

 HUA NAN FINANCIAL HOLDINGS CO., LTD.

2018

ANNUAL REPORT

HUA NAN FINANCIAL HOLDINGS CO.,LTD.



107



2018

ANNUAL REPORT

HUA NAN FINANCIAL HOLDINGS CO., LTD.



I. Address, Website, and Telephone No. of HNFHC and Its Subsidiaries

(I) HNFHC

Address: No. 123, Songren Rd., Xinyi Dist., Taipei City
Tel No.: (02)2371-3111
Website: <http://www.hnfhc.com.tw>

(II) Subsidiaries

1. Hua Nan Commercial Bank Ltd.
Address: No. 123, Songren Rd., Xinyi Dist., Taipei City
Tel No.: (02)2371-3111
Website: <http://www.hnbc.com.tw>
2. Hua Nan Securities Co., Ltd.
Address: 5F, No. 54, Sec. 4, Minsheng E. Rd., Songshan Dist., Taipei City
Tel No.: (02)2545-6888
Website: <http://www.entrust.com.tw/>
3. South China Insurance Co., Ltd.
Address: 5F, No. 560, Sec. 4, Zhongxiao E. Rd., Xinyi Dist., Taipei City
Website: www.south-china.com.tw
Tel No.: (02)2758-8418
4. Hua Nan Investment Trust Corp.
Address: 3F-1, No. 54, Sec. 4, Minsheng E. Rd., Songshan Dist., Taipei City
Tel No.: (02)2719-6688
Website: <http://www.hnitc.com.tw>
5. Hua Nan Venture Capital Co., Ltd.
Address: 3F, No. 143, Sec. 2, Mingsheng E. Rd., Zhongshan Dist., Taipei City
Tel No.: (02)2500-0622
Website: None
6. Hua Nan Assets Management Co., Ltd.
Address: 4F, No. 18, Sec. 1, Changan E. Rd., Zhongshan Dist., Taipei City
Tel No.: (02)2511-2900
Website: <http://www.hnamc.com.tw>

II. Spokesperson

Name of spokesperson: Lu, Chin-Huo
Title: Executive Vice President
Tel No.: (02)2371-3111 Ext. 1865
E-mail: public@hnfhc.com.tw
Name of deputy spokesperson: Hsu, Chien-Ting
Title: Executive Vice President
Tel No.: (02)2371-3111 Ext. 1863
E-mail: public2@hnfhc.com.tw

III. Stock Transfer Handling Agency

Name: Hua Nan Securities Co., Ltd.
Address: 4F, No. 54, Sec. 4, Mingsheng E. Rd., Songshan Dist., Taipei City
Tel No.: (02)2545-6888
Website: <http://www.entrust.com.tw>

IV. CPA of the Financial Reports

Name of CPA: Chang, Ting-Sheng and Lai, Kuan-Chung
Name of accounting firm: Deloitte Taiwan
Address: 12F, No. 156, Sec. 3, Minsheng E. Rd., Songshan Dist., Taipei City
Tel No.: (02)2545-9988
Website: www.deloitte.com.tw

V. Name of Overseas Listing Securities Exchange Office and the Way to Inquire: None.

VI. Credit Rating Agency

Name: Taiwan Ratings Co.
Address: 49F, No. 7, Sec. 5, Xinyi Rd., Xinyi Dist., Taipei City
Tel No.: (02)8722-5800
Website: <http://www.taiwanratings.com>

CONTENTS

HUA NAN FINANCIAL HOLDINGS CO.,LTD.

I Letter to the Shareholders

003

II Company Profile

012

III Corporate Governance

014

- I. Organization Chart
- II. Directors and Management Team
- III. Status of Corporate Governance
- IV. Information on CPA Professional Fees:
- V. Information on Replacement of CPAs: If the Company Has Replaced Its CPAs within the Most Recent Two Years or Any Subsequent Interim Period, It Shall Disclose the Following Information:
- VI. Chairman, President, or Manager in Charge of Finance or Accounting Matters Having Held a Position at the Accounting Firm of CPAs or at an Affiliated Company of Such Accounting Firm in the Most Recent Year: None.
- VII. Any Transfer or Pledge of Equity Interests in the Most Recent Year up to the Date of Publication of the Annual Report by a Director, Supervisor, Manager, or Individual or Related Party Holding Shares of the Same Financial Holding Company with Voting Rights Issued over a Certain Ratio Set Forth in Article 11 of the Regulations (I):
- VIII. Information on Relationship if among Top 10 Shareholders Any One Is a Related Party or a Relative within the Second Degree of Kinship of Another.
- IX. Total Number of Shares Held by the Financial Holding Company and Its Subsidiaries, Directors, Supervisors, Managers, and Businesses either Directly or Indirectly Controlled by the Financial Holding Company as a Result of Investment, and the Ratio of Consolidated Shares Held.

IV Capital Overview

061

- I. Stocks and Dividends
- II. Corporate Bonds
- III. Issuance of Preferred Stock: None.
- IV. Issuance of Global Depositary Receipts: None.
- V. New Issuance of Restricted Employee Shares: None.
- VI. Merger by Other Financial Institutions or Acquisition of Other Financial Institutions: Not applicable. The Company does not engage in such affairs.
- VII. Execution of Fund Application Plans:

V Business Overview

068

- I. Details on Group business
- II. The Benefit of Cross-Industry and Cross-Selling in the Group.
- III. Market and Business Conditions of the Group
- IV. Employee data of the Group
- V. The Group's corporate responsibility and ethical behavior
- VI. Number of employees not in management position, average employee benefit expenses of the year and the difference with prior year.
- VII. The information equipment of the Group
- VIII. Labor management relations of the Group

- IX. Material Contracts of the Group
- X. Key indicators of the Group

VI The Company's Business

123

- I. Condensed balance sheets and statements of comprehensive income for the past five years
- II. Financial analysis for the past five years
- III. Audit Committee Report for the past year's financial report
- IV. The past year's financial report
- V. Other financial status disclosure

VII Risk Management and Analysis on Financial Status and Operating Results.

316

- I. Financial Status: Major reason and impact for material changes in assets, liabilities, and stockholders' equity. Future responsive actions shall be described if the impact is significant.
- II. Financial performance: Significant changes in net revenue and income before tax for past two years, the main reason for the change, expected operating goals and the basis of the goals. The possible impact and responsive action on financial holding company's future financial business.
- III. Cash flow
- IV. Major Capital Expenditures in recent years and their Impact on Finance and Business: None.
- V. Policy on investment in other companies, main reasons for profit / losses resulting therefrom, improvement plan, and investment plans for the upcoming fiscal year.
- VI. Risk management
- VII. Crisis management and response mechanisms
- VIII. Other Important Issues: None.

VIII Other Special Notes

352

- I. Related Information for Subsidiaries
- II. Private Placement Securities
- III. Holding or Disposal of the Company's shares by the Subsidiaries
- IV. Any Events that Had Significant Impacts on Shareholder's Right or Security Prices
- V. Other Necessary Supplement

IX Basic information for domestic and overseas operating units of the Group

368

- I. Hua Nan Commercial Bank
- II. Hua Nan Securities
- III. South China Insurance
- IV. Hua Nan Investment Trust
- V. Hua Nan Venture Capital
- VI. Hua Nan Assets Management

A photograph of a baseball field with a brown leather glove and a white baseball in the top left corner, and a wooden bat in the top right corner. The background is a sandy field with a white base. The text is overlaid on the base.

2018

ANNUAL REPORT
HUA NAN FINANCIAL HOLDINGS CO.,LTD.

Honesty

Efficiency

Activeness

Responsibility

Teamwork

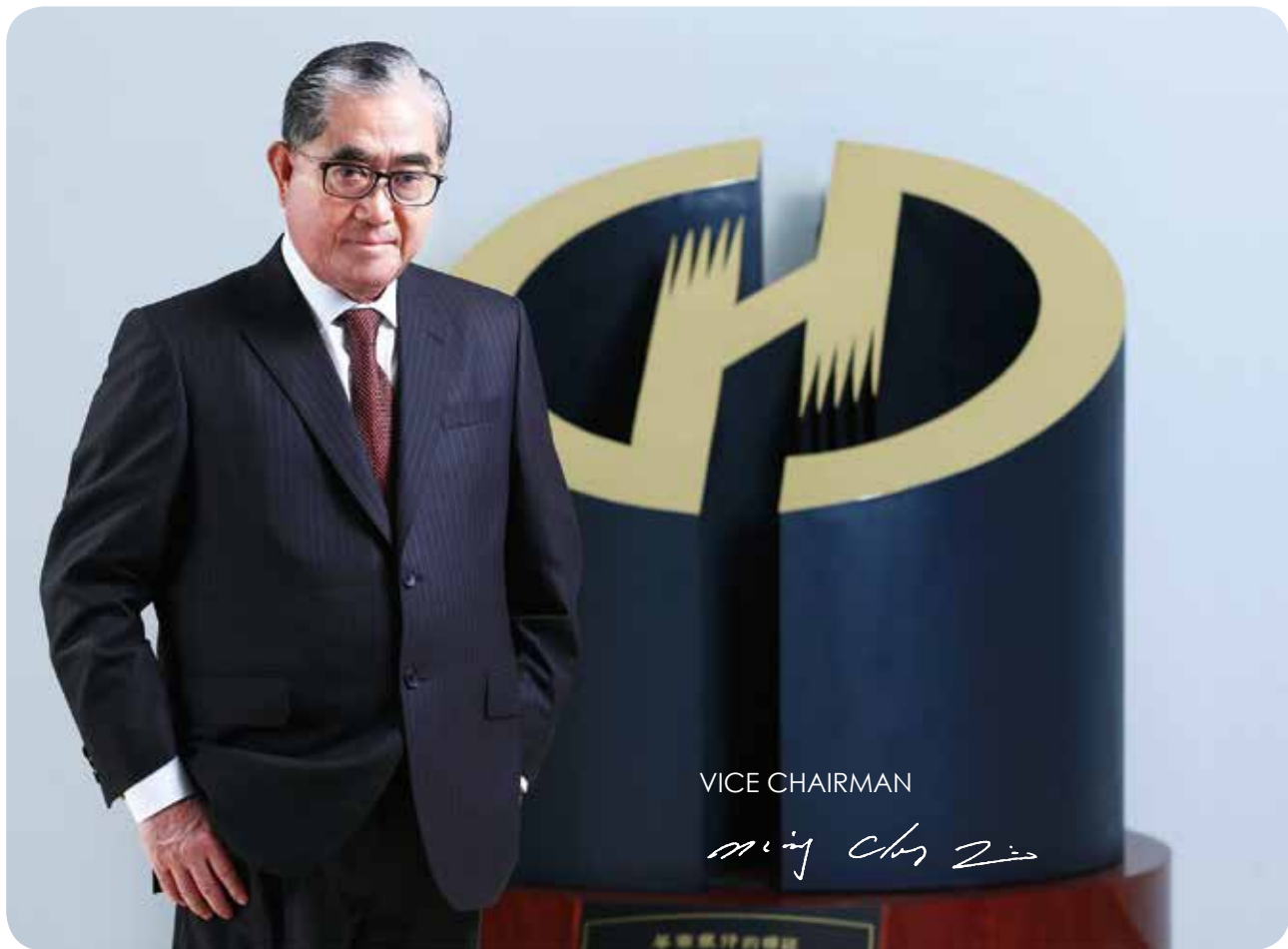


I Letter to the Shareholders

I. The Group's Business Results for 2018

(I) Domestic and Foreign Financial Environment in 2018

Thanks to tax reduction in the US and Europe, the financial market in the first half of 2018 continued to see a volatile bull market while the global economy stayed in good condition. However, beginning from Q4, the trade disputes between the US and China worsened, the Fed kept raising the interest rate, and the financial market experienced fluctuations and tumbles. All this resulted in slower economic growth. According to IHS Markit and IMF forecasts, the global economic growth rate is estimated to be between 3.2% and 3.7% for the whole of 2018. Although the forecast is pretty much the same level as 2017, international economic and trade conditions have become severe and there is higher risk of economic downturn. Affected by international conditions, the Taiwan stock market boom at 10,000 index points that lasted for more than one year finally ended in Q4. According to statistics posted on February 13, 2019 by Directorate-General of Budget, Accounting and Statistics, Executive Yuan, economic growth rate of the whole year is estimated to be 2.63%, 0.45 percentage points below the 3.08% recorded in 2017. The decrease was due to the slower economic growth in major trading partners as well as a high base of comparison. As a result, the growth rate of export was flattish. The escalated disputes between the US and China, the slowdown of global economic expansion, increased uncertainty in the financial market, and deferred capital expenditure by semiconductor manufacturers all restricted the growth momentum of the economy.



(II) Changes to the Company Organization

Since its inception on December 19, 2001, Hua Nan Financial Holdings Co., Ltd. (hereinafter “the Company” or “HNFHC”) has operated financial services across various professional fields of banking, securities, insurance, investment trusts, asset management, and venture capital. In order to reduce operating costs and improve operational performance, Hua Nan Commercial Bank (hereinafter “HNCB” or “the Bank”) formally merged with HNCB Insurance Agency on September 30, 2017. As of the end of 2018, the Company had 100% ownership control over all its six subsidiaries.

