Pilot Free Trade Zones in Liaoning, Zhejiang, Henan, Hubei, Chongqing, Sichuan, and Shaanxi. The Company will continue to track the relevant financial securities legal-opening conditions for the free trade zones in China.

(10) Promoted trust type wealth management businesses, introduced insurance related financial management commodities, provided customers with a variety of commodity choices, and researched and developed RMB commodities.

(11) Promoted the OSUs. We will employ additional professionals to promote the relevant businesses and increase our niche.

5. Long-term and short-term business development plans

(1) 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.

(2) Mid- and long-term strategies:

- A. Brokerage business: Complete merging of channels 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-operations: Establish various Bank 3.0 systems, Integrate corporate resources and elevate operating efficiency.
- F. Risk management: Monitor risky assets to reduce operating risks.

(3) SCIC

1. Businesses scope:

(1) Major businesses items:

※ Fire insurance:

Commercial fire insurance

Fire supplement insurance

Residential fire and earthquake basic insurance

Residential comprehensive 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 guarantee insurance
 - Liability insurance
 - Other kinds of property insurance
- * Health and Personal accident insurance:
 - Health insurance
 - Accident insurance
 - Travel comprehensive insurance
 - Travel agency liability insurance
 - Employer contract compensation

Liability insurance

(2) Business operating income ratios over the past three years:

Unit: Thousands of NT dollars

Item	2016		2015		2014	
	Amount	Ratio (%)	Amount	Ratio (%)	Amount	Ratio (%)
Written premium income	8,378,902	95.20	7,846,497	95.08	7,651,697	95.62
Fire insurance	1,391,949	15.82	1,269,429	15.38	1,347,296	16.84
Marine insurance	564,183	6.41	572,786	6.94	553,703	6.92
Auto insurance	5,195,081	59.02	4,850,502	58.78	4,667,585	58.33
Casualty insurance	679,300	7.72	647,434	7.85	630,295	7.88
Health & Personal Accident insurance	548,389	6.23	506,346	6.13	452,818	5.65
Reinsurance premium income	422,736	4.80	405,711	4.92	350,388	4.38
Total	8,801,638	100.00	8,252,208	100.00	8,002,085	100.00

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

(3) The Company will continue to develop new products according to the requirements of varying markets in 2017 to satisfy consumers' varying requirements and offer them a wide selection of products. The planned new product items are as follows:

Product name
Car rental industry specific use and fixed user rider
Automotive professional driver liability insurance
Housework chore agency cost clause
Crop insurance
Musical instruments comprehensive insurance
Collectors comprehensive insurance
Three-year term personal injury insurance
Group hospitalization medical insurance (payment based on actual expenditure type). Additional clause (Type A) selected after the hospital medical insurance incident.
Group injury insurance (standard) nursing cost payment clause.
Group daily hospitalization expenditure, medical insurance, cancer, surgery cost clause.

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

2. 2017 Business plan

(1) Expand the market share: Develop regional insurance brokerage/agency businesses. Further cultivate and expand business cooperation scope, persistently cultivate business relationships with the cooperating banks, continue to develop and expand network transaction platform's customer groups, and elevate the growth and ratio of the channels and B2B and B2B2C businesses in this sector.



- (2) Enhance the overall information management efficiency and improve the information security control mechanism: Online insurance upgrade plan as well as adding travel insurance and residential fire insurance products to meet the different customer orientations of online insurance purchase needs and increase company profits. Complete the various information security assessment operations, implement the relevant control measures according to the evaluation results, and improve and enhance the network and information system security protections.
- (3) Fulfillment of law compliance, internal audit, and risk management: Periodically hold educational training to introduce new laws and regulations, law amendment content, and major laws and regulations in relation to the insurance industry. Maintain compliance with the law, continue to promote risk management and information transparency, develop business unit's key risk control and management indicators, and request respective units to literally execute the loss reporting operation.
- (4) Strengthen the promotion and management proficiency of the Personal Information Protection Act: Comply with the amendments to the regulations related to Personal Information Protection Act to formulate internal operation standards and facilitate legal compliance by the relevant units. Strengthen data access and network transmission control mechanisms to achieve the personal data management effects.
- (5) Enhance the asset investment allocation and increase investment income: Promote bond investment and prudently adjust stock allocation in order to stabilize capital gains, increase fixed income investment, and activate the use of funds in order to increase the Company's overall revenue.

- (6) Optimize the service quality and performance of the customer service center: Use the eCover official website to hold online promotional activities, improve network group customer and network insurance performances, establish multimedia integrated customer service centers, enhance the stability of the various customer services, and optimize services performance.
- (7) Layout the overseas markets: Conduct R&D for other viable business models, layout the China and Southeast Asia markets, explore qualified partners, service insurance planning for existing customers, and seek reinsurance cooperation with overseas insurance agencies.
- (8) Fulfill corporate social responsibility: Continue to promote public welfare activities and have the Hua Nan volunteers organize or assist in the various charity activities based on their nature. Promote industry/academia cooperation to cultivate industry professionals, fulfill corporate social responsibility, and provide care to disadvantaged groups. Donate to charity organizations such as the Poor Family Foundation, Social Welfare Foundation, or the Welfare Association of the Deaf in order to take practical action to take care of the disadvantaged groups.

3. Industry overview: Elaborate on the industry's current status and development

The entire property insurance market's written premium income in 2016 was NT\$145.179 billion, an increase of 7.24% from 2015. Its premium income has increased by NT\$9.804 billion. South China Insurance's written premium income in 2016 was NT\$8.379 billion, an increase of 6.79% from 2015. Its premium income increased by NT\$532 million, and the market share was 5.77%.

4. Research and development: List the R&D expenditures and results over the past two years and roughly describe future R&D plans.

- (1) New insurance products of R&D results and expenditures incurred over the past two years
South China Insurance's new products have been developed by its product development workforce, and its important product items were developed over the past two years are as follows:

Product name
Motor vehicle comprehensive damage insurance
Limit sum coverage for motorcycle fire accident physical damage insurance
Factoring credit insurance for account receivable
Fine arts all risks insurance. Clause-on agreed special coverage for the loan of music instruments
Individual personal injury accident insurance. Clause-on overseas emergency aid
Catastrophic illness one-year term health insurance
Auto third party liability insurance. Disability, liability, increase clauses
Shot Integrated Insurance (Type A)
Residential overpayment earthquake insurance clause
Online shopping, fake product compensation contract liability insurance
The elderly and handicapped welfare agency comprehensive insurance
Jeweler's block comprehensive insurance
Group cancer health insurance
Group hospitalization daily expenditure medical insurance
Personal injury insurance underwritten for free vehicle contest or performance clause
Personal injury insurance (Type A) facial disability insurance, clause

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

(2) Future R&D plan:

In order to meet consumers' varying requirements and provide them with various selections, the Company plans to continue its new product development operations aiming at the requirements of different markets. The major newly planned product items are as follows: Car rental industry specific use and fixed user clause, automotive professional driver liability insurance, housework chore agency cost clause, crop insurance, musical instruments comprehensive insurance, collectors comprehensive insurance, three-year term personal injury insurance, group hospitalization medical insurance (payment based on actual expenditure type) clause (Type A) selected after the hospital medical insurance incident, group injury insurance (standard) nursing cost payment clause, and group daily hospitalization expenditure medical insurance cancer surgery cost clause. We will also strengthen information system integration and improve e-commerce marketing efficiency.

5. Long- and short-term business development plans

(1) Operating orientations

- ※ Expand business unit sales volumes and increase business unit's market share.
- ※ Establish the information system and control the information management effect.
- ※ Cultivate multi-function professionalism to prepare high potential employees for the leading cadre talent pool.
- ※ Improve the capital utilization effect, and concurrently pay attention to risk and income.
- ※ Strengthen the risk management mechanism and fulfill corporate governance.
- ※ Deploy overseas footholds and cultivate expatriate personnel.
- ※ Continue to participate in public welfare activities and build a good corporate image and reputation.