(III) Business Plan and Results of Business Strategies

The Group adopts the following strategies to tackle domestic and overseas political and economic changes and prudently evaluates risk: 1. Increase foreign exchange business volume in the face of expanded interest rate spread between the US and Taiwan. 2. Adjust investment position and structure in anticipation of a tumbling financial market. 3. Reduce exposure in China and increase bad debt provision. 4. Develop FinTech (Mobile, Blockchain, AI) and promote Taiwan Pay QR Code mobile payment service. Under the participation and professional instruction of the Board of Directors and supervisors as well as the collaboration of all employees of the Group, the Company's net income after tax, EPS, and ROE in 2018 was NT\$14,621 million, NT\$1.27, and 8.59%, respectively, representing a significant growth of 22% compared to 2017. The Company's subsidiary Hua Nan Commercial Bank recorded net income after tax of NT\$14,307 million, with decreased non-performing loans ratio of 0.15%, achieving the highest profit and best asset quality in the past one hundred years. Hua Nan Securities' market share of underwriting business rose from 3.09% to 3.28%. The insurance revenue of South China Insurance Co. Ltd. has grown in consecutive three years from NT\$7.85 billion to NT\$8.68 billion. The Group has won the 25th national quality “Perpetual Development Model Award” under the functional model category, three “Excellent Financial Business Award” (HNFHC won “Best Social Responsibility Award”, HNCB won “Best Digital Finance” and “Best Consumer Finance”) from Taiwan Academy of Banking and Finance. These awards recognize the Group in the areas of corporate governance, green finance,



environmental sustainability, corporate social responsibility, digital finance innovation, and high-quality consumer products. Other main operating results for 2018 are as follows:

1. Strengthened Management

- (1) Asset quality: The non-performing loan and loan loss coverage ratios of HNCB were 0.15% and 853.48%, respectively, which are superior to industry averages.
- (2) Capital adequacy ratio: The Group's capital adequacy ratio at the end of 2018 was 120.20%. The bank's capital adequacy ratio was 13.75%, with a Tier 1 capital adequacy ratio of 11.14%.
- (3) Corporate governance: The Company is included in the 6%-20% bracket in the 4th Corporate Governance Evaluation established by the Taiwan Stock Exchange in 2017. The Company is also selected for inclusion in the "Corporate Governance 100 Index Constituent Stocks," "FTSE4Good Emerging Index," "TSE4Good TIP Taiwan FSG Index," "Taiwan HC100 Index," and "Taiwan RAFI EMP 99 Index."
- (4) Legal Compliance, Anti-money Laundering and Countering Financing of Terrorism (AML/CFT):
 - A. The Legal Compliance Committee has been established to promote the legal compliance of the Group and implement the legal compliance of important regulations such as FATCA, AML/CFT, CRS, and GDPR.
 - B. The APG Mutual Assessment Monitoring Committee has been established to ensure compliance with anti-money laundering legislation, counter financing of terrorism across all companies within the Group, provide a place for APG assessment in Taiwan, assist in committee affairs, and successfully complete APG on-site review.

2. Strengthened Cross-selling

- (1) Cross-selling efficiency of the Group: In 2018, cross-selling contribution grew 11% compared to last year.
- (2) Strengthen customer structure and scale: The Group has a sound customer relationship management mechanism. In 2018, the number of natural person clients, total assets, total contribution levels, and high-

value customers grew by 1.8%, 4.4%, 10.5%, and 15.6%, respectively, compared to 2017. The total assets of corporate clients and total contribution levels have grown by 3.6% and 5.5%, respectively. Customer quality is progressing in a positive direction.

3. Promoted Digital Finance

(1) The development of FinTech:

- A. Mobile: The Company acts as executive secretary in "Integrated Platform for Government Held Business FinTech Research and Development Accomplishments" established by Ministry of Finance. The Company promotes "Taiwan Pay QR Code mobile payment" service and is the first bank to launch the business. Meanwhile, the Company has also launched a facial identity service and provided three major functions of facial identity: cash withdrawal without ATM card, wire transfer, and mobile payment through facial identity.
- B. Blockchain: The Company acts as the chairperson of the enterprise finance blockchain group held by Financial Information Service Company and launched "Financial blockchain information query service project" together with Financial Information Service Company at the end of July 2018. The bank confirmation blockchain was launched on December 1, 2018. A total of 27 banks and more than 700 companies have since joined the blockchain.
- C. AI: The Group launched its intellectual customer service in 2018 and launched the mobile "artificial intelligence in conversation" feature at the end of 2018. Conversation with customers can be real-time analyzed by unique AI interactive technology, and the convenience of using the mobile bank can be increased through situational questions and solutions.

(2) Financial technology (FinTech) patents and awards: The Group has obtained five invention patents and 44 utility model patents by 2018. The Group also won 2018 Excellent Financial Business Award of Best Digital Finance with "Establishing Taiwan Pay QR Code Ecosystem," and the 2018 IDC Digital Transformation Prize with the "Big Data Analysis and Intelligent Marketing Platform".

(3) FinTech innovation competition: The Company organized "The Third Hua Nan Financial Holdings FinTech Innovation Competition." Five sectors including industry, government, academia, research, and development were gathered together. Over 350 teams participated in the competition, breaking the record of financial competition in Taiwan. It is expected that through the competition, the campus can be connected with industry, and innovational ideas can be poured into industry to foster future FinTech talent.

4. Corporate Social Responsibilities

- (1) Promote charitable activities: The Group's primary goals in social welfare are to care for disadvantaged groups, promote knowledge popularization, support sport events, and nurture cultural and creative industries. The Group sponsored or hosted over 30 charitable activities in 2018, including 0206 Hualien earthquake disaster relief, 0823 southern Taiwan flood relief, "Excellent Hua Nan Care for the elderly," etc.
- (2) Sponsor development of sports: The Company has been investing in laying the foundation for baseball development since 2007. The "one ball for one dream" fundamental baseball cultivating plan has been executed for over 12 years. The Company sponsors the gymnast Li, Chih-Kai, Huang, Ke-Chiang, and coach Lin, Yu-Hsin and co-organized "Little gymnast camp" and several other sports events with Hua Nan Commercial Bank. In 2018, it was awarded the Sponsorship Gold Medal, Long-term Sponsorship Awards, and Promotion Bronze Medal of the "Sports Activists Award" organized by the Sports Administration, Ministry of Education. The Company has been recognized in consecutive seven years.
- (3) Implementation of green finance:
 - A. The subsidiary, HNCB, completed the introduction of Equator Principles for internal credit review to judge, evaluate, and manage the environmental and social risks of large-scale project financing, implementing the corporate social responsibility of the financial industry through actions.
 - B. The subsidiary Hua Nan Commercial Bank issued NT\$1 billion green bond in April 2018 and invested NT\$5.46 billion green bond at face value at the end of December 2018.



(IV) Budget Implementation, Financial Income, and Profitability Analysis

In 2018, the Company generated net income after tax of NT\$14.62 billion with an EPS of NT\$1.27. Net income after tax increased NT\$2.6 billion compared to 2017, mainly due to profit increase of the subsidiary Hua Nan Commercial Bank. Regarding subsidiary operation, Hua Nan Commercial Bank is still the major source of income. The exchange gains from USD/TWD SWAP and investment income increased due to the increase of interest rate spread between US and Taiwan in 2018, which brought about an increase of NT\$2.9 billion in profit. The profit of Hua Nan Securities decreased NT\$270 million due to the tumbling stock market. The stock market dropped 8.6% for the whole year and resulted in decrease in profit from dealer and underwriting business. Hua Nan Assets Management Company sold a parcel of land in Tucheng Industrial District to Hua Nan Commercial Bank in 2017. There were no large-scale land sales in 2018 and thus profit decreased NT\$148 million. The profitability of other subsidiaries was at similar levels with the previous year, and all subsidiaries have maintained profitability.

Hua Nan Financial Holdings Condensed Financial Statements of 2018

Company Name	2018 (Audited)Net Income After Tax	2018 (Forecast)Net Income After Tax	2017 (Audited)Net Income After Tax	Earnings Per Share(EPS)	Return on Equity (ROE)
Hua Nan Financial Holdings	NT\$14,621 million	NT\$12,155 million	NT\$12,015 million	NT\$1.27	8.59%
Hua Nan Commercial Bank	NT\$14,307 million	NT\$11,659 million	NT\$11,363 million	NT\$1.79	7.92%
Hua Nan Securities	NT\$456 million	NT\$670 million	NT\$730 million	NT\$0.56	3.67%
South China Insurance	NT\$635 million	NT\$635 million	NT\$671 million	NT\$3.17	12.98%
Hua Nan Investment Trust	NT\$14 million	NT\$25 million	NT\$12 million	NT\$0.45	2.71%
Hua Nan Venture Capital	NT\$13 million	NT\$13 million	NT\$6 million	NT\$0.06	0.83%
HNAMEC	NT\$9 million	NT\$40 million	NT\$157 million	NT\$0.09	0.78%

(V) Research and Development

1. Hua Nan Financial Holdings

The group-level "Big Data Analysis Platform" and "Intelligent Marketing Platform" are developed and the "Group Big Data Business Development Team" is formed. The Company aims to promote the development of customer oriented digital marketing at full speed. The optimal personalized content and customized marketing strategies are formulated based on big data analysis, integrating online and offline marketing channels between subsidiaries in the Group to implement precision marketing through multiple channels and times. Dozens of machine learning models such as "customer grouping" and "customer purchase tendency" are also built in order to discover and fulfill the immediate need of customers and provide them perceptual and warm service to enhance customer experience.

2. Hua Nan Commercial Bank

The Bank encourages employees to actively participate in research and development work. Of the 261 R&D cases submitted by employees in 2018, 45 were accepted for implementation.

3. Hua Nan Securities

- (1) Continuously provide good online-counter service: Online E-counter offers regular fixed time and amount transactions, all-purpose loans, two-way security lending, online account opening, and other services, providing online-counter service through Straight Through Processing (STP) provided by Taiwan Depository and Clearing Corporation.
- (2) Continuously optimize Line@ customer experience: The social media Line@ customer service is built to provide customers superior information through the patented Hua Nan Securities AI stock selection logic, stock selection strategies, and real-time news. The content of Line@ is improved to provide more information through cross-industry cooperation such as ETF and soft information. Through binding customer electronic transaction accounts with Line@ group, customers are also provided with account inquiry, wealth management information, stock selection push notification, and other related services. AI semantic robots are introduced to provide automatic answering service and multiple customer service channels in order to enhance customer satisfaction.

- (3) Provide stock brokers with a good mobile service platform: The mobile broker operating system (mobile APP) is established to provide brokers with a good customer service mobile platform, including customer account inquiry, interview records, promotion, business statistics, study reports, and market push notifications.
- (4) Implement the competent authority's openness policies: The company complies with the policies of unlimited money borrowing, securities firm entrusted fixed time and amount securities trading, and digital central depository book assignment to provide diversified services for customers.
- (5) Ensure anti-money laundering system works effectively: To improve anti-money laundering and countering financing of terrorism, the "Anti Money Laundering (AML)" system developed by SAS Institute Inc. is implemented to strengthen the monitoring of the company's accounts and transactions as well as detection of suspicious money laundering and terrorist financing transactions. To ensure system functioning, the external professional consultant KPMG Consulting Company is engaged to inspect the system and test its function after the SAS system went live.
- (6) Improve and strengthen information security: The company procured Fortinet network equipment with VPN double factor certification to improve information security. It also replaced the IT personnel VPN connection system. Designated budget for system upgrade and plan replacement schedule.
- (7) The company combined the professional knowledge of the Overseas Commodity Unit, Financial Commodity Unit, and Futures Self-Operation Unit and committed to financial commodity arbitrage R&D endeavors and developed the spreads, arbitrage, and hedging computer trading programs for a variety of new financial derivatives. Technical judgments such as artificial intelligence graphs are also adopted to master long-short operational directions and grasp the perfect trading times to maximize profits.
- (8) Promote trust type wealth management business: The company continuously increases the number of cooperating companies, launching new products, improving competitiveness to avoid losing customers, negotiating with new partners, and launching hot new products in order to improve the variety of products offered and provide more investment allocation options for customers. Marketing activities are also organized to maintain channel participation.
- (9) Promote the OSUs: The company will employ additional professionals to promote relevant businesses and increase its niche.
- (10) The Hua Nan Securities Investment Management subsidiary has conducted in-depth research on the fundamental, technical, and financial aspects of global financial, domestic and international economy, industry, and individual company information so as to master investment trends and avoid risky industries. In addition to bringing out relevant investment publications and organizing investment seminars regularly, we also provide financial holding group related unit investment information and credit references.
- (11) Implement the following relevant information system plans:
 - A. In conjunction with the planning of Bank 3.0, our blueprint of digital financial environment, a complete digital financial environment is built to gradually work toward the following goals:
 - a. Establish a digital trading environment.
 - b. Establish an AI Interactive customer service center.
 - c. Make good use of the digital marketing system.
 - d. Deepen social media management and marketing.
 - e. Master FinTech development trends and plan related technologies and services.
 - f. Make good use of the financial holding's big data project platform to provide digital marketing services.
 - g. Use business intelligence analysis platform for real-time performance management.
 - B. Plan the construction of overseas re-commissioned web trading platform: A multi-nation trading platform is established to increase the size of the tradable overseas market. The goal is to provide 18 overseas stock markets and expand the width of service for corporate clients.
- (12) Propose to establish a venture capital subsidiary: The subsidiary will be established with the aim to become a total solution investment bank to facilitate the underwriting business and partner with underwriting business to act as an investment bank to complement financial holdings venture capital and create a double investment engine. The investment strategy is to focus on late stage cases.

4. South China Insurance

In response to business channels and customer demand for diversification, South China Insurance focuses on R&D of new products and innovative portfolios for new marketing projects. In 2018, 215 new products were developed, of which 117 are being marketed. Besides understanding the market demand, it can provide comprehensive professional service to policy holders. South China Insurance Company has been focusing on operation and actively participating in social welfare activities over a long period of time. Therefore, the company has won the support and trust of all sections of society and won the "Faith, Hope & Love Awards of Insurance" under the "Best Insurance Professionalism," "Best Professional Consultant," "Best District Office," and "Best Social Responsibility" categories.

Integrity, precision, and transparency are the DNA of the core values of the risk management culture. The company has also employed audit, legal compliance and discipline, and the risk management unit collaborative platform to promote specific risk management mechanisms to enhance corporate governance and risk management.

Solid operation is the business principle guiding SCIC, which received "Financial strength: A (excellent), Issuance credit A, stable for two rating outlooks" from A.M. BEST credit rating company. This indicates that SCIC has a strong balance sheet, good underwriting performance, neutral business profile, and appropriate corporate risk management. In addition, Taiwan Ratings gave a credit rating of "twAA, rating outlook is stable," reflecting SCIC's strong capital adequacy, good control of sales channel, excellent capital liquidity, and appropriate risk management and control.