(2) Business goals

The premium income of South China Insurance in 2016 was NT\$8.802 billion. NT\$8.379 billion covered the written premium income, and the re-insurance premium income was NT\$423 million. The average claim ratio of insurance lines was 55.98%. Its 2016 operating income was NT\$6.628 billion covering the net premiums earned of NT\$5.658 billion, the net investment profit of NT\$347 million, and other operating incomes of NT\$623 million. Its 2016 operating cost was NT\$4.548 billion covering the net claims incurred of NT\$3.17 billion, the net changes of liability reserve of NT\$122 million, and the other operating costs of NT\$1.256 billion. Its operating expense was NT\$1.421 billion, operating profit was NT\$659 million, net non-operating income was NT\$25 million, and before-tax profit was NT\$684 million. After deducting the income tax expense, the net after-tax income became NT\$601 million, with which the after-tax net income per share was NT\$3.00 and return on assets was 3.57%. Return on shareholders' equity was 13.99% and the budget achieving rate was 96.46%.



(3) Important operating policies

A. Business development:

- a. Expand the scale of business units and business lineup and enhance the professional knowledge business development capabilities of the operating personnel.
- b. Continue to develop new business channels, strengthen good-quality channel relations and business growth, expand the market share of the new car business, increase sales of the regional insurance brokerage and agency businesses, intensively develop and expand the target for the B2B and B2B2C network transaction platform, and improve the competitiveness of the network insurance businesses.
- c. Continue to optimize the e-commerce network. Employ the electronic discount coupon system to conduct insurance promotions, membership liaisons, and cross-industry cooperation events to enhance the scale of the e-commerce business.
- d. Participation in the “Insurance Industry Prominence Award” competition in which the Company won the “Risk Management Project Planning Prominence Award” recognition for numerous years in the “Best Insurance Profession” and “Best Insurance Product Innovation” fields.

B. Risk management:

- a. Continue to advance the key risk control indicator of respective businesses to literally enhance the effect of sales unit’s risk control.
- b. Develop the Own Risk and Solvency Assessment (ORSA) to strengthen the Company’s capital management and solvency assessment abilities.
- c. Continue to improve the economic capital measurement method of respective businesses and the Risk-Adjusted Return on Capital (RAROC) assessment mechanism to include long-term performance evaluation and capital allocation assessment items.
- d. Continue to promote internal audit, law compliance and integration of risk management functions and strengthen

the Risk Self-Assessment (RSA) method to effectively reduce the law compliance risk and elevate internal control efficacy.

C. Expense control:

- a. Use energy-saving lights and increase circuit loops during office relocations and decorations to reduce electricity costs and implement cost control.
- b. Integrate the business machine by incorporating the fax, print, and scan functions into the business machine. Eliminate all of the existing laser and inkjet printer equipment in order to reduce the equipment maintenance and supply expenditures and save costs.
- c. Strictly implement the annual cost budget management system, execute the cost allocation mechanism, require the various units to strictly control cost expenditures, and regularly track the expenditure status so that the various units can fully grasp the cost budget progress and execution status and achieve the control objectives.

D. Capital management:

- a. 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, South China Insurance inspects and adjusts the current risk asset position using 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.
- b. 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 must take priority in liquidity and safety in its establishment of capital utilization tactics. This is followed by considering its yield so its solvency can be strengthened and the rights and interests of the insured can be protected.

(4) Hua Nan Investment Trust (HNIT)

1. Businesses scope:

(1) Primary business operations:

- ※ Securities investment trust business
- ※ Discretionary investment services
- ※ Other businesses approved by the competent authorities

(2) Business ratios (2016)

Asset type		Ratio (%)
Mutual fund	Equity type	63.21
	Fixed income type	25.68
Private placement fund		1.48
Discretionary services		9.42
Service income		0.21
Total		100.00

(3) 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 to satisfy customers' varying financial management requirements.

2. Business plan for this year

- (1) Continue to issue new funds and promote old funds to enlarge the overall fund scale.
- (2) Continue to strengthen fund performance.
- (3) Aggressively promote e-commerce to enhance customer services.
- (4) Continue to improve sales capability, customer services, and good relationships with customers.

3. Industry overview:

In 2016, out of 20 fund types, 10 show increase in size. The top five fund types displaying the largest increases were the international exchange traded funds (ETFs), domestic exchange traded funds (ETFs), international balanced funds, transnational general bond funds, and international stock funds. The top five investment trust companies were Yuanta Funds, Cathay Securities Investment Trust, Capital

Investment Trust, Fu Hua Investment Trust, and Fubon, all of which are domestic companies. The sizes of public placement funds are all beyond NT\$100 billion.

4. Research and development: 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 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:

- (1) Issued a local and foreign Internet of Things series of funds including the "HNIT IoT Fund" and the "HNIT Global IoT on MSCI Custom ACWI plus All China Index Fund" on April 23, 2015 and November 27, 2015 respectively.
- (2) Issued the "HNIT Global Asia-Pacific Dynamic Balance Fund" on April 18, 2016.
- (3) Issued the "HNIT Global Asia-Pacific Strategic Compensation Fund" on August 30, 2016.

5. Long- and short-term business development plans

- (1) Short- and mid-term business development plans
 - A. Continue to develop and issue products in accordance with sound development principles and customer requirements. Continue to construct an intact product line.
 - B. Continue to strengthen the capacity of the Company's research workforce and funds long-term performance to enhance customers' faith in the Company.
 - C. Strengthen customer services to elevate customer satisfaction.
- (2) Long-term business development plans
 - A. Develop the business scale and make the Company one of the top ten investment trust firms.
 - B. Seek further opportunities to provide discretionary investment services for government funds and legal entities.



(5) Hua Nan Venture Capital (HNVC)

1. Scope of Businesses:

(1) Major business items:

- ※ Venture capital business
- ※ Investment consulting business
- ※ Management consulting business

(2) 2016 Business ratios:

Item	Ratio
Investment income	99%
Management and consulting income	1%

2. 2017 business plan:

- (1) Observe industry changes to adjust the investment portfolio: In addition to continuing to increase the proportion of the Company's investment, start from three major areas in terms of industry: (1) Artificial intelligence related robots, unmanned systems, and biometrics; (2) new drug development in the biotechnology field, precision medicine, and long-term care; and (3) traditional industries that are potentially innovative, focus on sustainable development, and create innovative business models for the financial services industry. These include the R&D of smart clothing materials, the industrial film textile industry, human agriculture, technology, and the FinTech industry.
- (2) Utilize diversified channels to develop good quality case sources: In addition to the case sources recommended by industry peer groups and the financial holding system, the Company will also continue to strengthen its interaction with large corporate groups and internationally acknowledged venture capitalists to reinforce its investment portfolio global deployment. The Company will also aggressively participate in the match meetings held by venture capital associations and the government in an attempt to identify the newly established businesses with great potential on the "Go Incubation Board for Startup and Acceleration Firms" and crowdfunding platforms.

(3) Follow the investment discipline to master profit opportunities: If the subject matter of the investment has become liquid and the stock price has reached the default reporting rate target, make the profit and get out as soon as possible. If the subject matter of the investment has reached the stop-loss point, it is prudent to consider whether to cut the losses to effectively activate the funds.

(4) Collaborate with government fund investment: The Company has obtained the "2016 Small and Medium Enterprises Strengthened Commission Investment Management Plan" qualification from the Small and Medium Enterprise Administration, Ministry of Economic Affairs in the first quarter of 2016. If a suitable subject is encountered in the future, the subject will be recommended to the Small and Medium Enterprise Administration for investment assessment in order to increase revenues and demonstrate the Company's ability and image to manage external funds.

3. Industry overview:

According to statistics from the Taiwan Venture Capital Association, Taiwan has a total of 227 venture capital businesses overall that manage the total capital of approximately NT\$142.776 billion. The number of newly established venture capital businesses has significantly increased under the government's support in recent years.

Analyses based on the investment amount in Taiwan's venture capital industry over the years indicated that the investment regions are mostly domestic. The investment amounts during the expansion and maturity periods account for over 70% of the total investment amounts. The industries invested in mostly include the IT, manufacturing, biotechnology, and pharmaceutical industries.

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 assist investees in smoothly going public to benefit from the associated profits. Also, seize industry development trends by participating in industrial seminars and related training courses and adjust investment portfolios in a timely manner.

5. Long- and short-term business development plans:

- (1) Establish the optimal investment portfolio, strengthen asset quality, and take advantage of profits in a timely manner to increase the return on investment.
- (2) Keep abreast of the pulse of industry development, seek investment opportunities, and modify investment tactics in a timely manner to enhance the odds of investment portfolios.

(6) Hua Nan Assets Management Co. (HNAMC)

1. Businesses scope

(1) Major businesses items:

A. Management and disposal of acquired non-performing loans according to Article 15 of the Financial Institutions Merger Act.