A spirit of business innovation, customer orientation, efficient service, and the collective efforts of all employees helped SCIC to grow steadily in 2018. In the future, the business strategy is to follow the leading principle of business efficiency enhancement. The company keeps looking for new developments that will offer customers a full range of services. The company will also carry forward with information hardware and software expansion, innovative digital application, information integration management enhancement, and fulfillment of corporate social responsibility. SCIC moves forward to achieve better results.

5. Hua Nan Investment Trust

At the end of 2018, the overall investment trust fund size was approximately NT\$2.57 trillion, which reflects an increase of approximately NT\$253,370 million or a 9.9% increase compared to the end of 2017. The Company's public fund collection was NT\$33,687 million at the end of 2018, a decrease of approximately NT\$6.1 billion over that of 2017, with the 22nd position in the market. It was due to the booming of ETF and increased scale in 2018 which in the end squeezed the volume of cash that flew to active fund and money market fund.

The data on funds in the market suggests that the domestic money market fund experienced the largest decrease in 2018 with an annual reduction of NT\$99.4 billion. This fund type has the largest size decrease for three consecutive years. The fund type ranking in the second place is global equity fund with a decrease of NT\$73.4 billion. The top three types of funds with the largest increase in scale are overseas ETF, fixed-income funds, and domestic ETF with an increase of NT\$350 billion, NT\$95.6 billion, and NT\$41.1 billion, respectively. They are also the top three new fund raisings in 2018.

6. Hua Nan Venture Capital

The company keeps abreast with trends in industrial development by participating in industry seminars and related training courses. It strengthens investment case assessment and enhances professionalism in post-investment management. The company also assists in investment business operations and financial planning, and establishes strategic alliances and partnerships to ensure smooth market listing and profitability.

7. Hua Nan Assets Management Company

Hua Nan Assets Management Company has a diversified business model. In addition to management and disposal of non-performing loans, the company has also accepted commissions from financial institutions and enterprises to handle bad debts and assets. The company also directly invests in court-auctioned real estate and entrusted bidding. This enables the company to flexibly adjust management strategies and human resources based on market changes to avoid missing on business operations and business concentration risk. The self-build urban renewal project "Hua Nan Dingpu Technology Building in Tucheng Industrial Zone" managed by Hua Nan Assets Management Company, has started the construction in November 2018 and is planned to complete in 2021. Financial Supervisory Commission, Banking Bureau has announced the amended "Operating Principle of Financial Holdings Company (Bank) Investing in Asset Management Company" in December 2017. The principle allows asset management companies to bid real estate tendered by government agency. In order to expand source of purchase and peruse earnings growth, Hua Nan Assets Management Company actively participated the evaluation and acquired the land in Xindian Yang-Pei redevelopment zone in May. This is the first large-scale government land tender offer participated by AMC held by financial holdings company.

II. 2019 Group Business Plan and Future Development Strategies

Looking forward to 2019, it is estimated that global economy will continue to slow down, mainly caused by the continuance of US China trade disputes, slowness of China economy, and uncertain Brexit prospects. It is estimated that merchandize export will decrease due to increased tension in international trade. However the expansion of public construction by the government and backflow of overseas Taiwanese businessmen will enhance the force of domestic investment. Although all economic research organizations estimate the economy will slow down, the Group will keep taking four aspects of "the rule of law, risk, human resources, and technology" to be the work focus to set up five major operating strategies: 1. Generate earnings from diverse sources, increase net service charge income and net investment income. 2. Balance profit contribution within the Group and increase benefit created by use of assets and capital. 3. Deepen financial technology, simplify the process flow, increase service quality and operating efficiency in order to expand customer base in all generations and groups. 4. Establish internal control, internal audit, risk management, legal compliance culture (GRC), and protect information security. 5. Fulfill corporate social responsibility, strengthen corporate governance, cultivate talent, and achieve sustainable operation. The Group will positively expand operation, build up three pillars of net interest income, net service charge income, and net investment income to balance sources of profit, and increase the profit contribution of its securities and insurance subsidiaries. 2019 is the 100th anniversary of the subsidiary Hua Nan Commercial Bank. The Group has to think about the difficulties of creating a business our predecessors faced and work hard in order to build up a solid 100-year-old foundation. We recognize that financial service and value we provide should progress with the times and understand that staying at where we are leads to failure. Facing the rapid development of digital finance technology and challenge of remodeling financial ecosystem through 5G, we expect all employees to take Hua Nan as their own responsibility, inherit from 100 years' culture, and make the glamour glow again!

III. Impact from the Legal Environment: None.

IV. Credit Rating

Assessed Institution	Rating Agency	Long-term Credit Rating	Short-term Debt Rating	Future Outlook
Hua Nan Financial Holdings	Taiwan Ratings (2019/05)	twAA-	twA-1+	Stable
Hua Nan Commercial Bank	Taiwan Ratings (2019/05)	twAA+	twA-1+	Stable
	Moody's Ratings (2019/02)	A2	P-1	Stable
	Standard & Poor's (2018/07)	A-	A-2	Stable
Hua Nan Securities	Taiwan Ratings (2018/06)	twAA-	twA-1+	Stable
South China Insurance	Taiwan Ratings (2018/12)	twAA	-	Stable
	A.M. Best (2019/01)	A	a	Stable

Chairman

Chang, Yun-Peng

Vice Chairman

Ming Chen

President

Lo, Pao-chu

Honesty



II Company Profile

I. Date established

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

II. Company history

The status of merger and acquisitions, investments in affiliates, and reorganization of the Company in the last year and up to the date of publication of the annual report:

The Company invested in Taiwan Urban Regeneration & Financial Services Co., Ltd. in March 20, 2018. Through the sense of trust from the public in government-owned financial institution, it handles dangerous and old building regeneration in the hope to increase the willingness of the general public to accept the regeneration proposal and accelerate the speed of urban regeneration.

III. Significant transfer or changes of stock ownership by Board of Directors, supervisors, and major stockholders: None.

IV. Significant changes in ownership, methods of operation, or business operation: None.

V. Other significant items that will affect shareholders' right: None.



Chief Auditor Pi-E Huang, Executive Vice President King-Huo Lu, Vice Chairman Ming-Cheng Lin, Chairman Yun-Peng Chang, President Pao-Chu Lo, Executive Vice President Sarah C.T.Hsu, Executive Vice President Tien-Yu-Chen (from left)

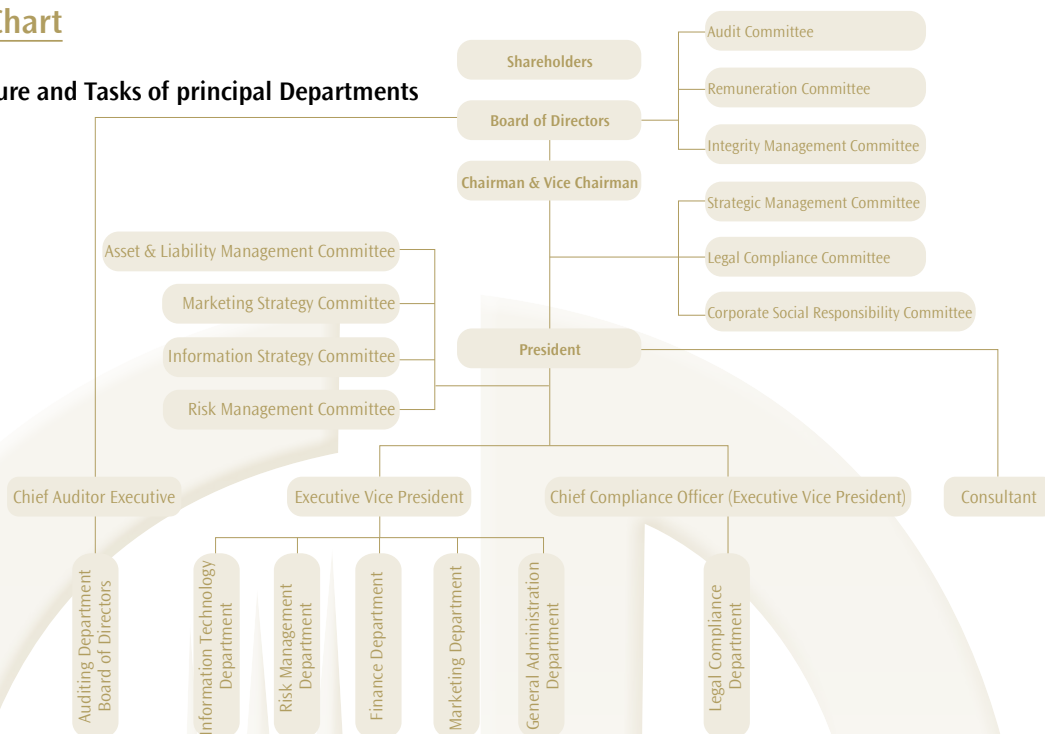
Efficiency



III Corporate Governance

I. Organization Chart

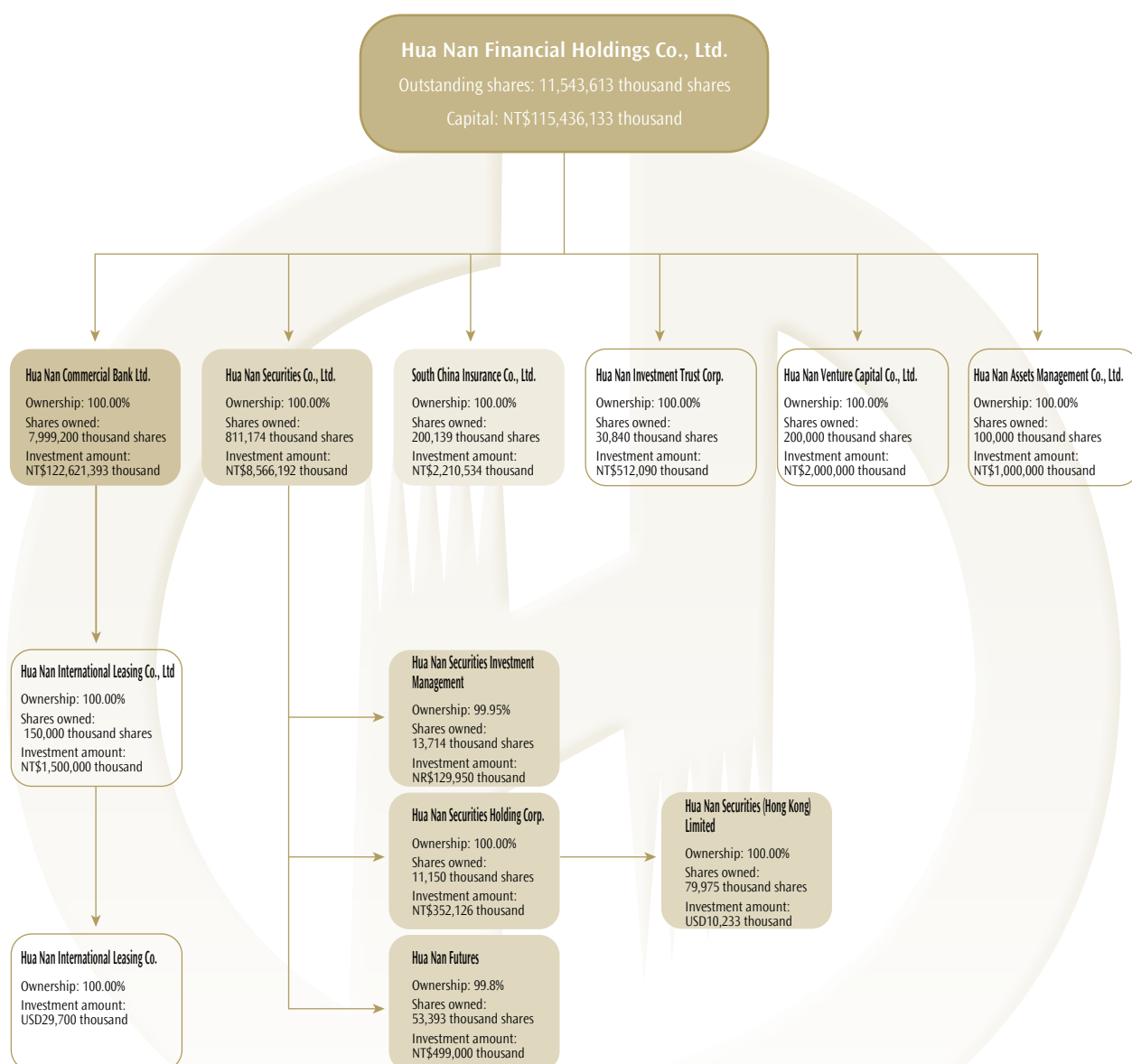
(I) Company's Structure and Tasks of principal Departments



Audit Committee	<ol style="list-style-type: none"> The powers of supervisors under the Securities and Exchange Act, the Company Act, and other laws and regulations, except for the powers set forth in Paragraph 4, Article 14-4 of the Securities and Exchange Act, shall be exercised by the Audit Committee. The provisions under the Company Act that involves the behavior of supervisors or company representatives in Paragraph 4, Article 14-4 of the Securities and Exchange Act shall be applicable to the independent directors of the Audit Committee. 	Marketing Strategy Committee	<ol style="list-style-type: none"> Study the "Directions for Cross-Selling Management of Hua Nan Financial Group". Study the "Directions for Wealth Management Product Assessment of Hua Nan Financial Group". Study the annual sales target of cross-selling. Study the annual plans for the development and management of cross-selling channels. Study the annual development plans for compound instruments. Study the annual development plans for customer relationship management of the Group. Study the results of customer clustering, accountability principle of customer relationships, performance measurement indicators of customer relationship management and other key issues associated with customer relationships of the Group. Study other significant marketing-related topics of the Group.
Remuneration Committee	<ol style="list-style-type: none"> Prescribe and periodically review the policies, systems, standards, and structures for performance evaluation and remuneration for directors and managers. Periodically evaluate and prescribe the remuneration of directors and managers. 	Information Strategy Committee	<ol style="list-style-type: none"> Study the Group's short, mid and long-term information strategy planning reports. Study the subsidiaries' information core system deployment planning. Monitor the execution of subsidiaries' information strategies. Monitor the deficiency handling status of the Group's material loss reporting concerning information technology. Study key topics associated with information development of the Group.
Integrity Management Committee	<ol style="list-style-type: none"> Help incorporate business integrity and ethics into the business strategies. Establish anti-fraud measures according to the laws and regulations to ensure ethical corporate management. Develop a whistle-blowing system and ensure its operating effectiveness. Promote and coordinate integrity policy training. Execute matters relating to the development and supervision of the integrity policy. 	Risk Management Committee	<ol style="list-style-type: none"> Study the rules and regulations relating to the management of the Group's credit, market and operational risks. Study limits relating to the Group's credit and market risks. Study the Group's new financial instruments or product plans. Study the high-risk proposal of the Group's operational risk assessment procedures. Study the planning of the Group's major risk management system deployment. Review the Group's management report concerning the credit, market, operational and other risks submitted to the Board of Directors. Review the Group's major reporting events submitted to the Board of Directors. Deal with topics concerning the Group's credit, market, operational or other risks.
Strategic Management Committee	<ol style="list-style-type: none"> Study the Group's mid and long-term development strategies. Study the Group's major investment decisions. Study capital raising and mid and long-term financing. Study the Group's annual budgets. Study the annual performance evaluation of subsidiaries. 	General Administration Department	Handle stock affairs, procurement, leasing, acquisition or disposal of real property, documentation, official seals, securities safekeeping, public relations, brand management, corporate identity system, corporate governance, corporate social responsibility, formulation of and amendment to major policies, division of duties, and human resources planning and management.
Legal Compliance Committee	<ol style="list-style-type: none"> Study the Group's legal compliance system. Review the implementation of the Group's legal compliance system. Review the evaluation results of the Group's legal compliance system. Study the Group's AML/CFT plan. Review the Group's AML/CFT plan and its implementation. Review of causes of punishments and degradation by financial supervisory authorities at home and abroad, material legal compliance events, and defects repeatedly identified in internal/external audits and their improvement plans and implementation. Review the implementation of major legal compliance projects. Report other matters requested by the Legal Compliance Committee. 	Marketing Department	Handle review and management of integrated product and marketing activities, planning of marketing strategic alliances and media channels, establishment and management of cross-selling platforms, establishment of channel management platforms, marketing performance management, strategy planning and performance management of customer relationships, and promotion of business intelligence and data quality.
Corporate Social Responsibility Committee	<ol style="list-style-type: none"> Formulate major strategies that shall be adopted by the Group in fulfilling its corporate social responsibility. Supervise the implementation of corporate social responsibility. Monitor the preparation and review of the annual corporate social responsibility report. Assess relevant corporate social responsibility regulations. Study other significant matters associated with corporate social responsibility fulfillment. 	Risk Management Department	Plan and manage controls over credit risks, market risks, operational risks, and assets and liabilities, establish financial firewalls, plan and establish integrated risk measurement or methodology, and disclose risk controls and overall risk profiles.
Asset & Liability Management Committee	<ol style="list-style-type: none"> Provide macroeconomic analysis and interest rate forecasts. Study rules and regulations relating to the asset and liability management of the Group. Study limits relating to the asset and liability management of the Group. Adjust, control and manage the exposure positions of assets and liabilities on the non-trading book of the Group. Monitor various liquidity indicators of the Group. Study and execute capital management strategies of the Group. Review the composition and performance of the Group's investment portfolios. Review the Group's asset and liability management report submitted to the Board of Directors. Study topics relating to the interest rate risk, liquidity risk, exchange rate risk, investment portfolio strategies, economic profits and capital management of the Group. 	Finance Department	Handle business strategy planning, investment management, performance management, investor relations management, capital planning and raising, working capital management, financial planning and analysis, budgeting and closing, audits, reporting, and tax planning and management.
		Information Technology Department	Handle formulation of information strategies, planning, development, establishment, and management of information systems, integration and planning of information applications, and monitoring, management, and coordination of information operations.
		Legal Compliance Department	Handle legal compliance systems, legal affairs, anti-money laundering and counter-terrorism financing plans, formulation of and amendment to major policies, and division of duties.
		Auditing Department Board of Directors	Handle establishment and execution of internal audit systems, supervision and evaluation of internal audits, regular reporting of audit implementation to the Board of Directors and Audit Committee, and evaluation of appropriateness and effectiveness of internal control systems and performance of business operations.

2019/3/31

(II) Company Organization



By business group:

- Commercial bank
- Securities/Investment bank
- Insurance
- Asset management/Lease

II. Directors and Management Team

(I) Director Information

Position (note 1)	Nationality or Registered Address	Name	Gender	Date of Election (Appointment)	Term	Date of Initial Election (note 2)	Shares held when elected		Current number of shares held		Current shares held by spouse and minor children	
							Number of shares	Shareholding Percentage	Number of shares	Shareholding Percentage	Number of shares	Shareholding Percentage
Chairman	R.O.C.	Ministry of Finance Representative: Yun-Peng Chang	Male	2019.04.26	Term expires on 2019.06.30	2015.07.03 (Note: Term was interrupted between June 1, 2017 to April 25, 2019)	168,393,472	1.70	196,225,460	1.70	0	0
Vice Chairman	R.O.C.	The Memorial Scholarship Foundation to Mr. Lin Hsiung- Chen Representative: Ming-Cheng Lin	Male	2016.07.01	Term expires on 2019.06.30	2001.12.19	174,952,571	1.77	203,868,643	1.77	0	0
Director	R.O.C.	Ministry of Finance Representative: Pao-Chu Lo	Female	2017.06.01	Term expires on 2019.06.30	2017.06.01	168,393,472	1.70	196,225,460	1.70	0	0
Director	R.O.C.	Bank of Taiwan Representative: Chih-Wen Hsu	Male	2016.07.01	Term expires on 2019.06.30	2014.09.09	2,103,232,337	21.23	2,450,853,525	21.23	0	0
Director	R.O.C.	Bank of Taiwan Representative: Chun-Liang Lin	Male	2018.01.24	Term expires on 2019.06.30	2018.01.24	2,103,232,337	21.23	2,450,853,525	21.23	0	0
Director	R.O.C.	Bank of Taiwan Representative: Shih-Ching Jeng	Female	2016.07.01	Term expires on 2019.06.30	2016.07.01	2,103,232,337	21.23	2,450,853,525	21.23	0	0
Director	R.O.C.	Bank of Taiwan Representative: Lung-Huei Tai	Male	2016.07.01	Term expires on 2019.06.30	2016.07.01	2,103,232,337	21.23	2,450,853,525	21.23	0	0
Director	R.O.C.	Bank of Taiwan Representative: Vacancies to be filled	None	2016.07.01	Term expires on 2019.06.30	None	2,103,232,337	21.23	2,450,853,525	21.23	0	0
Director	R.O.C.	Bank of Taiwan Representative: I-Hui Lee	Female	2017.02.23	Term expires on 2019.06.30	2017.02.23	2,103,232,337	21.23	2,450,853,525	21.23	0	0
Director	R.O.C.	The Memorial Scholarship Foundation to Mr. Lin Hsiung- Chen Representative: T. Lin	Male	2016.07.01	Term expires on 2019.06.30	2001.12.19	174,952,571	1.77	203,868,643	1.77	0	0
Director	R.O.C.	The Memorial Scholarship Foundation to Mr. Lin Hsiung- Chen Representative: Chih-Yang Lin	Male	2016.07.01	Term expires on 2019.06.30	2005.01.14 (Note: Term was interrupted between July 1, 2013 to June 30, 2016)	174,952,571	1.77	203,868,643	1.77	0	0
Director	R.O.C.	The Memorial Scholarship Foundation to Mr. Lin Hsiung- Chen Representative: Chih-Yu Lin	Male	2016.07.01	Term expires on 2019.06.30	2016.07.01	174,952,571	1.77	203,868,643	1.77	0	0
Director	R.O.C.	Representative of Entrust Foundation: An-Lan Hsu Chen	Female	2016.07.01	Term expires on 2019.06.30	2001.12.19	342,114	0.003	398,658	0.003	0	0
Director	R.O.C.	Representative of Entrust Foundation: Michael, Yuan-Jen Hsu	Male	2016.07.01	Term expires on 2019.06.30	2009.05.16	342,114	0.003	398,658	0.003	0	0
Director	R.O.C.	China Man-Made Fiber Corporation Representative: Vivien, Chia-Ying Shen	Female	2016.07.01	Term expires on 2019.06.30	2005.08.31	49,413,600	0.50	61,291,654	0.53	0	0
Independent Director	R.O.C.	Kuei-Sun Wu	Male	2016.07.01	Term expires on 2019.06.30	2016.07.01	0	0	0	0	0	0
Independent Director	R.O.C.	Chung-Yuan Hsu	Male	2016.07.01	Term expires on 2019.06.30	2007.07.01	72,358	0	84,316	0	0	0
Independent Director	R.O.C.	Chun-Pin Chen	Male	2016.07.01	Term expires on 2019.06.30	2007.07.01	60,298	0	70,262	0	0	0
Independent Director	R.O.C.	Ching-Hsiu Chen	Male	2016.07.01	Term expires on 2019.06.30	2010.07.01	60,298	0	70,262	0	0	0

Note 1: For institutional shareholder representatives, specify the names of the institutional shareholders and fill out Table 1 below.

Note 2: Fill in the date when directors or supervisors of the financial holding company were elected for the first time. Terms interrupted shall be indicated.

Note 3: Experience associated with current position, e.g. a position in the CPA's firm or affiliates of the Company in the abovementioned period. The position and in-charge duties shall be specified.

Shareholding as of April , 2017

Shares held in the names of others		Highest educational attainment/Work experience (note 3)	Positions held in financial holdings company and other companies	Any managerial officer, director, or supervisor who is a spouse or relative within the second degree of kinship		
Number of shares	Shareholding Percentage			Position	Name	Relationship
0	0	Chairman of Hua Nan Financial Holdings and Hua Nan Commercial Bank President of Hua Nan Financial Holdings and Hua Nan Commercial Bank Chairman of Bank of kaohsiung (Department of Commerce, National Taiwan University)	Chairman of Hua Nan Commercial Bank	None	None	None
0	0	Chairman of HNFHC; Chairman of Hua Nan Commercial Bank; Director of Central Bank; Chairman of The Bankers of Association of Taipei (Master of Law, Keio University, Japan)	Director of Lin Pen Yuan Industrial Co., Ltd.	Director Director	T. Lin Chih-Yu Lin	Father and Son Father and Son
0	0	Manager of E-Financial Department/ Manager of Audit Office of Board of Directors of Hua Nan Commercial Bank; Chief Auditor of HNFHC (Department of Public Finance, National Chung Hsing University)	President of HNFHC; Director of the Taiwan Asset Management Corporation; Supervisor of Taipei Financial Center Corp.	None	None	None
0	0	Associate Manager in Singapore Branch/ Manager in Hong Kong Branch/ Manager of International Department/ Manager of Corporate Finance of Bank of Taiwan (Department of Economics, Soochow University)	Director of Hua Nan Commercial Bank; Vice President of Bank of Taiwan	None	None	None
0	0	Manager of Department of Domestic Operations/ Chief Secretary of Secretariat, Board of Directors/ Chief Auditor of Department of Auditing, Board of Directors/ Executive Vice President of Bank of Taiwan (Department of Insurance, Tamkang University)	Director of Hua Nan Commercial Bank; Executive Vice President and Chief Secretary of Secretariat, Board of Directors of Bank of Taiwan; Director of Taiwan Fire & Marine Insurance Company, Ltd.	None	None	None
0	0	Associate Professor in the Department of Risk Management and Insurance/ Deputy Director of the Risk and Insurance Research Center of National Chengchi University; 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 of National Chengchi University	None	None	None
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)	Chief Secretary of Ministry of Finance	None	None	None
0	0	None	None	None	None	None
0	0	Member/ Deputy Director/ Director of the Taxation Administration, Ministry of Finance; Director-General of the Department of Planning, Ministry of Finance (Master of Public Finance, National Chengchi University)	Director-General of the Department of Planning, Ministry of Finance	None	None	None
0	0	Fund Manager of Mercury Asset Management (Master of Real Estate Economics and Finance, the London School of Economics and Political Science, UK)	Vice Chairman of Hua Nan Commercial Bank	Vice Chairman Director	Ming-Cheng Lin Chih-Yu Lin	Father and Son Brother
0	0	Attorney of Taipei Bar Association (Master of Business Administration, National Taiwan University)	Managing Director of Hua Nan Commercial Bank; Chairman of Yongqi Asset Management Company; Director of Yongshi Development Company; Director of Yongqing R&D Company; Chairman of Xunyou Company; Director of Tianye Construction Company; Director of Taiwan Mineral Industry Company	None	None	None
0	0	Assistant Vice President of Hua Nan Venture Capital (Master of Business Administration, University of California, Los Angeles, U.S.A.)	Director of Hua Nan Commercial Bank; Vice President of Hua Nan Venture Capital	Vice Chairman Director	Ming-Cheng Lin T. Lin	Father and Son Brother
0	0	Chairman of Hua Nan Securities, Director of Hua Nan Commercial 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.; Managing Director of Entrust Foundation	Director	Michael, Yuan-Jen Hsu	Mother and Son
0	0	Vice Chairman of Hua Nan Securities (MBA from the Wharton School of the University of Pennsylvania)	Director of Hua Nan Commercial Bank; Vice Chairman of Hua Nan Securities; Director of Hua Nan Securities (Hong Kong) Limited; Managing Director of Entrust Foundation; Chairman of Li Shih Investment; Director of Ru Yuan Enterprise Company; Supervisor of AppWorks Fund II; Chairman of Polywide Investment Limited; Supervisor of Taiwan Futures Exchange	Director	An-Lan Hsu Chen	Mother and Son
0	0	Vice President of Hongkong and Shanghai Banking Corporation Limited (HSBC) (Ph.D of Public Health Administration from John Hopkins University, USA)	Director of Hua Nan Commercial Bank	None	None	None
0	0	Director General of Accounting Department, Central Bank; Chairman of Taiwan Clearing House Development Foundation (Master of Business Administration, National Taiwan University)	None	None	None	None
0	0	Professor/Department Head of Accountant of the Department of Accounting, National Chengchi University; CPA (Doctor of Accounting, University of Memphis)	Independent Director of TONS Lightology Inc.	None	None	None
0	0	Partner attorney of Lei Shi Law Firm; Lecturer of Department of Public Administration, Tamkang University; Lecturer of Department of Law, Soochow University Master of Law, National Taiwan University	None	None	None	None
0	0	Professor of the School of Law, Soochow University; Director of Personnel Administration, Executive Yuan. (Ph.D in 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