- ※ Purchase non-performing loans from financial institutions.
- ※ Manage and dispose of non-performing loans from financial institutions.
- ※ Disposal after purchasing the assets guaranteed for non-performing loans from financial institutions
- ※ Disposal after accepting the assets guaranteed for non-performing loans from the compulsory execution agency

B. Accept financial institution or enterprise commissions to dispose of non-performing loans and assets.

- ※ Accept the commission from a financial institution to dispose of non-performing loans and the directive from the enterprise to dispose of overdue accounts receivables.
- ※ Accept the commission to dispose of the assets already undertaken by financial institutions.

C. Direct investment of court-auction real estate.

D. Serve as the self-owned asset urban renewal implementer.

E. Court-auction bidding agency business.

F. Undertake other asset management related businesses not prohibited or restricted by the law.

(2) 2016 Business ratios:

Item	Ratio
Non-performing loan investment and disposal business	38.50%
Direct real estate investment business	59.90%
Consigned management business	1.61%

(3) New financial products and services planned to be developed in the future:

In 2016, Hua Nan Assets Management Co., Ltd. accelerated the self-owned asset urban renewals, searched for transformation opportunities, and actively expanded the “consigned legal auction bidding business” the deepen its objective of providing services to group customers.

2. 2017 Business plan

(1) Non-performing loan investment and disposal business

A. Investment strategies

- ※ Continue to monitor domestic bad debt market releases and growth changes of financial institution land construction financing overdue payments.
- ※ Keep interacting with local and foreign industry peer groups, understand their operating status and seek any cooperation opportunities for existing or new businesses established by the Financial Supervisory Commission.



B. Disposal strategy

- ※ 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 over the short term and more value can be created in the mid- and long- term.
- ※ Aggressively activate assets and create asset value by throwing in some of the resources to gain rent income and future value increment profits.

(2) Direct real estate investment business

A. Investment strategies

- ※ In response to a possible year-by-year trend of slow decline in the real estate market, the focus of the investment strategy will be placed on risk control and management. The investment objects will be discreetly selected from areas of heavy demand to acquire the reasonable capital gains.
- ※ Select industrial and commercial real estate in the form of commercial offices, factory offices and factory buildings with potential for capital gains in urban or industrial regions as major investment targets. Also, to stably expand its operational scale, the Company also chooses to invest in residences and building sites located in prominent areas with well-rounded living functions.

B. Disposal strategy

To divide the real estate target markets and product types and consider the increase of rentals to stabilize operating incomes, activate assets and increase capital gains, direct investments are classified into the following three types:

- ※ General investment: Adopt the strategy of direct sale or rental before sale to win the bid for a reasonable price (lower than the market price) in the legal auction market. This would be followed by repairing and improving the real estate before renting or selling it.
- ※ Investment with added value: Aggressively activate assets by adding value through joint construction, participation in urban renewal (including acting as the executor) or changing the application. Asset activation is used as the strategy to create asset value, gain rental incomes, and obtain more capital gain in the future.
- ※ Profit-sharing investment: In addition to receiving the fixed monthly rental, the lessor may also collect a fixed ratio of the monthly turnover as the variable rental to share the operator's operating profits. The major cooperation targets include those engaged in shopping malls, hotels, business centers, fitness centers, and mini warehousing. The purpose is to increase the rental-return ratio and rental incomes and stabilize operating income sources through such types of investment. However, the final purpose of such types of investment is still to sell the real estate carrying the lease contract.

(3) Consigned management business

A. Consigned collection demanding business

- ※ Provide financial institutions and general enterprises with professional collection services to earn less-risk service income and expand the scale of operations.
- ※ Promoting the "consigned factoring service" to cultivate the Company's collection and non-performing loan review talents in the hope of strengthening the integrity of the Group's financial products.

B. Consigned legal auction bidding business

- ※ Offer professional consigned legal auction bidding services. Make good use of existing professional talents in legal auction and real estate.

- ※ Provide one-stop shopping for the corporate customers of the companies under the Group for their required banking services to enhance customer trust and loyalty to the HNFH Group and increase the Group's income.

3. Industry overview:

The Financial Supervisory Commission's statistics indicate that the local financial institution overdue loan ratio had been maintained at under 0.3% since 2014. To compound matters, the competent authorities amended the terms of financial institutions' sale of non-performing loans, causing a shortage of market supply. As a result, the total release amount of domestic financial institutions' NPL in 2014 and 2015 was approximately NT\$16.87 billion. As of the end of December 2016, the NPL release amount was only NT\$1.637 billion, which is far from the NPL peak sales scale in 2007 at NT\$236.8 billion.

In recent years, foreclosure cases have decreased in the real estate market as a result of decreasing bank overdue loan cases and continuously low interest rates. 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 reductions in the three major urban regions from the peak in 2009 were 13%, 71%, and 63% respectively. In 2016, other than 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 becoming intense and direct investment selection items are also decreasing accordingly.

Due to the change in the previously mentioned non-performing loans and real estate legal auction market, local financial holdings and bank AMCs have confronted the problem of a shrinkage in case sources. In response to this, the Financial Supervisory Commission amended the "Operating Principles for Financial Holding Companies to Trans-invest in Asset Management Companies" on August 12, 2015 to add new businesses that may be operated by the AMC in the future and specifically define the future operating development direction of asset management companies.

4. Research and development

In response to the new businesses added to the "Financial Holding Company (Bank) Reinvestment Asset Management Company Operating Principles" by the Financial Supervisory Commission on August 12, 2015, Hua Nan Assets Management Co., Ltd. has already developed its business strategies and objectives and led its peers in starting the "consigned legal auction bidding business" in June 2016 and actively promoted urban renewals by cities with its own assets to accumulate professional experience as an urban renewal implementer.

5. Long- and short-term business development plans:

(1) Short-term plans

- A. Expand the direct real estate investment business to enlarge the asset scale, pursue growth in earnings, and cultivate the talent specializing in assessment of secured non-performing loan bidding.
- B. Increase ownership of mid- and long-term real estate investment objects to increase stable rental income.
- C. Collaborate with government policies to accelerate urban renewals for cities with their own assets and seek transformation opportunities.
- D. Start the "consigned legal auction bidding business" to augment the Company's operating income sources.

(2) Long-term plans

- A. Set up Taiwan's non-performing loan and real estate research mechanism and provide a channel for exchanges with foreign peer groups to win more consigned management business from foreign investors.
- B. Study overseas non-performing loan markets, and grasp any investment opportunities from the Banking Bureau, Financial Supervisory Commission's opening up of overseas non-performing assets or non-performing loans.

1. Hua Nan Financial Holdings

(1) Credit risk

A. Important control mechanisms

(a) Corporate finance credit risk

When engaging in the corporate finance business, each subsidiary shall follow the Group's corporate finance credit risk management policies and precautions to establish related regulations and management mechanisms. In other words, each subsidiary shall take into account the related risk factors to institute a corporate finance risk limit and periodically assess the asset credit portfolio that covers monitoring and controlling credit ratings, concentration exposures, etc. Simultaneously, each subsidiary must establish risk indicators and a pre-warning mechanism. They must also strengthen the mobile management mechanism. When the total exposure amount within these mechanisms reaches a certain ratio of respective quantitative limits, management shall be warned and the ensuing countermeasures shall be determined.

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

At the same time, in order to assist directors, supervisors and high-rank management executives in better understanding the Company's risk outline and enhance the Company's transparency, the Company prepares the group corporate finance credit risk management statement every month. The statement is submitted to the Group's risk management committee and Board of Directors each quarter. The content of the statement mainly covers the exposure amount, concentration risk, asset quality, profit analysis, etc.

(b) Retail finance credit risk

Periodically submit Group retail finance credit risk management related statements to the Group's risk management committee and Board of Directors to fully present monitoring of the exposure status and asset quality of the Group's retail finance asset portfolios. Changes are reviewed in the asset quality of various retail finance products with the leading indicator (the ratio of the products more than 30 days overdue and aging schedule), the coincident indicator (the new overdue loan ratio), and the lagged indicator (the overdue loan ratio). Macroeconomics related indicators are also referred to, such as economic growth, unemployment rates, and housing price indices. Recommendations will be proposed accordingly as a reference for policy making.