1. Names of Institutional Shareholders Acting as Directors/Supervisors and their Shareholders with Top-10 Ownership and Individual Holding Percentage

(1) Major Shareholders of the Institutional Shareholders

Date: December 31, 2018

Name of Institutional Shareholder (Note 1)	Major Shareholders of the Institutional Shareholders (Note 2)
Ministry of Finance	Government Agency
Bank of Taiwan	Taiwan Financial Holding Co., Ltd. 100%
The Memorial Scholarship Foundation to Mr. Lin Hsiung-Chen	Non-profit foundation (Not applicable)
Yongchang Charity Foundation	Non-profit foundation (Not applicable)
China Man-Made Fiber Corporation	Pan Asia Chemical Corporation(15.51%), Sheng Jen Knitting Factory Co., Ltd.(4.36%), Chou Chin Industrial Co., Ltd. (3.65%), Pan Asia Investment Co., Ltd.(3.11%), China Man-Made Fiber Investment Co., Ltd.(2.61%), HSBC in Custody for Morgan Stanley & Co. International Ltd. (1.43%), JPMorgan Chase Bank N.A., Taipei Branch in Custody for Vanguard FTSE Emerging Markets Stock Index Fund, a Series of Vanguard International Equity Index Funds(1.28%), JPMorgan Chase Bank N.A., Taipei Branch in Custody of Vanguard Total International Stock Index Fund, a Series of Vanguard Star Funds(1.13%), Standard Chartered Bank (Taiwan) Ltd. in Custody for Credit Suisse(1.11%), Standard Chartered Bank (Taiwan) Ltd. in Custody for iShares Core MSCI Emerging Markets ETF(1.08%).

Note 1: The names of the institutional shareholders shall be indicated if directors, supervisors represent institutional shareholders.

Note 2: Fill in the names of major shareholders with top-10 ownership of the institutional shareholders and their individual holding percentage. Fill in Table 2 below, if the major shareholders are institutional shareholders.

(2) Major Institutional Shareholders of Institutional Shareholders

Date: December 31, 2017

Name of the Institutional Shareholder (Note 1)	Major Shareholders of the Institutional Shareholders (Note 2)
Taiwan Financial Holdings Co., Ltd.	Ministry of Finance
Pan Asia Chemical Corporation	China Man-Made Fiber Corporation(44.40%), Sheng Jen Knitting Factory Co., Ltd.(6.20%), China Man-Made Fiber Investment Co., Ltd.(5.12%), Te Hsing Investment Co., Ltd.(4.69%), Yu Hui Co., Ltd.(1.88%), Tai I Investment Co., Ltd.(1.75%), Yu-Fei Hsu(0.75%), The Employees' Welfare Committee of Pan Asia Chemical Corporation(0.62%), Chien-Hsing Wu(0.56%), Ying-Hui Lin(0.41%).
Sheng Jen Knitting Factory Co., Ltd.	China Man-Made Fiber Investment Co., Ltd.(53.47%), Yu Hui Investment Co., Ltd.(40.40%), Chao-Chang Wang(5.57%), Kuei-Hsien Wang(0.25%), Shang-Che Chiang(0.15%), Shih-I Chiang(0.1%), Chao-Ching Wang(0.05%).
Chou Chin Industrial Co., Ltd.	China Man-Made Fiber Corporation(46.18%), Ta Fa Investment Co., Ltd.(26.74%), Yu Hui Co., Ltd.(10.76%), Pan Hsu Investment Co., Ltd.(3.81%), Te Hsing Investment Co., Ltd.(2.47%), Chou Chin Industrial Co., Ltd. treasury stock(1.34%), Pan Asia Investment Co., Ltd. (0.79%), Chiu Chang Co., Ltd.(0.67%), Hsien-Pei Chen(0.26%), I Chan Investment Co., Ltd.(0.24%).
Pan Asia Investment Co., Ltd.	Tai I Investment Co., Ltd. (47.42%), Da Fa Investment Co., Ltd. (42.63%), Tsung Hao Enterprise Co., Ltd. (9.44%), Kuei-Hsien Wang (0.51%).
China Man-Made Fiber Investment Co., Ltd.	Ta Fa Investment Co., Ltd.(28.08%), Pan Asia Chemical Corporation(17.67%), Tsung Hao Enterprise Co., Ltd.(15.64%), Chin-Yuan Huang(14.72%), Yu Hui Co., Ltd.(10.52%), Hsu Tien Investment Co., Ltd.(9.57%), Kuei-Hsien Wang(1.70%), Kuei-Feng Wang(1.55%), Sheng Jen Knitting Factory Co., Ltd.(0.44%), Tsai-Lien Cheng(0.06%)
HSBC in Custody for Morgan Stanley & Co. International Ltd.	Not applicable
JPMorgan Chase Bank N.A., Taipei Branch in Custody for Vanguard FTSE Emerging Markets Stock Index Fund, a Series of Vanguard International Equity Index Funds	Not applicable
JPMorgan Chase Bank N.A., Taipei Branch in Custody of Vanguard Total International Stock Index Fund, a Series of Vanguard Star Funds	Not applicable
Standard Chartered Bank (Taiwan) Ltd. in Custody for Credit Suisse	Not applicable
Standard Chartered Bank (Taiwan) Ltd. in Custody for iShares Core MSCI Emerging Markets ETF	Not applicable

Note 1: If the major shareholder in above Table 1 is an institutional shareholder, the name of the institutional shareholder shall be filled in.

Note 2: Fill in the names of major shareholders with top-10 ownership of the institutional shareholders and their individual holding percentage.

2. Directors' and Supervisors' Professional Qualifications and Independence Analyses

Criteria	Meet the Following Professional Qualification Requirements, Together with at Least Five Years Work Experience				Independence Criteria (Note 2)										Number of Other Taiwanese Public Companies Concurrently Serving as an Independent Director
	A Lecturer or Higher Position in a Department of Commerce, Law, Finance, Accounting, or Other Academic Department Related to the Business Needs of the Company in a Public or Private Junior College, College or University	A Judge, Public Prosecutor, Attorney, Certified Public Accountant, or Other Professional or Technical Specialist Who Has Passed a National Examination and Been Awarded a Certificate in a Profession Necessary for the Business of the Company	Work Experience in the Area of Commerce, Law, Finance, or Accounting, or Otherwise Necessary for the Business of the Company		1	2	3	4	5	6	7	8	9	10	
Yun-Peng Chang			V		V		V	V	V		V	V	V		0
Ming-Cheng Lin			V		V		V		V		V	V			0
Pao-Chu Lo			V				V	V	V	V		V	V	V	0
Chih-Wen Hsu			V		V		V	V			V	V	V		0
Chun-Liang Lin			V		V		V				V	V	V		0
Shih-Ching Cheng	V		V		V	V	V	V	V	V	V	V	V		0
Lung-Hui Tai			V		V	V	V	V	V	V	V	V	V		0
Yi-Hui Li			V		V	V	V	V	V	V	V	V	V		0
T. Lin		V	V		V		V		V		V	V			0
Chih-Yang Lin		V	V		V		V	V	V		V	V	V		0
Chih-Yu Lin			V				V		V		V	V			0
An-Lan Hsu Chen			V		V		V				V	V	V		0
Michael, Yuan-Jen Hsu			V				V		V		V	V			0
Vivien, Chia-Ying Shen			V		V		V	V	V		V	V	V		0
Kuei-Sun Wu			V		V	V	V	V	V	V	V	V	V	V	0
Chung-Yuan Hsu	V	V	V		V	V	V	V	V		V	V	V	V	2
Chun-Pin Chen	V	V	V		V	V	V	V	V		V	V	V	V	1
Ching-Hsiu Chen	V	V	V		V	V	V	V	V	V	V	V	V	V	0



Note 1: The number of columns can be adjusted based on actual need.

Note 2: Directors or Supervisors, during the two years before being elected and during the term of office, meet any of the following situations, please tick [V] the appropriate corresponding boxes.

- (1) Not an employee of the Company or any of its affiliates
- (2) Not a director or supervisor of the Company or any of its affiliates. It does not apply to independent directors of the Company or its parent company or subsidiaries established in accordance with the Securities and Exchange Act or local laws and regulations.
- (3) Not a natural-person shareholder who holds shares, together with those held by the person's spouse, minor children, or held by the person under others' names, in an aggregate amount of 1% or more of the total outstanding shares of the Company or ranks as one of its top-10 shareholders.
- (4) Not a spouse, relative within the second degree of kinship, or lineal relative within the third degree of kinship, of any of the above persons in the preceding three subparagraphs.
- (5) Not a director, supervisor, or employee of a institutional shareholder that directly holds 5% or more of the total outstanding shares of the Company or ranks as of its top-five shareholders.
- (6) Not a director, supervisor, officer, or shareholder that holds 5% or more of the shares of a specified company or institution that has a financial or business relationship with the Company.
- (7) Not a professional individual who, or an owner, partner, director, supervisor, or officer of a sole proprietorship, partnership, company, or institution that, provides commercial, legal, financial, accounting services or consultation to the Company or to any affiliate of the Company, or a spouse thereof. It does not apply to member of the remuneration committee who exercises his/her power pursuant to Article 7 of the "Regulations Governing the Appointment and Exercise of Powers by the Remuneration Committee of a Company Whose Stock is Listed on the Stock Exchange or Traded over the Counter."
- (8) Not having a marital relationship, or a relative within the second degree of kinship to any other director of the Company.
- (9) Not been a person of any conditions defined in Article 30 of the Company Law.
- (10) Not a governmental, juridical person or its representative as defined in Article 27 of the Company Act.

3. The Diversified Abilities of Board of Directors:

To implement a well-established corporate governance system, the Company stipulates in Article 32 of the Company's Corporate Governance Guidelines that "the Board of Directors shall be composed of members based on the diversification policy. Directors concurrently acting as managers of the Company shall be limited to a certain percentage and shall comply with Article 26 regarding concurrently held positions; in addition, the Company shall formulate the diversification policy based on the operations, business model, and development needs, including but not limited to the two dimensions as follows: (1) Basic requirements: gender and age. (2) Professional knowledge (law, accounting, industry, finance, marketing or technology), professional skills, and industry experience." The Board of Directors is composed of 19 directors (as of April 30, 2019, institutional director Bank of Taiwan has not appointed one representative), including 4 independent directors. The Company attaches great importance to the diversification of industry experiences of the Board of Directors. Basically, at least one member of the Board shall have work experience in banking, securities, and insurance. The members of the Board of Directors have industry experiences ranging over financial holding, banking, securities, and insurance as well as asset management, investment, real estate development, taxation, venture capital, and notes exchange, Bar, and medical (public health) industries. In terms of age, 5 directors are 31~50 years old, and 13 directors are 51 years old or older. In addition, the Company values gender equality. The Board of Directors consists of 5 female directors, accounting for 26.3%. The diversification of the Board of Directors is as follows:

Director		1. Industry experience											2. Professional skills									
		Financial holding	Banking	Securities	Insurance	Asset management	Investment	Real estate development	Taxation	Venture capital	Notes exchange	Law Firm	Medical (public health) industry	Ability to make judgement in operations	Accounting and financial analysis capability	Ability in managing operation	Ability in handling crisis	Industry knowledge	International market view	Leadership	Decisiveness	Knowledge and ability in risk management
Yun-Peng Chang	Male	V	V	V	V	V	V							V	V	V	V	V	V	V	V	V
Ming-Cheng Lin	Male	V	V	V	V	V	V							V	V	V	V	V	V	V	V	V
Pao-Chu Lo	Female	V	V											V	V	V	V	V	V	V	V	V
Chih-Wen Hsu	Male		V											V	V	V	V	V	V	V	V	V
Chun-Liang Lin	Male	V	V		V									V	V	V	V	V	V	V	V	V
I-Hui Lee	Female								V					V	V		V	V		V		V
Lung-Huei Tai	Male	V												V		V	V			V		V
Shih-Ching Jeng	Female	V	V		V									V	V	V	V	V	V	V	V	V
T. Lin	Male	V	V			V	V							V	V	V	V	V	V	V	V	V
Chih-Yu Lin	Male	V	V	V	V	V	V			V				V	V	V	V	V	V	V	V	V
Chih-Yang Lin	Male	V	V			V		V						V	V	V	V	V	V	V	V	V
An-Lan Hsu Chen	Female	V	V	V										V	V	V	V	V	V	V	V	V
Michael, Yuan-Jen Hsu	Male	V		V			V							V	V	V	V	V	V	V	V	V
Vivien, Chia-Ying Shen	Female	V	V										V	V	V	V	V	V	V	V	V	V
Kuei-Sun Wu	Male	V	V								V			V	V	V	V	V	V	V	V	V
Ching-Hsiu Chen	Male	V										V				V	V			V	V	V
Chung-Yuan Hsu	Male	V	V	V	V	V								V	V	V	V	V		V	V	V
Chun-Pin Chen	Male	V	V			V						V					V					V

(II) Presidents, Executive Vice Presidents, and various Department Managers

Position	Nationality	Name	Date of Appointment	Shares Held		Shares Held by Spouse and Minor Children		Shares Held under Others' Names	
				Number of shares	Shareholding Percentage %	Number of shares	Shareholding Percentage %	Number of shares	Shareholding Percentage %
President	R.O.C.	Pao-Chu Lo	2017.06.01	113,065	0	0	0	0	0
Executive Vice President and G.M. of Finance Department	R.O.C.	King-Huo Lu	2017.06.01	0	0	0	0	0	0
Executive Vice President and G.M. of Administration Department	R.O.C.	Sarah C.T. Hsu	2017.06.01	35,719	0	0	0	0	0
Executive Vice President and G.M. of Law and Ordinance Compliance Department	R.O.C.	Tien-Yu Chen	2019.01.23	46,264	0	0	0	0	0
Chief Auditor	R.O.C.	Pi-E Huang	2019.01.16	103,065	0	0	0	0	0
Chief Secretary Board of Directors	R.O.C.	Hui-Ling Hsu	2015.12.01	128,715	0	0	0	0	0
G.M. of the Audit Office of Board of Directors	R.O.C.	Fang-Ling Zhou	105.11.01	116,681	0	0	0	0	0
G.M. of Information & Technology Department	R.O.C.	Michael Duh	97.03.01	60,938	0	0	0	0	0
G.M. of Marketing Director	R.O.C.	Chao-Chi Yeh	2017.07.01	70,262	0	1,336	0	0	0
G.M. of Risk Management Department	R.O.C.	Chin-Hua Yang	2019.01.01	0	0	0	0	0	0

Note 1: Information on the executive officers including the President, Vice Chief Executive Officer, function heads and branch managers or any personnel assuming equivalent positions are disclosed.