B. Risk management reports

(a) Total credit exposure amount

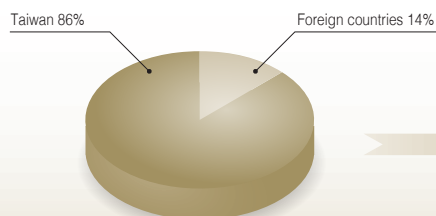
As of the end of 2016, the Group's total credit exposure amount was about NT\$2.5 trillion. Within this amount, the credit business took the lion's share of 68%, the bond and bill business accounted for about 24%, and other businesses took up about 8%. According to the Credit Risk Standard in the Basel II, if the notional principal is converted into weighted risk assets, the credit weighted risk assets will be about NT\$1.4 trillion. If this is the case, the average risk weight of overall credit exposure will be about 58%.

(b) Concentration risk management

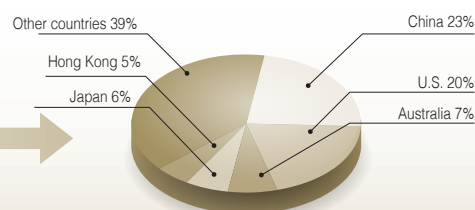
If classified by country, 86% of the Company's credit exposure amount comes from Taiwan, whereas the remaining 14% comes from foreign countries. Among the foreign countries, China, the United States, Australia, Hong Kong, and Japan are the top five nations, accounting for 61% of the total foreign exposure amount. The other countries take up less than 5% each.

If divided by sector, 55% of the Company's credit exposure amount comes from private enterprises, 24% from individuals, and 21% from government and state-run businesses.

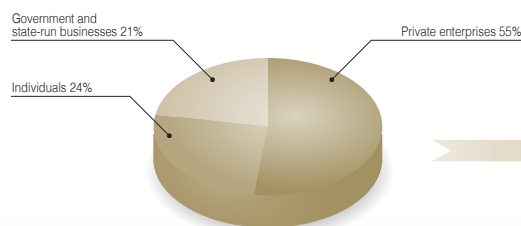
Local and foreign exposure



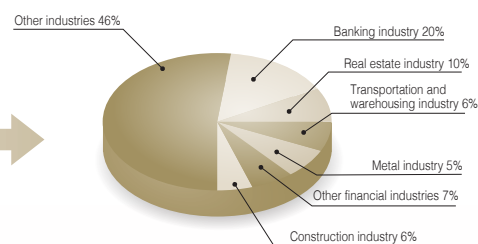
Foreign exposure



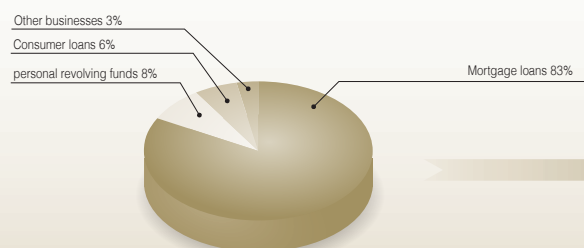
Units



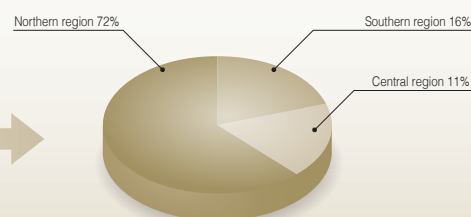
Exposure by corporate financial industry



Exposure by consumer banking product



Exposure ratios by consumer banking mortgage loan region





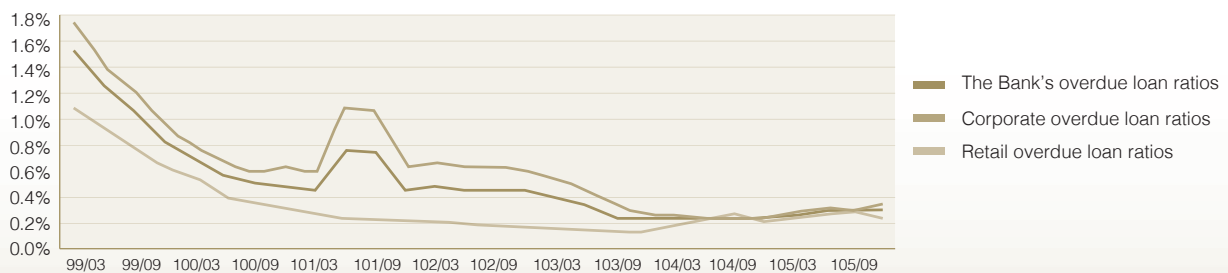
Among the private enterprises, the top six industries are the banking industry, the real estate industry, other financial industries, the transportation and warehousing industry, the construction industry, and the metal industry, which account for 54% of the total credit exposure for the private enterprises. Other individual industries take up less than 5% each.

On the consumer front, mortgage loans make up the majority at 83%. They are distantly followed by personal revolving funds at 8%, consumer loans at 6%, and other retail finance products (credit cards, car loans, sole proprietorship or partnership revolving funds, cash cards, and personal securities financing) at approximately 3%. In reference to the exposure ratio of housing mortgages according to region, the northern region takes the highest ratio of 72%, distantly seconded by the southern region at 16%.

(c) Credit asset quality

The credit asset quality of the subsidiary, Hua Nan Bank, can be evaluated by analyzing the changes in overdue loans, credit ratings and M2+ ratios. Taking overdue loans as an example, Hua Nan Bank's overdue loan ratio has continued to decline in recent years, but it showed a slight upward trend in 2016. As of the end of 2016, its overdue loan ratio was 0.27%.

Tendency of Hua Nan Bank's overdue loan ratios



(2) Market risks

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

A. 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 Group shall submit the new financial product to be traded for review. The trade shall not be conducted before the risk of the product 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 a tolerable range and avoid excess impact on the Group's capital, the Group's subsidiaries shall set market-risk-related limits in conjunction with the annual budget procedure to control market risk daily.

B. Risk management reports

Considering the rapid changes in the capital market, in addition to subsidiaries' daily control of the limits, the financial holding company shall also compile the exposure status of the Group's trading book daily. In case of any irregularity, it shall immediately take the required measures. In addition, the limit control status of the Group's market risk shall be reported to the vice president of the financial holding company every week and to the president and the chairman every month, whereas the report shall be submitted to the Group's risk management committee and the Board of Directors of the financial holding company every quarter.

(a) Outline of the Group's 2016 trading book position risk

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

(b) VaR

VaR is used to compute the maximum possible loss occurring over 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 historical data. Its function mainly applies to the risk measurement of financial products and limit control. For instance, under a confidence level of 99%, if a subsidiary's one day VaR is NT\$30 million, this represents that within 100 business days, a loss of more than NT\$30 million is likely to occur in a day, whereas the daily loss of the remaining 99 days is expected to be lower than NT\$30 million.

(c) The methodology adopted by the Group for calculating the VaR and the parameters established by the Group are as follows:

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

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

c.3 "Length of the holding period": Estimation of the maximum loss that 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).

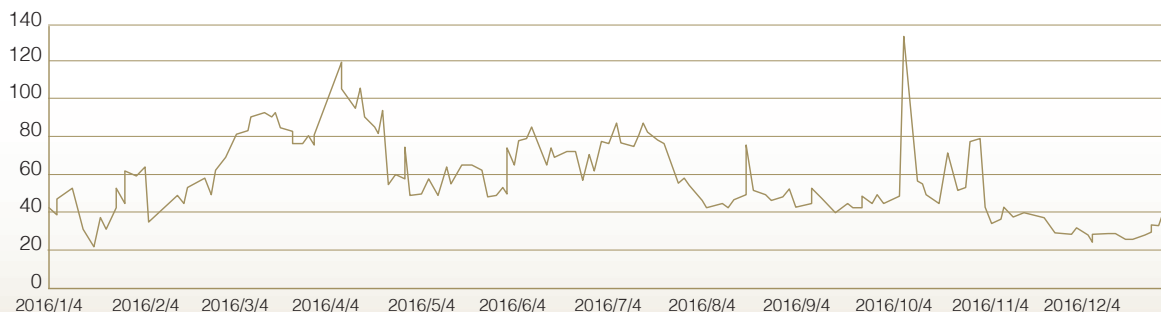
(d) The trend of changes in the VaR of the Group's 2016 trading book position

For the Group's 2016 trading book position, the lowest VaR was NT\$21 million, the highest VaR was NT\$133 million, and the average VaR was NT\$56 million.

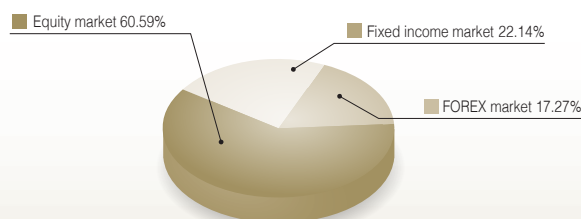
The VaR of the Group's trading book position at the end of 2016 was NT\$38.92 million, an increase of NT\$7.25 million from NT\$31.67 million in 2015.



(Unit: Millions of NTD)

Value at Risk**(e) Summary of the VaR of the Group's trading book position at the end of 2016**

The VaR of the Group's trading book position at the end of 2016 was NT\$38.92 million, taking up 0.02% of the Group's net value at the end of 2016, which was within the Group'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 60.59% of the Group's VaR, as opposed to 17.27% from foreign exchange products and 22.14% from fixed income products.

Trading Portfolio VaR by Risk Type**(f) Back testing**

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

(3) Asset and liability management

Asset and liability management is based on the overall business planning. Within this planning and within the tolerable exposure level, decisions of asset and liability allocation have continued to be made and executed, risks have been measured and monitored, and strategies have been adjusted as required. Also, through the adjustment of the non-trading asset and liability structure, the interest rate risk, liquidity risk and foreign exchange rate risk of the non-trading on-and-off balance sheet have been controlled.

The Company has established the Group's asset and liability management policies, compiled subsidiaries' asset and liability management reports, and submitted the reports to the Group's Asset and Liability Committee and the Board periodically.

According to its size, scope and business nature, each subsidiary may adopt the risk management framework and measurement tools that are applicable to the Company and institute related limits to monitor and manage asset and liability management exposures.

A. Non-trading book interest rate risk

The non-trading book interest rate risk refers to the risk in impairment of the earnings of any of the Group members or the economic value of equity caused by changes in market interest rates. The net interest income sensitivity analysis and economic value of equity sensitivity analysis are generally adopted as the measurement tools.

(a) Important control mechanisms

After considering the business natures and impact of the interest rate change on the balance sheet for each subsidiary, currently, Hua Nan Bank is the only member of the Group adopting the non-trading book interest rate risk management framework.

The tools adopted by Hua Nan Bank for measuring the non-trading book interest rate risk include the interest rate re-pricing gap report, the net interest income sensitivity analysis, and the economic value of equity sensitivity analysis. Limits for the aforementioned measurement indicators are set and the risk is monitored periodically through the indicators. At the same time, the structure of the balance sheet can be adjusted through mechanisms such as non-trading book investment portfolios, derivative products, and the internal fund transfer pricing system to effectively manage the exposure of Hua Nan Bank's non-trading book interest rate risk.

(b) Risk management report

Based on Hua Nan Bank's asset and liability structure on December 31, 2016, given the required hypotheses, and under the condition of no active management being implemented, the analysis of the change of the net interest income under different interest rate shock scenario for the next 12 months shows the following. If the market interest rate gradually rises by 100 basis points, the net interest income is estimated to increase by 14.3% compared with the situation where the interest rate remains unchanged. On the contrary, if market interest gradually declines by 100 basis points, net interest income is estimated to decrease by 16.1%.

Change in the market interest rate for the next 12 months	Change in the net interest income for the next 12 months (compared with the situation where the interest rate remains unchanged)
Gradually rise by 100 basis points	+14.3%
Gradually decline by 100 basis points	-16.1%

In terms of the economic value of equity, if the market interest rate gradually rises by 100 basis points, the economic value of equity is estimated to decrease by 5.1% compared with the situation where the interest rate remains unchanged. If, on the other hand, the market interest rate gradually declines by 100 basis points, the economic value of equity is estimated to increase by 5.4%



Change in the market interest rate for the next 12 months	Change in economic value of equity (compared with the situation where the interest rate remains unchanged)
Gradually rise by 100 basis points	-5.1%
Gradually decline by 100 basis points	+5.4%

B. Liquidity risk

Liquidity risk refers to the risk in impairment of earnings or shareholders' equity which is caused by any of the Group members' inability to repay the due debt. It is also present when any Group member can only obtain the funding source at the cost of suffering great loss.

(a) Important control mechanisms

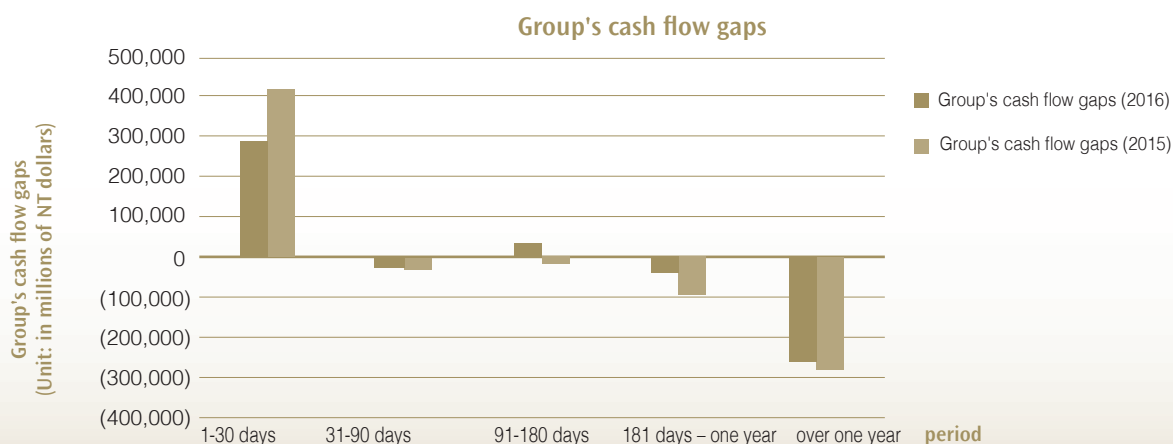
After considering the natures of each business, currently, the liquidity risk management framework is applicable to Hua Nan Financial Holdings, Hua Nan Bank, Hua Nan Securities, South China Insurance, Hua Nan Investment Trust, and Hua Nan AMC.

The tools adopted by the Company to measure liquidity risk include the balance sheet liquidity ratio, cash flow gap report, funding source diversification analysis, and the ratio of highly liquid assets to net asset value of funds. Different measurement tools have been adopted according to each subsidiary's business nature. Also, the limit has been set for each measurement indicator, and changes in the indicators are monitored regularly.

The Company conducts liquidity stress tests under different crisis scenarios on a regular basis and analyzes the incremental and cumulative cash flow gap for each time bucket so as to establish responsive strategies and plan optimal funding sources.

(b) Risk management report

The Group's cash flow gap of 1–30 days on December 31, 2016 was NT\$289,016 million. This decreased by NT\$135,755 million from a cash flow gap of 1–30 days of NT\$424,771 million on December 31, 2015.



C. Non-trading book currency risk

The Group's non-trading book foreign exchange rate risk is measured by the impact of the unfavorable currency change of the net non-trading foreign currency positions. Considering the natures of each business, currently, the non-trading book foreign exchange rate risk management framework is applicable to Hua Nan Bank, Hua Nan Securities, and South China Insurance. Also, the limit has been set for each measurement indicator, and changes in the indicators are monitored regularly. As of December 31, 2016, the impact of unfavorable currency changes on the shareholders' equity for respective subsidiaries is less than 1%, meaning that the non-trading book foreign exchange rate risk for the Group is limited.

(4) Insurance risk management

For the risks in commodity design, pricing, underwriting, reinsurance, catastrophe and reserves involved in the property insurance business, the Group 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 risk adjusted return.

A. Important control mechanisms

Approval of new insurance products: Prior to promoting any insurance products, the subsidiary shall prudently consider insurance products' features and targeting groups before properly planning the control procedures for each stage of the insurance product. 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 Group'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 Group'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.

- a. Set up the underwriting risk management indicator and control it.
- b. Set up the reserves risk management indicator and control it.
- c. Set up 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 plans.