Note 2: The work experience of anyone above relating to their current roles, e.g. previous employment in the auditor's firm or employment in a related company, must be addressed with detailed job titles and responsibilities.

(III) Reappointment of Retiring Chairman and President as Consultants

Title	Nationality	Name	Gender	Position before Retirement		Date of Service	Purpose of Employment (Note 1)	Segregation of Duties (Note 1)	Remuneration (Note 2)	Ratio of Total Remuneration to Income after Tax (Note 2 . 3)
				Institution and Title	Date of Retirement					
No retiring chairman or president was reappointed as consultant in 2018.	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Shareholding as of April 16, 2019

Highest Educational Attainment/Work Experience	Positions Held in Other Companies	Manager Who is a Spouse or a Relative within Second Degree of Kinship			Managers with Employee Stock Options
		Position	Name	Relationship	
Chief Auditor of HNFHC Manager of Audit Office, Board of Directors/ Manager of E-Financial Department/ Manager of Operating Management Department/ Associate Manager of International Financial Department / Associate Manager of Overseas Management of Hua Nan Commercial Bank Department of Public Finance, National Chung Hsing University (reorganized to National Taipei University)	Director of the Taiwan Asset Management Corporation Director of Taipei Financial Center Corp.	None	None	None	Not issued
Manager of Financial & Accounting Department of Hua Nan Commercial Bank Graduated from Department of Accounting, Soochow University	Supervisor of South China Insurance Co., Ltd. Supervisor of Hua Nan Assets Management Company	None	None	None	Not issued
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	Not issued
Manager of Trust Department/Associate Manager of Corporate Finance Marketing Department/Senior Secretary of the Board Department of Accounting and Statistics, Aletheia University	None	None	None	None	Not issued
Manager of Beitou Branch/Manager of Chengnei Branch/ Chief Secretary of the Board/Manager of Corporate Finance Marketing Department/Manager of Corporate Finance Credit Management Department/Manager of Credit Management Department Department of Business Administration, National Taiwan University	None	None	None	None	Not issued
Chief Secretary of the Board of Hua Nan Commercial Bank Department of International trade, Chihlee University	Director of South China Insurance Co., Ltd. Chief Secretary of the Board of Han Commercial Bank	None	None	None	Not issued
Associate Manager of the Corporate Banking Department/ Associate Manager of Corporate Finance Credit Management Department/ Associate Manager of the Audit Department, Board of Directors of Hua Nan Commercial Bank Department of Economics, Fu Jen Catholic University	None	None	None	None	Not issued
Vice President of Information Department of Taishin International Bank Master of Electrical Engineering, National Taiwan University	Manager of Information Technology Development Department of Hua Nan Commercial Bank Director of CDIB Partners Investment Holding Corp.	None	None	None	Not issued
Manager of Taoyuan, Taishan and Pa Teh Branch/ Associate Manager of Wu Ku Branch/ Section Chief of E-Financial Department of Hua Nan Commercial Bank Master in Business Administration, Fu Jen Catholic University	None	None	None	None	Not issued
Supervisor of Corporate Finance Credit Risk Management Department of HNFHC/Supervisor of Personal Finance Credit Risk Department/Senior Secretary of the Board/ Senior Secretary of Board of Hua Nan Bank Master of Accounting, Utah State University	None	None	None	None	Not issued

(IV) Remuneration Paid to Directors (Including Independent Directors), President and Vice President, and Distribution of Employees' Remuneration for 2018

a. Remuneration Paid to Directors (Including Independent Directors) (Range of Remuneration and Name)

Title	Name	Remuneration of Directors								Ratio of Total Amount A, B, C and D to Net Profit after Tax	
		Remuneration (A)		Remuneration (B)		Remuneration (C)		Remuneration (D)			
		The Company	All Companies in Finance Statements	The Company	All Companies in Finance Statements	The Company	All Companies in Finance Statements	The Company	All Companies in Finance Statements	The Company	All Companies in Finance Statements
Chairman	Ministry of Finance										
	Tang-Chieh Wu										
Vice Chairman	The Memorial Scholarship Foundation to Mr. Lin Hsiung-Chen										
	Ming-Cheng Lin										
Director	Ministry of Finance										
	Pao-Chu Lo										
Director	Bank of Taiwan										
	Chih-Wen Hsu										
Director	Bank of Taiwan										
	Hsiu-Hsien Hsieh (Discharged on Jan 24, 2018)										
	Chun-Liang Lin (Appointed on Jan 24, 2108)										
Director	Bank of Taiwan										
	I-Hui Lee										
Director	Bank of Taiwan										
	Keh-Her Shih										
Director	Bank of Taiwan										
	Lung-Huei Tai										
Director	Bank of Taiwan										
	Shih-Ching Jeng										
Director	The Memorial Scholarship Foundation to Mr. Lin Hsiung-Chen										
	T. Lin										
Director	The Memorial Scholarship Foundation to Mr. Lin Hsiung-Chen										
	Chih-Yu Lin										
Director	The Memorial Scholarship Foundation to Mr. Lin Hsiung-Chen										
	Chih-Yang Lin										
Director	Entrust Foundation										
	An-Lan Hsu Chen										
Director	Entrust Foundation										
	Michael, Yuan-Jen Hsu										
Director	China Man-Made Fiber Corporation										
	Vivien, Chia-Ying Shen										
Independent Director	Kuei-Sun Wu										
Independent Director	Ching-Hsiu Chen										
Independent Director	Chung-Yuan Hsu										
Independent Director	Chun-Pin Chen										
Total		10,092	29,676	650	2,127	147,539	147,539	7,212	11,940	1.13%	1.31%

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

Unit: NT\$1,000

[illegible]

Remuneration Grade Table

Range of Remunerations Paid to Each Director	Director Name			
	Sum of the 4 Remunerations (A+B+C+D)		Sum of the 7 Remunerations (A+B+C+D+E+F+G)	
	The Company	All Companies in Finance Statements	The Company	All Investment Enterprises
Less than NT\$2,000,000	Tang-Chieh Wu, Pao-Chu Lo, Chih-Wen Hsu, Hsiu-Hsien Hsieh, Chun-Liang Lin, I-Hui Lee, Keh-Her Shih, Lung-Huei Tai, Shih-Ching Jeng, T. Lin, Chih-Yu Lin, Chih-Yang Lin, An-Lan Hsu Chen, Michael, Yuan-Jen Hsu, Vivien, Chia-Ying Shen, Kuei-Sun Wu, Ching-Hsiu Chen, Chung-Yuan Hsu, Chun-Pin Chen	Pao-Chu Lo, Chih-Wen Hsu, Hsiu-Hsien Hsieh, Chun-Liang Lin, I-Hui Lee, Keh-Her Shih, Lung-Huei Tai, Shih-Ching Jeng, Chih-Yu Lin, Chih-Yang Lin, An-Lan Hsu Chen, Vivien, Chia-Ying Shen, Kuei-Sun Wu, Ching-Hsiu Chen, Chung-Yuan Hsu, Chun-Pin Chen	Tang-Chieh Wu, Chih-Wen Hsu, Hsiu-Hsien Hsieh, Chun-Liang Lin, I-Hui Lee, Keh-Her Shih, Lung-Huei Tai, Shih-Ching Jeng, T. Lin, Chih-Yu Lin, Chih-Yang Lin, An-Lan Hsu Chen, Michael, Yuan-Jen Hsu, Vivien, Chia-Ying Shen, Kuei-Sun Wu, Ching-Hsiu Chen, Chung-Yuan Hsu, Chun-Pin Chen	Chih-Wen Hsu, Hsiu-Hsien Hsieh, Chun-Liang Lin, I-Hui Lee, Keh-Her Shih, Lung-Huei Tai, Shih-Ching Jeng, Chih-Yang Lin, An-Lan Hsu Chen, Vivien, Chia-Ying Shen, Kuei-Sun Wu, Ching-Hsiu Chen, Chung-Yuan Hsu, Chun-Pin Chen
NT\$2,000,000 (including) to NT\$5,000,000 (excluding)				Chih-Yu Lin
NT\$5,000,000 (including) to NT\$10,000,000 (excluding)	Ming-Cheng Lin, China Man-Made Fiber Corporation	Tang-Chieh Wu, Ming-Cheng Lin, T. Lin, Michael, Yuan-Jen Hsu, China Man-Made Fiber Corporation	Ming-Cheng Lin, Pao-Chu Lo, China Man-Made Fiber Corporation	Tang-Chieh Wu, Ming-Cheng Lin, T. Lin, Pao-Chu Lo, Michael, Yuan-Jen Hsu, 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)	The Memorial Scholarship Foundation to Mr. Lin Hsiung-Chen, Ministry of Finance	The Memorial Scholarship Foundation to Mr. Lin Hsiung-Chen, Ministry of Finance	The Memorial Scholarship Foundation to Mr. Lin Hsiung-Chen, Ministry of Finance	The Memorial Scholarship Foundation to Mr. Lin Hsiung-Chen, Ministry of Finance
NT\$50,000,000 (including) to NT\$100,000,000 (excluding)	Bank of Taiwan	Bank of Taiwan	Bank of Taiwan	Bank of Taiwan
Over NT\$100,000,000				
Total	25	25	25	25

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 Commercial Bank, and the company did not pay these expenses.

Note 3: Amounts disclosed in columns (B) and (F) were appropriated expenses of separation and pension pay.

b. Remuneration Paid to President and Vice President (Range of Remuneration and Name)

Unit: NT\$1,000

Title	Name	Salary (A)		Separation and Pension Pay (B)		Bonuses and Allowances (C)		Employees' Remuneration (D)				Ratio of Total Amount of A, B, C, and D to Income after Tax (%)		Compensation Paid to Directors from an Invested Company Other than the Company's Subsidiary
		The Company	All Companies in Finance Statements	The Company	All Companies in Finance Statements	The Company	All Companies in Finance Statements	The Company		All Companies in Finance Statements		The Company	All Companies in Finance Statements	
								Cash Amount	Stock Amount	Cash Amount	Stock Amount			
President	Pao -Chu Lo													
Chief Auditor	Neng-Tung Lin													
Executive Vice President	Hsin-Tien Ting													
Executive Vice President	King-huo Lu													
Executive Vice President	Sarah C.T. Hsu													
Total		15,775	15,775	1,681	1,681	12,986	13,484	2,598	0	2,598	0	0.23%	0.23%	475

Remuneration Grade Table

Range of Compensations Paid to Presidents and Vice Presidents	Name of President and Vice President	
	The Company	All Investment Enterprises
Less than NT\$2,000,000		
NT\$2,000,000 (including) to NT\$5,000,000 (excluding)		
NT\$5,000,000 (including) to NT\$10,000,000 (excluding)	Pao-Chu Lo, Neng-Tung Lin, Hsin-Tien Ting, King-huo Lu, Sarah C.T. Hsu	Pao-Chu Lo, Neng-Tung Lin, Hsin-Tien Ting, King-huo Lu, Sarah C.T. Hsu
NT\$10,000,000 (including) to NT\$15,000,000 (excluding)		
NT\$15,000,000 (including) to NT\$30,000,000 (excluding)		
NT\$30,000,000 (including) to NT\$50,000,000 (excluding)		
NT\$50,000,000 (including) to NT\$100,000,000 (excluding)		
Over NT\$100,000,000		
Total	5	5

Note 1: Employees' remuneration was estimated based on the 2018 employee remuneration to be distributed upon approval of the Board of Directors.

Note 2: The company rented a car for its president, of which the car rental and fuel expenses were included for calculation in column (C). The remuneration of the chauffeur of the president was paid by the subsidiary, Hua Nan Commercial Bank, and the Company did not pay the expense.

Note 3: The amount disclosed in column (B) was the appropriated expense of separation and pension pay.