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

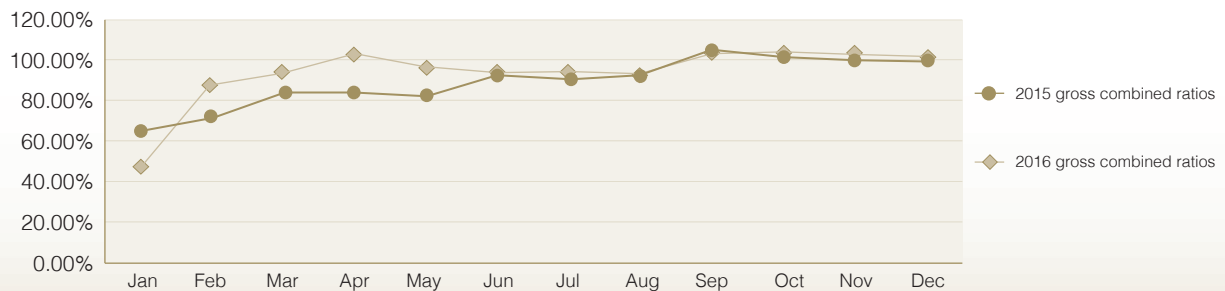
Periodically submit the insurance risk management report to the Group's risk management committee and disclose the insurance risk outline and limit control status.



a. Underwriting risk management

Gross combined ratio is the aggregation of gross loss ratio and gross operating expense ratio, in which the gross loss ratio is the ratio of written claim amount to written 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 written operating expense to written premium which is mainly used to review business expenditure status. Given that the company had larger claim cases in 2016, its Gross combined ratio rose since 2015. Nevertheless, according to the continuous internal observation for the loss development, the loss is still within the tolerable range.

Trend of Gross Combined Ratios

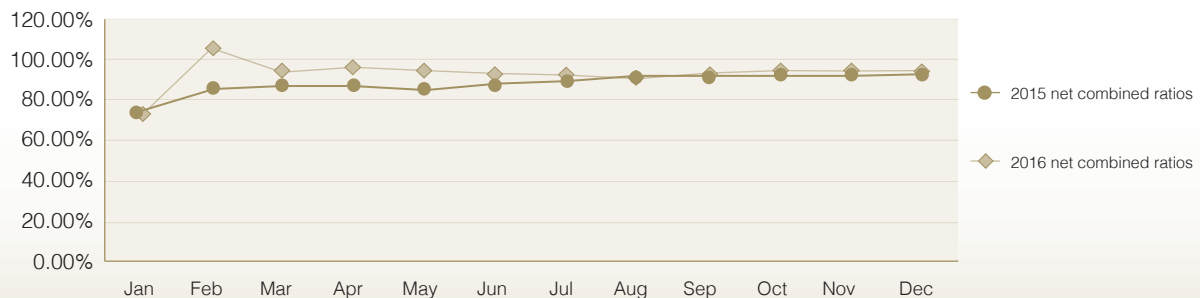


Note: The calculation of the indicators in the above chart does not cover compulsory auto insurance, nuclear insurance and policy-oriented earthquake insurance.

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 premium earned and it is mainly used to review the loss of the 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 2016, its net combined ratio rose from that of 2015. Nevertheless, according to the continuous internal observation for the loss development, the loss is still 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.

c. Control of each contingency unit's retained limit

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 2016 actual retained insurance amount of each risk unit all complied with the limit and were within the tolerable range.

(5) Operational risk

The Company has implemented group operational risk management policies and related procedures in an attempt to establish a consistent operational risk management structure and mechanism in the Group. With these policies, subsidiary business category and size shall be concurrently considered in implementation so that the details can be flexibly adjusted and executed in a tailored manner.

A. Important control mechanisms

a. Risk Self-Assessment (RSA)

RSA facilitators shall contact personnel in respective divisions through interviews or meetings to help them identify and assess the existing business' operational risks and review relevant controls. When necessary, they shall further implement the proper action plans and track progress so as to strengthen internal control quality.

b. Operational Risk Assessment Process (ORAP)

The operational risk assessment process is the process of identifying operational risks (including legal risks) and reputational risks, implement risk mitigation plans, and further assess residual risk by aiming at new or significant changes in products, processes, systems or organizational structures (including outsourcing businesses).

c. Corporate Loss Database (CLD)

Corporate Loss Database is an integrated database used to systematically collect the Group's internal operational risk loss data so as to provide the details for management to analyze and manage their operational risks and prepare for the calculation of economic capital in the future. The database was initially launched online in the fourth quarter of 2007 for the Group members to report their operational risk loss data. Prior to the online launch, the Bank subsidiary had already been collecting loss data on paper since 2003. The external data began to be collected in the third quarter of 2008. Case study and analysis began in 2012, which are to be provided to the business units of the Group for educational and learning purposes.

d. Key Operational Risk Control (KORC)

Key operational risk control provides an overview of related operational risks and controls with the critical operational process within the Group to meet the minimum/basic requirements for internal control. It also acts as the reference for implementation of other operational risk management tools.

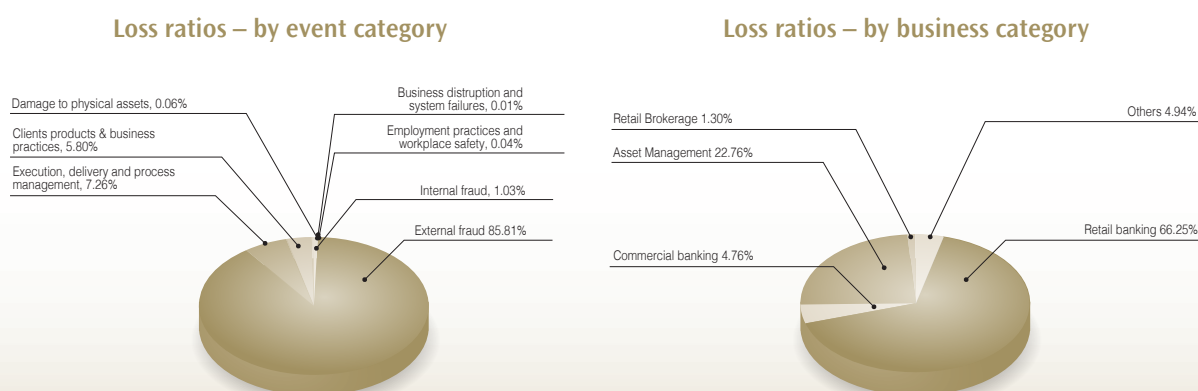
e. Key Risk Indicator (KRI)

The key risk indicator performs the early warning function for detecting changes in the Group's potential operational risk profile. The tool provides a trend analysis of the time series and, when necessary, it initiates related mechanisms or action plans to mitigate the operational risks.



B. Risk Management Reports

- a. By executing the operational risk management tools or mechanisms, if any defect is found, the business unit in question shall promptly review and improve the defect and periodically submit the improvement status. Our company regularly reports the results of the execution outcomes of all operational risk management tools to the Board of Directors and the Group's 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 Group are as follows:



Compared with the trend of sharp increase in risk loss occurring in the business conduct of European and American financial institutions in the recent years, losses were incurred to a lesser degree by the Group from improper business conduct. In the future, the Group will continue to pay attention to business conduct risk related laws and regulations, persistently reinforce its product review mechanism, closely monitor its customer complaint cases, and enhance cooperation with related business management units (such as audit, law compliance and marketing/management units) to avoid any improper business conduct.

(6) Risk integration

The Company has actively integrated the various types of risks created by the Group's different subsidiaries. Its plan for the future is to use the economic capital method to measure and aggregate credit risks, market risks, operational risks, and the capital accrued from such risks. The Company will also use the "risk-adjusted return on capital" to assess the various businesses and develop the appropriate business development strategy in advance and enhance capital allocation efficiency. It will also perform the subsequent risk-adjusted performance measurements to achieve the goal of maximizing value for the shareholders.

HUA NAN FINANCIAL HOLDINGS CO., LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2016 AND 2015

(In Thousands of New Taiwan Dollars)

ASSETS	2016		2015	
	Amount	%	Amount	%
CASH AND CASH EQUIVALENTS	\$ 49,695,558	2	\$ 39,189,783	2
DUE FROM THE CENTRAL BANK AND OTHER BANKS	173,059,582	7	257,536,539	11
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS	63,108,328	2	63,497,701	3
AVAILABLE-FOR-SALE FINANCIAL ASSETS, NET	121,586,378	5	94,537,729	4
DERIVATIVE FINANCIAL ASSETS FOR HEDGING	876	-	1,679	-
SECURITIES PURCHASED UNDER AGREEMENTS TO RESELL	349,015	-	478,215	-
RECEIVABLES, NET	39,320,895	2	34,978,290	2
CURRENT TAX ASSETS	330,891	-	858,262	-
ASSETS HELD FOR SALE, NET	52,653	-	-	-
DISCOUNTS AND LOANS, NET	1,578,533,168	62	1,479,452,609	63
REINSURANCE CONTRACTS ASSETS, NET	4,107,957	-	3,239,368	-
HELD-TO-MATURITY FINANCIAL ASSETS, NET	400,946,073	16	269,363,346	11
INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD, NET	57,665	-	63,224	-
OTHER FINANCIAL ASSETS, NET	65,862,973	3	59,583,095	3
PROPERTY AND EQUIPMENT, NET	32,369,672	1	32,481,139	1
INVESTMENT PROPERTIES, NET	9,633,097	-	9,591,967	-
INTANGIBLE ASSETS, NET	536,897	-	496,292	-
DEFERRED TAX ASSETS	2,410,889	-	2,270,567	-
OTHER ASSETS, NET	3,979,395	-	2,668,769	-
TOTAL	\$ 2,545,941,962	100	\$ 2,350,288,574	100
LIABILITIES AND EQUITY				
DEPOSITS FROM THE CENTRAL BANK AND BANKS	\$122,944,916	5	\$85,215,804	4
FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS	13,713,879	1	18,565,366	1
DERIVATIVE FINANCIAL LIABILITIES FOR HEDGING	15,162	-	35,281	-
SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE	41,941,561	2	27,460,217	1
COMMERCIAL PAPER PAYABLE, NET	15,706,047	1	12,541,697	-
PAYABLES	38,697,024	1	30,454,649	1
CURRENT TAX LIABILITIES	1,271,789	-	1,968,250	-
DEPOSITS AND REMITTANCES	2,062,911,746	81	1,917,853,865	82
BONDS PAYABLE	50,646,716	2	48,845,006	2
OTHER BORROWINGS	1,670,000	-	975,000	-
PROVISIONS	18,060,519	1	17,808,362	1
OTHER FINANCIAL LIABILITIES	9,383,510	-	24,310,651	1
DEFERRED TAX LIABILITIES	6,109,882	-	6,125,912	-
OTHER LIABILITIES	3,885,941	-	5,059,187	-
Total liabilities	2,386,958,692	94	2,197,219,247	93
EQUITY ATTRIBUTABLE TO OWNER OF THE PARENT				
Share capital				
Ordinary shares	105,204,951	4	99,063,042	4
Capital surplus	17,758,986	1	17,758,986	1
Retained earnings				
Legal reserve	12,249,821	-	10,841,763	1
Special reserve	6,492,093	-	6,492,093	-
Unappropriated earnings	17,722,221	1	17,798,935	1
Total retained earnings	36,464,135	1	35,132,791	2
Other equity				
Exchange differences on translating foreign operations	1,108,525	-	2,156,632	-
Unrealized losses on available-for-sale financial assets	(1,596,978)	-	(1,149,878)	-
Changes in the fair value attributable to changes in the credit risk of financial liabilities designated as at fair value through profit or loss	42,111	-	106,226	-
Total other equity	(446,342)	-	1,112,980	-
Total equity attributable to owner of the parent	158,981,730	6	153,067,799	7
NON-CONTROLLING INTERESTS	1,540	-	1,528	-
Total equity	158,983,270	6	153,069,327	7
TOTAL	\$ 2,545,941,962	100	\$ 2,350,288,574	100



HUA NAN FINANCIAL HOLDINGS CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

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

	2016		2015		Percentage Increase (Decrease) %
	Amount	%	Amount	%	
INTEREST REVENUE	\$ 39,639,636	94	\$ 39,826,460	101	-
INTEREST EXPENSE	(12,799,996)	(30)	(13,506,383)	(34)	(5)
NET INTEREST	<u>26,839,640</u>	<u>64</u>	<u>26,320,077</u>	<u>67</u>	2
NET REVENUES OTHER THAN INTEREST					
Commission and fee revenues, net	7,713,049	18	7,313,277	18	5
Income from insurance premiums, net	2,536,600	6	2,581,073	6	(2)
Gain on financial assets and liabilities at fair value through profit or loss, net	1,594,135	4	3,707,363	9	(57)
Gain on investment properties, net	407,357	1	235,306	1	73
Realized gain on available-for-sale financial assets	1,572,707	4	614,516	2	156
Foreign exchange gain (loss), net	227,407	-	(2,076,674)	(5)	111
(Impairment loss) reversal of impairment loss on assets	(10,848)	-	5,047	-	(315)
Share of loss of associate	(5,559)	-	(7,417)	-	(25)
Other noninterest net revenues	<u>1,357,934</u>	<u>3</u>	<u>872,846</u>	<u>2</u>	56
Total net revenues other than interest	<u>15,392,782</u>	<u>36</u>	<u>13,245,337</u>	<u>33</u>	16
TOTAL NET REVENUES	<u>42,232,422</u>	<u>100</u>	<u>39,565,414</u>	<u>100</u>	7
ALLOWANCE FOR DOUBTFUL ACCOUNTS AND GUARANTEES	(3,445,877)	(8)	(1,186,835)	(3)	190
CHANGE IN PROVISIONS FOR INSURANCE LIABILITIES, NET	(226,072)	(1)	(388,444)	(1)	(42)
OPERATING EXPENSES					
Employee benefits	(14,004,016)	(33)	(13,696,901)	(35)	2
Depreciation and amortization	(1,061,506)	(2)	(927,260)	(2)	14
Others	(7,450,522)	(18)	(7,171,667)	(18)	4
Total operating expenses	<u>(22,516,044)</u>	<u>(53)</u>	<u>(21,795,828)</u>	<u>(55)</u>	3

HUA NAN FINANCIAL HOLDINGS CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

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

	2016		2015		Percentage Increase (Decrease) %
	Amount	%	Amount	%	
NET PROFIT BEFORE INCOME TAX	16,044,429	38	16,194,307	41	(1)
INCOME TAX EXPENSE	<u>(1,957,629)</u>	<u>(5)</u>	<u>(2,113,646)</u>	<u>(5)</u>	(7)
NET PROFIT FOR THE YEAR	<u>14,086,800</u>	<u>33</u>	<u>14,080,661</u>	<u>36</u>	-
OTHER COMPREHENSIVE (LOSS) INCOME					
Items that will not be reclassified subsequently to profit or loss:					
Remeasurement of defined benefit plans	(447,298)	(1)	(531,665)	(1)	(16)
Changes in the fair value attributable to changes in the credit risk of financial liabilities designated as at fair value through profit or loss	(64,115)	-	(116,594)	-	(45)
Income tax relating to items that will not be reclassified subsequently to profit or loss	74,789	-	93,192	-	(20)
Items that may be reclassified subsequently to profit or loss:					
Exchange differences on translating foreign operations	(1,048,107)	(2)	1,292,673	3	(181)
Unrealized (loss) gain on available-for-sale financial assets	(453,785)	(1)	92,658	-	(590)
Income tax relating to items that may be reclassified subsequently to profit or loss	<u>6,685</u>	<u>-</u>	<u>1,750</u>	<u>-</u>	282
Other comprehensive (loss) income for the year	<u>(1,931,831)</u>	<u>(4)</u>	<u>832,014</u>	<u>2</u>	(332)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>\$ 12,154,969</u>	<u>29</u>	<u>\$ 14,912,675</u>	<u>38</u>	(18)
NET PROFIT ATTRIBUTABLE TO:					
Owner of the parent	\$ 14,086,734	33	\$ 14,080,583	36	-
Non-controlling interests	<u>66</u>	<u>-</u>	<u>78</u>	<u>-</u>	(15)
	<u>\$ 14,086,800</u>	<u>33</u>	<u>\$ 14,080,661</u>	<u>36</u>	-
COMPREHENSIVE INCOME ATTRIBUTABLE TO:					
Owner of the parent	\$ 12,154,903	29	\$ 14,912,597	38	(18)
Non-controlling interests	<u>66</u>	<u>-</u>	<u>78</u>	<u>-</u>	(15)
	<u>\$ 12,154,969</u>	<u>29</u>	<u>\$ 14,912,675</u>	<u>38</u>	(18)
EARNINGS PER SHARE					
Basic and diluted	<u>\$ 1.34</u>		<u>\$ 1.34</u>		



HUA NAN FINANCIAL HOLDINGS CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

(In Thousands of New Taiwan Dollars)