(V) Analysis and Comparison of Percentage of Remuneration Paid to the Company's Directors, President, and Vice President by the Company and All Companies Listed in Its Consolidated Financial Statements in the Most Recent Two Years to Income after Tax Recorded in Its Parent Company-only or Individual Financial Statements, and Explanation on the Remuneration Policies, Standards and Packages, Procedures for Determining Remuneration and Their Correlations with Its Business Performance and Future Risk Exposure

1. Percentage of Remuneration Paid to the Company's Directors, President, and Vice President to Income after Tax
 - (1) Total remuneration paid to directors by the Company for 2018 accounted for 1.13% of net income after tax, 0.02 percentage points lower than 1.15% in 2017; total remuneration paid to directors by all companies in financial statements accounted for 1.31% of net income after tax, 0.04 percentage points lower than 1.35% in 2017.
 - (2) Total remuneration paid to presidents and vice presidents by the Company for 2018 accounted for 0.23% of net income after tax, 0.03 percentage points high than 0.20% in 2017; total remuneration paid to presidents and vice presidents by all companies in financial statements accounted for 0.23% of net income after tax, 0.13 percentage points lower than 0.36% in 2017.
2. Remuneration Policies, Standards and Packages, Procedures for Determining Remuneration and Their Correlations with Its Business Performance and Future Risk Exposure
 - (1) According to Article 23 of the Articles of Incorporation, the Board of Directors is authorized to determine the remuneration paid to directors based on their participation in and contribution to the business operations of the Company and the industry standards.
 - (2) The Company only pays directors a fixed transportation allowance every month. The Company pays fixed remuneration to independent directors every month. The Company has established the Chairman and Vice Chairman Remuneration Standards. The Remuneration Committee shall propose the distribution of remuneration for the chairman and vice chairman to the Board of Directors for approval based on the common performance indicators set forth in the Directions for Employee Bonus Management and their business performance and risk management, internal audit, and legal compliance practices.
 - (3) According to Article 36 of the Articles of Incorporation, if the Company makes a profit for a year, it shall authorize the Board of Directors to determine the distribution of no more than 1% of income before tax as director remuneration and 0.015%~0.02% of income before tax as employee remuneration; if the Company has accumulated losses, however, it shall reserve an amount to offset the accumulated losses. The Remuneration Committee shall propose the distribution of director remuneration and employee remuneration to the Board of Directors for review and approval ever year. If directors are institutional representatives, remuneration shall be attributable to institutional shareholders. Independent directors are not entitled to the distribution of director remuneration.
 - (4) The remuneration paid to presidents and vice presidents shall be determined based on the market standards of the benchmark enterprises and the Manager Remuneration Standards of the Company. The Remuneration Committee shall propose the distribution of remuneration for presidents and vice presidents to the Board of Directors for approval based on the common performance indicators set forth in the Directions for Employee Bonus Management and their personal performance, risk management, internal audit, and legal compliance practices.

(VI) Managers Receiving Employees' Remuneration

Date: Dec 31, 2019; Unit: NT\$1,000

Title	Name	Share Amount	Cash Amount	Total	Percentage of Total Remuneration to Income after Tax (%)
Executive Vice President	Hsin-Tien Ting				
Executive Vice President	King-huo Lu				
Executive Vice President	Sarah C.T. Hsu				
Chief Auditor	Neng-Tung Lin				
General Manager	Fang-Ling Zhou				
General Manager	Chao-Chi Yeh				
General Manager	Han-Chun Hsieh				
General Manager	Michael Duh				
Total		0	4,677	4,677	0.032%

Note: Employees' remuneration was estimated based on the 2018 employee remuneration to be distributed upon approval of the Board of Directors.

(VII) Name, Position, and Total Remuneration of Top 10 Managers Receiving Employees' Remuneration for 2018

Unit: NT\$1,000

Serial Number	Title	Name	Share Amount	Cash Amount
1	Chief Auditor	Neng-Tung Lin		
2	Executive Vice President	King-huo Lu		
3	Executive Vice President	Hsin-Tien Ting		
4	General Manager	Fang-Ling Zhou		
5	General Manager	Han-Chun Hsieh		
6	Executive Vice President	Sarah C.T. Hsu		
7	General Manager	Chao-Chi Yeh		
8	General Manager	Michael Duh		
9	Division Chief	Tsung-Sheng Hu		
10	Senior Secretary	Po-Hsun Chen		
Total			0	5,479

Note: Employees' remuneration for 2018 is to be distributed by the Company in cash.

III. Status of Corporate Governance

(I) Board of Directors Meeting status:

The board convened 13(A) meetings in the past year. The attendance record of directors and supervisors is as below:

Jan 1, 2018~Dec 31, 2018

Position	Name (Note 1)	Attendance in Person B	By Proxy	Attendance Rate in Person (%) [B/A] (Note 2)	Remarks
Chairman	Yun-Peng Chang (Ministry of Finance)	13	0	100%	
Vice Chairman	Ming-Cheng Lin (Memorial Scholarship Foundation to Mr. Lin Hsiung-Chen)	13	0	100%	
Director	T. Lin (Memorial Scholarship Foundation to Mr. Lin Hsiung-Chen)	11	2	85%	
Director	Chih-Yu Lin (Memorial Scholarship Foundation to Mr. Lin Hsiung-Chen)	13	0	100%	
Director	Chih-Yang Lin (Memorial Scholarship Foundation to Mr. Lin Hsiung-Chen)	13	0	100%	
Director	An-Lan Hsu Chen (Yongchang Charity Foundation)	11	2	85%	
Director	Yuan-Jen Hsu (Yongchang Charity Foundation)	12	1	92%	
Director	Chia-Ying Shen (China Man-Made Fiber Corporation)	11	2	85%	
Director and President	Pao-Chu Lo (Ministry of Finance)	13	0	100%	
Director	Chih-Wen Hsu (Bank of Taiwan)	9	4	69%	
Director	Shih-Ching Jeng (Bank of Taiwan)	12	1	92%	
Director	Lung-Huei Tai (Bank of Taiwan)	12	1	92%	
Director	I-Hui Lee (Bank of Taiwan)	12	1	92%	
Director	Keh-Her Shih (Bank of Taiwan)	6	7	46%	
Director	Chun-Liang Lin (Bank of Taiwan)	11	2	85%	Assumed office on January 14, 2018; shall attend 13 meetings
Independent Director	Kuei-Sun Wu	13	0	100%	
Independent Director	Ching-Hsiu Chen	9	4	69%	
Independent Director	Chung-Yuan Hsu	12	1	92%	
Independent Director	Chun-Pin Chen	12	1	92%	

Other required disclosures:

- I. When the following conditions happen, the date, session, content of the motions, opinion of all independent directors, and the disposition by the Company regarding independent directors' opinion shall be listed:
- Items prescribed by Article §14-3 of Securities and Exchange Act
 - Other than the matters mentioned above, other written or otherwise recorded resolutions on which an independent director had a dissenting opinion or qualified opinion.
- None.
- II. If there are recusals of directors due to conflict of interests, the name of the directors, content of the motions, reason for recusals, and participation of the resolution shall be listed.
Please refer to Note 3.
- III. Goals to strengthen the functionality of the Board in this year and past year (Ex. establish audit committee, increase information transparency, etc.) and evaluation of the execution result.
- The Procedure for Board of Directors Meetings was established in accordance with "Regulations Governing Procedure for Board of Directors Meetings of Public Companies". The board member attendance status is published on Market Observation Post System (MOPS). Significant resolutions are disclosed in the Company's website (WWW.HNFHC.COM.TW). The audit committee is established and consists four independent directors.

Note 1: Directors and supervisors that represent institutional shareholders shall list the name and representative of the institutional shareholder.

Note 2:

- If any director or supervisor resigns by the end of the year, the date of resignation shall be listed in the remark column. The attendance rate in person (%) shall be calculated by the number of board meeting and actual attendance during the tenure of the director.
- If any director or supervisor is re-elected by the end of the year, the original and new director or supervisor shall be both listed. Whether the director or supervisor is former or new and the date of re-election shall be marked in the remark column. The attendance rate in person (%) shall be calculated by the number of board meeting and actual attendance during the tenure of the director.

Note 3: Recusals of directors due to conflict of interests:

	Session	Name of the Director	Content of the motion	Reason for recusal	Participation of the resolution
1	the 20th meeting of the sixth Board of Directors	Pau-Chu Lo	The determination of 2018 salary adjustment	The motion involves with interest of the party	Actively recuse the discussion and resolution of the motion.
2	the 21st meeting of the six Board of Directors	Chun-Liang Lin	Designate Chun-Liang Lin to act as director of subsidiary Hua Nan Bank	The motion involves with interest of the party	Actively recuse the discussion and resolution of the motion.
3	the 21st meeting of the sixth Board of Directors	Pau-Chu Lo	2017 performance appraisal on the President	The motion involves with interest of the party	Actively recuse the discussion and resolution of the motion.
4	the 22nd meeting of the six Board of Directors	Ming-Cheng Lin, Pao-Chu Lo T. Lin, Chih-Yu Lin	The 2017 performance bonus and salary adjustment for employees of director level and above	The motion involves with interest of the party The subject of the motion is the relative of directors within second degree of kinship	Actively recuse the discussion and resolution of the motion.
5	The 23rd meeting of the sixth Board of Directors	Pao-Chu Lo, An-Lan Hsu Chen, Yuan-Jen Hsu, Chun-Liang Lin, Chih-Wen Hsu, Shih-Ching Jeng, Lung-Huei Tai, Keh-Her Shih, I-Hui Lee	Propose to release non-competition clause for the sixth Board of Directors in 2018 Annual Shareholders' Meeting.	The motion is in conflict with the parties and the represented corporate shareholders' interests.	Actively recuse the discussion and resolution of the motion.
6	The 25th meeting of the sixth Board of Directors	(1) Tang-Chieh Wu, T. Lin, Chih-Yang Lin, Chih-Yu Lin, Yuan-Jen Hsu, Chia-Ying Shen, Chun-Liang Lin, Chih-Wen Hsu (2) Ming-Cheng Lin, An-Lan Hsu Chen	Re-assigning subsidiary Hua Nan Bank' Directors and Supervisors.	The motion involves with interest of the party The subject of the motion is the relative of directors within second degree of kinship	Actively recuse the discussion and resolution of the motion.
7	The 25th meeting of the sixth Board of Directors	(1) Yuan-Jen Hsu (2) An-Lan Hsu Chen	Re-assigning subsidiary Hua Nan Securities' Directors and Supervisors.	The motion involves with interest of the party The subject of the motion is the relative of directors within second degree of kinship	Actively recuse the discussion and resolution of the motion.
8	The 31st meeting of the sixth Board of Directors	Yuan-Jen Hsu, An-Lan Hsu Chen	Re-assigning subsidiary Hua Nan Investment Trust's Directors and Supervisors.	The subject of the motion is the relative of directors within second degree of kinship	Actively recuse the discussion and resolution of the motion.

(II) Audit Committee Meeting Status:

The audit committee convened 12 meetings (A) in 2018. The attendance record of independent directors is as below:

Position	Name	Attendance in Person	By Proxy	Attendance Rate in Person (%) (B/A) (Note)	Remarks
Independent Director (Chairman)	Chung-Yuan Hsu	12	0	100%	
Independent Director	Ching-Hsiu Chen	11	1	92%	
Independent Director	Chun-Pin Chen	11	1	92%	
Independent Director	Kuei-Sun Wu	12	0	100%	
Other required disclosures:					
I. When any of the following conditions are met, the date of board of directors meeting, session, content of the motions, audit committee resolution, and the Company's disposition to audit committee's opinion shall be listed.					
(I) Items prescribed by Article §14-5 of Securities and Exchange Act					
(II) Other than the matters mentioned above, other resolutions on which not approved by the Audit Committee but were approved by two thirds or more of all directors: None.					
II. For the recusal of independent directors to motions due to conflicts of interests, the name of the independent director, content of the motion, reason for recusal, and participation of the resolution shall be listed: None.					
III. Description of the communications between the independent directors, the chief internal auditor, and the independent auditors:					
(I) Communications between independent auditors and the audit committee: The independent auditors of the Company communicates with audit committee regarding the audit scope, audit approach, key points of audit and audit findings, key points of internal control audit and findings, as well as related affairs of auditing consolidated half-year and annual financial statements. There is no inconsistent opinion for each communicated and reported items between the independent auditor and the audit committee.					
(II) Communications between the chief internal auditor and the audit committee:					
1. The motion to hold 2018 forum for independent directors and internal auditors was reported in 19th meeting of the second audit committee meeting held on February 9, 2018. Major business and financial deficiencies discovered through internal and external audit was communicated. The independent directors suggested to fill in the vacancy of information audit supervisor, internal audit department of Board of Directors at the earliest in the consideration of importance in information security.					
The meeting minutes of the forum was reported in the 21st meeting of the sixth Board of Directors meeting on February 26, 2018.					
2. The Company held 2018 forum with independent directors, directors assigned by the government, internal auditors, and legal compliance department on August 20, 2018, and had communications on opinions on major inspection results of internal audit and comments from internal auditors. The independent directors and directors assigned by the government suggested the Company shall monitor the management of internet security and self-assessment by subsidiaries.					
The meeting minutes of the forum was reported in the 27th meeting of the sixth board of directors meeting on August 27, 2018.					

Note 1: If any independent director resigns by the end of the year, the date of resignation shall be listed in the remark column. The attendance rate in person (%) shall be calculated by the number of board meeting and actual attendance during the tenure of the director.

Note 2: If any independent director is re-elected by the end of the year, the original and new independent director shall be both listed. Whether the independent director is former or new and the date of re-election shall be marked in the remark column. The attendance rate in person (%) shall be calculated by the number of board meeting and actual attendance during the tenure of the director.

(III) The resolution of significant motions by the Audit Committee and the Company's disposition to audit committee's opinion.

Date of Audit Committee meeting	Session of Audit Committee	Significant motions that shall be resolved by the Audit Committee pursuant to Article 14-5 of the Securities and Exchange Act.	The resolution of Audit Committee meeting and the Company's disposition to audit committee's opinion.	Date of Board of Directors' meeting	Session of Board of Directors
January 11, 2018	The 18th meeting of the second Audit Committee	Approving the change of independent auditor	Approved and sent to Board of Directors for resolution.	January 29, 2018	The 20th meeting of the sixth Board of Directors
		Approving the engagement and proposed service fees for 2018 financial reports audit and corporate income tax report audit.			
		Approving amendments to "Hua Nan Financial Holdings Corporate Governance Principles".			
March 16, 2018	The 20th meeting of the second Audit Committee	Approving 2017 Statement of Internal Control System	Approved and sent to Board of Directors for resolution.	March 26, 2018	The 22nd meeting of the sixth Board of Directors
		Approving amendments to "Rules of Organization".	Approved and sent to Board of Directors for resolution.		
		Approving "Establishment Guidelines for Legal Compliance Committee of the Group".	Approved and sent to Board of Directors for resolution.		
		Approving amendments to "Guidelines for Management of Subsidiaries".			
		Approving Hua Nan Asset Management Company's procedure and threshold of approval by the Company for significant asset transactions relating to main business items(including real estate, construction, acquisition or disposal of other assets).			
		Approving 2017 financial statements and business report of the Company			
April 12, 2018	The 21st meeting of the second Audit Committee	Approving appropriation of 2017 profits	Approved and sent to Board of Directors for resolution.	April 30, 2018	The 23rd meeting of the sixth Board of Directors
		Approving 2018 stock issuance for dividend distribution	Approved and sent to Board of Directors for resolution.		
May 10, 2018	The 22nd meeting of the second Audit Committee	Approving amendments to "Guidelines for the Execution of the Group's Legal Compliance System"	Approved and sent to Board of Directors for resolution.	May 28, 2018	The 24th meeting of the sixth Board of Directors
		Approving amendments to "Establishment Guidelines for Legal Compliance Committee of the Group"			
August 20, 2018	The 25th meeting of the second Audit Committee	Approving 2018 second quarter financial statements	Approved and sent to Board of Directors for resolution.	August 27, 2018	The 27th meeting of the sixth Board of Directors
September 17, 2018	The 26th meeting of the second Audit Committee	Approving amendments to the Company's "Level of Authority"	Approved and sent to Board of Directors for resolution.	September 27, 2018	The 28th meeting of the sixth Board of Directors
December 12, 2018	The 29th meeting of the second Audit Committee	Reviewing and approving the 2019 internal audit plan of the Company	Approved and sent to Board of Directors for resolution.	December 27, 2018.	The 31st meeting of the sixth Board of Directors
		Approving the assignment of the Company's Chief Auditor			



(IV) Items required for disclosure in accordance with "Corporate Governance Best Practice Principles for Financial Holding Companies". For those already disclosed in company website, the Company may only disclose the website for reference.