	Share Capital	Capital Surplus				
	Capital Stock	Share Premium	Treasury Stock	Donated Assets	Others	Total
BALANCE AT JANUARY 1, 2015	\$ 93,279,700	\$ 17,702,376	\$ 52,349	\$ 2,936	\$ 1,325	\$ 17,758,986
Effect of retrospective application	-	-	-	-	-	-
BALANCE AT JANUARY 1, 2015 AS APPLIED	93,279,700	17,702,376	52,349	2,936	1,325	17,758,986
Appropriation of 2014 earnings						
Legal reserve	-	-	-	-	-	-
Cash dividends	-	-	-	-	-	-
Stock dividends	5,783,342	-	-	-	-	-
Net profit for the year ended December 31, 2015	-	-	-	-	-	-
Other comprehensive (loss) income for the year ended December 31, 2015	-	-	-	-	-	-
Total comprehensive (loss) income for the year ended December 31, 2015	-	-	-	-	-	-
BALANCE AT DECEMBER 31, 2015	99,063,042	17,702,376	52,349	2,936	1,325	17,758,986
Appropriation of 2015 earnings						
Legal reserve	-	-	-	-	-	-
Cash dividends	-	-	-	-	-	-
Stock dividends	6,141,909	-	-	-	-	-
Net profit for the year ended December 31, 2016	-	-	-	-	-	-
Other comprehensive loss for the year ended December 31, 2016	-	-	-	-	-	-
Total comprehensive income (loss) for the year ended December 31, 2016	-	-	-	-	-	-
BALANCE AT DECEMBER 31, 2016	\$ 105,204,951	\$ 17,702,376	\$ 52,349	\$ 2,936	\$ 1,325	\$ 17,758,986

Retained Earnings				Other Equity				
Legal Reserve	Special Reserve	Unappropriated Earnings	Total	Exchange Differences on Translating Foreign Operations	Unrealized (Loss) Gain on Available-for-sale Financial Assets	Changes in the Fair Value Attributable to Changes in the Credit Risk of Financial Liabilities Designated as at Fair Value Through Profit or Loss	Non-controlling Interests	Total Equity
\$ 9,528,669	\$ 6,492,093	\$ 17,259,423	\$ 33,280,185	\$ 863,959	\$ (1,244,286)	\$ -	\$ 1,503	\$ 143,940,047
-	-	(222,820)	(222,820)	-	-	222,820	-	-
9,528,669	6,492,093	17,036,603	33,057,365	863,959	(1,244,286)	222,820	1,503	143,940,047
1,313,094	-	(1,313,094)	-	-	-	-	-	-
-	-	(5,783,342)	(5,783,342)	-	-	-	(53)	(5,783,395)
-	-	(5,783,342)	(5,783,342)	-	-	-	-	-
-	-	14,080,583	14,080,583	-	-	-	78	14,080,661
-	-	(438,473)	(438,473)	1,292,673	94,408	(116,594)	-	832,014
-	-	13,642,110	13,642,110	1,292,673	94,408	(116,594)	78	14,912,675
10,841,763	6,492,093	17,798,935	35,132,791	2,156,632	(1,149,878)	106,226	1,528	153,069,327
1,408,058	-	(1,408,058)	-	-	-	-	-	-
-	-	(6,240,972)	(6,240,972)	-	-	-	(54)	(6,241,026)
-	-	(6,141,909)	(6,141,909)	-	-	-	-	-
-	-	14,086,734	14,086,734	-	-	-	66	14,086,800
-	-	(372,509)	(372,509)	(1,048,107)	(447,100)	(64,115)	-	(1,931,831)
-	-	13,714,225	13,714,225	(1,048,107)	(447,100)	(64,115)	66	12,154,969
\$ 12,249,821	\$ 6,492,093	\$ 17,722,221	\$ 36,464,135	\$ 1,108,525	\$ (1,596,978)	\$ 42,111	\$ 1,540	\$ 158,983,270



HUA NAN FINANCIAL HOLDINGS CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

(In Thousands of New Taiwan Dollars)

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Net profit before income tax	\$ 16,044,429	\$ 16,194,307
Adjustments for:		
Depreciation expenses	906,275	770,638
Amortization expenses	160,815	160,592
Allowance for doubtful accounts and guarantees	3,445,877	1,186,835
Interest expense	15,006,877	15,649,586
Interest revenue	(40,599,505)	(41,027,397)
Dividend income	(888,046)	(653,495)
Change in provisions for insurance liabilities, net	226,072	388,444
Share of loss of associate	5,559	7,417
Gain on disposal of property and equipment	(1,505)	(662)
Gain on disposal of investment properties	(110,712)	(30,275)
Gain on disposal of other assets	-	(8,775)
Impairment loss on financial assets	11,758	14,004
Reversal of impairment loss on financial assets	-	(16,900)
Reversal of impairment loss on non-financial assets	(910)	(2,151)
Gain on disposal of collaterals assumed	(2,482)	-
Changes in operating assets and liabilities		
Increase in due from the Central Bank and other banks	(4,556,275)	(27,904,886)
Decrease (increase) in financial assets at fair value through profit or loss	389,373	(9,937,649)
Increase in available-for-sale financial assets	(27,330,417)	(34,911)
Decrease in derivative financial assets for hedging	803	2,512
(Increase) decrease in receivables	(4,012,630)	10,602,439
Increase in discounts and loans	(102,146,608)	(2,604,761)
(Increase) decrease in assets under reinsurance contracts	(93,577)	3,343
Increase in held-to-maturity financial assets	(131,576,848)	(2,106,008)
(Increase) decrease in other financial assets	(6,855,606)	15,090,206
Increase (decrease) in deposits from the Central Bank and banks	37,729,112	(15,219,948)
Decrease in financial liabilities at fair value through profit or loss	(4,915,602)	(4,485,926)
Decrease in derivative financial liabilities for hedging	(20,119)	(6,687)
Increase (decrease) in securities sold under agreements to repurchase	14,481,344	(5,188,103)
Increase (decrease) in payables	9,947,400	(2,027,431)
Increase in deposits and remittances	145,057,881	89,335,931
Decrease in provisions	(2,042,549)	(764,083)
(Decrease) increase in other financial liabilities	(14,927,141)	10,515,344
(Decrease) increase in other liabilities	(1,169,370)	2,324,213
Cash (used in) generated from operations	(97,836,327)	50,225,763
Interest received	39,664,326	41,755,093
Dividend received	909,512	632,029
Interest paid	(14,754,183)	(16,099,944)
Income tax paid	(2,769,662)	(2,545,063)
Net cash (used in) provided by operating activities	(74,786,334)	73,967,878
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property and equipment	(1,009,395)	(994,718)
Proceeds from disposal of property and equipment	2,493	3,695
Acquisition of intangible assets	(140,124)	(193,123)
Proceeds from disposal of collaterals assumed	13,303	-
Acquisition of collaterals assumed	(508)	(3,356)
Acquisition of investment properties	(21,418)	(14,541)
Proceeds from disposal of investments properties	582,023	147,121
(Increase) decrease in other assets	(1,747,060)	2,062,043
Net cash (used in) provided by investing activities	(2,320,686)	1,007,121
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase (decrease) in short-term borrowings	695,000	(582,000)
Increase in commercial paper payables	3,163,856	5,483,328
Bank debentures issued	3,500,000	3,200,000
Repayment of bank debentures on maturity	(1,700,000)	(1,700,000)
Cash dividends	(6,222,643)	(5,766,563)
Net cash (used in) provided by financing activities	(563,787)	634,765
EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES	(985,850)	1,252,026
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(78,656,657)	76,861,790
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	207,524,135	130,662,345
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	\$ 128,867,478	\$ 207,524,135
Cash and cash equivalents in consolidated balance sheets	\$ 49,695,558	\$ 39,189,783
Due from the Central Bank and other banks that meet the definition of cash and cash equivalents in IAS 7	78,822,905	167,856,137
Securities purchased under agreements to resell that meet the definition of cash and cash equivalents in IAS 7	349,015	478,215
Cash and cash equivalents in consolidated statements of cash flows	\$ 128,867,478	\$ 207,524,135

HONESTY. EFFICIENCY. ACTIVENESS. RESPONSIBILITY. TEAMWORK

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



Address: No. 123, Songren Rd., Xinyi District, Taipei City
Tel No. : 886-2-2371-3111
Website : <http://www.hnfhc.com.tw>