Please refer to website: <http://www.hnfhc.com.tw>

(V) Corporate Governance Implementation, the difference with "Corporate Governance Best Practice Principles for Financial Holding Companies", and its reasons.

Assessment Item	Implementation Status (Note 1)			Difference with "Corporate Governance Best Practice Principles for Financial Holding Companies" and its reasons
	Yes	No	Brief Description	
I. Shareholding Structure & Shareholders' Rights				
(I) Does Company have Internal Operation Procedures for handling shareholders' suggestions, concerns, disputes and litigation matters. If yes, have these procedures been implemented accordingly?	V		(I) The Company has designated Spokesperson, investor relationship, and shareholder affairs department to handle shareholder suggestions.	The shareholder affairs of the Company are handled by Hua Nan Securities. The shareholder suggestions, concerns, disputes or litigation matters are handled according to internal procedures. However, the integrated internal operating procedure has not been stipulated yet.
(II) Does the financial holding company possess a list of major shareholders and ultimate beneficial owners of these major shareholders?	V		(II) The Company reports shareholders that hold five percent or more of the total number of issued shares according to regulation. The Company also communicates with shareholders that hold one percent or more of the total number of issued shares regarding Financial Holding Company Act and related regulations. The related disclosure and application form are disclosed in the Company's website.	Compliant
(III) Has the Company built and executed a risk management system and "firewall" between the Company and its affiliates?	V		(III) In order to regulate related party transactions, the Company not only follows Article §44 and §45 of Financial Holding Company Act when conducting related party transactions but also stipulates "Guidelines for Managing Related Party Transactions between Hua Nan Financial Holdings and its Subsidiaries" and "Hua Nan Financial Group Firewall Policy".	Compliant
II. Composition and Responsibilities of the Board of Directors				
(I) Other than the Compensation Committee and the Audit Committee which are required by law, does the Financial Holding Company plan to set up other Board committees?	V		(I) The Article §27.2 of the Company's Articles of Incorporation stipulates that the Board of Directors may set up other Board committees. Ethical Corporate Management Committee is established in addition to Compensation Committee and Audit Committee. The Ethical Corporate Management Committee consists of four independent directors. Diversification shall be considered in the composition of Board of Directors. The number of Company's managers acting as directors shall not exceed one third of total directors. Multiple principles shall be stipulated based on its own operation, type of business, and need for development. Required professional knowledge and skills of directors include: professional background (ex. law, accounting, industry, finance, marketing, or technology), professional skills, industry experience, etc. Board of directors shall possess necessary knowledge, skills, and literacy for conducting its duty. In order to achieve the ideal goal of corporate governance, the entire Board of Directors shall possess the following abilities: 1. Ability to make judgement in operations 2. Accounting and financial analysis capability 3. Ability in managing operation (including the management and operating of subsidiaries) 4. Ability in handling crisis 5. Industry knowledge 6. International market view 7. Leadership 8. Decisiveness 9. Knowledge and ability in risk management	Compliant

Assessment Item	Implementation Status (Note 1)			Difference with "Corporate Governance Best Practice Principles for Financial Holding Companies" and its reasons
	Yes	No	Brief Description	
(II) Does the financial holding company regularly evaluate its external auditors' independence?	V		(II) The Company annually inspect the independence of external auditors. The inspection includes whether the external auditor is the director or shareholder of the Company, or receives salary from the Company. In addition, the external auditor is strictly required to recuse from the engagement when there is direct or indirect conflict of interests. The external auditor also needs to rotate internally within the firm according to the rule.	Compliant
III. Does the Financial Holding Company establish a full- (or part-) time corporate governance unit or personnel to be in charge of corporate governance affairs?	V		The Company set up corporate governance team under Administration Department to be in charge of corporate governance affairs in 2016. A corporate governance head was assigned in first half of 2019 to take charge of Board of Directors meeting affairs and corporate governance affairs.	Compliant
IV. Has the Financial Holding Company established a means of communicating with its Stakeholders?	V		Related departments of the Company takes charge of the communication in each aspects.	Compliant
V. Information disclosure (I) Has the Financial Holding Company established a corporate website to disclose information regarding its financials, business and corporate governance status?	V		(I) The Company discloses related information through MOPS on real time basis. The Company's website updates financial and operating results as well as corporate governance information on real time basis. Investor relation section is also available for the disclosure of financial information and corporate governance operation.	Compliant
(II) Does the Financial Holding Company use other information disclosure channels (e.g. maintaining an English-language website, designating staff to handle information collection and disclosure of the financial holding company, appointing spokespersons, webcasting investors conference on the financial holding company's website, etc.)?	V		(II) 1. The Company has Chinese and English website. The collection and disclosure of Company information is designated to responsible person. 2. The Company sets up "Principles in Governing Public Affairs" to govern a consistent spokesperson procedure. Currently the Company sets up one spokesperson and one deputy spokesperson to speak to the public on behalf of the Company. 3. The Company held annual investors' conference for this year. Related information in Chinese and English as well as video of investors' conference are published on the Company's website.	Compliant
VI. Has the Financial Holding Company disclosed other information to facilitate a better understanding of its corporate governance practices (including but not limited to employee rights, employee wellness, investor relations, stakeholders' rights, directors' and supervisors' training records, the implementation of risk management policies and risk evaluation measures, the implementation of customer policies, purchasing insurance for directors and supervisors, and donations to political parties, stakeholders, or public interest groups)?	V		(I) Employee rights: The Company stipulates "Employee Work Rules" and several procedures and rules in order to raise employee's awareness on ethics and define employee rights, obligations, and behaviors. The procedures and rules include level of authority, guidelines for employee promotion, guidelines for employee attendance management, guidelines for trainings, and guidelines for anti-sexual harassment. (II) Investor relations: The Company discloses related information through MOPS on real time basis. The Company's website updates financial and operating results as well as corporate governance information on real time basis. Investor relation section is also available for the disclosure of financial information and corporate governance operation. (III) Directors' training records: The Company actively provides training course information to all directors and assists directors to register courses according to their will. The Company also discloses directors' training records on periodic basis according to law. (IV) Risk management policy: The Company's risk management policy is to establish a standard that can apply uniformly to all companies within Hua Nan Financial Group. The policy identifies, evaluates, controls, bears, and manages risk, and ensures the control of operation risk is within acceptable range. The policy also reflects the goal of Group operation and corporate value. (V) Customer policies: The Company follows the "Financial Holding Company Act", "Regulation for the Cross-selling of Financial Holding Company and Subsidiaries", "Financial Consumer Protection Act" and related regulations to protect customer right.	Compliant



Assessment Item	Implementation Status (Note 1)			Difference with "Corporate Governance Best Practice Principles for Financial Holding Companies" and its reasons
	Yes	No	Brief Description	
			(VI) Purchasing insurance for directors and supervisors: The Company has purchased liability insurance for directors, supervisors, and key employees from Fubon Insurance since October, 2006, and the insurance has been renewed until now. The scope of the insurance includes liability for the directors, supervisors, and key employees of the Company, subsidiaries, and invested companies for now and the future. (VII) Donations to political parties, stakeholders, or public interest groups: The Company does not donate to any political party or stakeholders. Please refer to corporate responsibility chapter for donation to public interests groups.	
VII. Does the financial holding company prepare corporate governance self-evaluation report or engage other professional institution to prepare corporate governance evaluation report? (If yes, please describe Board of Directors' opinion, result of self-evaluation or outsourced evaluation, major deficiencies, suggestions, and result of improvement.) (Note 2)	V		The Company periodically conducts internal audit, internal inspection, and self-evaluation on legal compliance to ensure the internal control and corporate governance comply with legal requirement and protect shareholders' right to the maximum range. The Company belongs to listed company in the fifth corporate governance evaluation by TWSE.	Compliant

Note 1: Describe briefly in implementation status column no matter the result of operation is "yes" or "no".

Note 2:

- (I) The Company belongs to listed company in the fifth corporate governance evaluation by TWSE.
- (II) Indicators already improved

Indicators already improved in 2018.	Status of Improvement
Have the Company's directors and supervisors completed the hours of continuing education required by the "Directions for the Implementation of Continuing Education for Directors and Supervisors of TWSE Listed and TPEX Listed Companies"?	All directors of the Company completed all required training hours in 2018.
Does the Company have excellent performance in corporate governance or achieve specific beneficial results of corporate governance practices? (1. Does the Company voluntarily participate in and pass the assessments relating to corporate governance? 2. Does the Company have excellent performance in corporate governance, such as continuously investing in major environmentally sustainable equipment or issuing or investing in green financial products whose funds are used in green investment projects and have substantial environmental benefits?)	HNCB has issued NT\$1 billion in Senior Debt Green Financing Bonds on April 25, 2018 with a duration of 3 years.

(III) The Company intends to improve and take actions as follows:

Indicators with no points or additional points in 2018	Improvement and Actions
Has the Company set up the dedicated personnel to handle corporate governance-related matters and stated the operation and implementation of the dedicated personnel in the annual report and on the company website?	The Company plans to set up the Company Secretary in charge of corporate governance in 2019.

1. Continuing Education/Training of Directors of Hua Nan Financial Holdings

January 1, 2018~December 31, 2018

Position	Name	Date of Appointment	Training start date	Training end date	Host by	Name of training	Duration	Does the duration comply with requirement?	Remarks
Chairman	Tang-Chieh Wu	September 12, 2016	January 31, 2018	January 31, 2018	Taiwan Academy of Banking and Finance	The impact and adaptive strategy of Personal Information Protection Act of European Union to Taiwanese banks.	1.5	Yes	None
			January 31, 2018	January 31, 2018	Hua Nan Commercial Bank	Overseas legal compliance supervisors forum	2	Yes	None
			February 1, 2018	February 1, 2018	Taiwan Academy of Banking and Finance	Trend of international financial regulations and key points of legal compliance	3	Yes	None
			May 17, 2018	May 17, 2018	Taiwan Academy of Banking and Finance	Board of Directors operations practice and corporate governance study	2	Yes	None
			September 6, 2018	September 6, 2018	Training Institute, Ministry of Finance	2018 Keynote speech on anti-money laundering	3	Yes	None
			September 11, 2018	September 11, 2018	Taiwan Academy of Banking and Finance	The 28th corporate governance lecture-strategical thinking in information security and practical arrangement	3	Yes	None
			October 4, 2018	October 4, 2018	Taipei Foundation of Finance	Eight significant risks of the country workshop	3	Yes	None
			December 27, 2018	December 27, 2018	Taiwan Corporate Governance Association	Enhance the performance of Board of Directors	1.5	Yes	None
Vice Chairman	Ming-Cheng Lin	July 1, 2016	May 11, 2018	May 11, 2018	Taiwan Corporate Governance Association	Study of significant economic crime case and related legal responsibility	3	Yes	None
			Aug. 8, 2018	Aug. 8, 2018	Taiwan Academy of Banking and Finance	The corporate governance lecture-Strategy on news crisis management and actions	3	Yes	None
			October 4, 2018	October 4, 2018	Taipei Foundation of Finance	Eight significant risks of the country workshop	3	Yes	None
Director and President	Pao-Chu Lo	Jun. 1, 2017	January 31, 2018	January 31, 2018	Taiwan Academy of Banking and Finance	The impact and adaptive strategy of Personal Information Protection Act of European Union to Taiwanese banks.	1.5	Yes	None
			January 31, 2018	January 31, 2018	Hua Nan Commercial Bank	Overseas legal compliance supervisors forum	2	Yes	None
			May 8, 2018	May 8, 2018	Taiwan Stock Exchange (TWSE)	Corporate Governance Roadmap(2018-2020) Summit Forum	3	Yes	None
			May 17, 2018	May 17, 2018	Taiwan Academy of Banking and Finance	Board of Directors operations practice and corporate governance study	2	Yes	None
			October 4, 2018	October 4, 2018	Taipei Foundation Of Finance	Eight significant risks of the country workshop	3	Yes	None
			December 27, 2018	December 27, 2018	Taiwan Corporate Governance Association	Enhance the performance of Board of Directors	1.5	Yes	None
Independent Director	Kuei-Sun Wu	July 1, 2016	January 31, 2018	January 31, 2018	Taiwan Academy of Banking and Finance	The impact and adaptive strategy of Personal Information Protection Act of European Union to Taiwanese banks.	1.5	Yes	None
			January 31, 2018	January 31, 2018	Hua Nan Commercial Bank	Overseas legal compliance supervisors forum (morning session)	1.5	Yes	None
			February 1, 2018	February 1, 2018	Taiwan Academy of Banking and Finance	Trend of international financial regulations and key points of legal compliance	3	Yes	None
			June 6, 2018	June 6, 2018	Hua Nan Financial Holdings	2018 Group directors, supervisors, and top management GDPR training	0.5	Yes	None
			Oct. 5, 2018	Oct. 5, 2018	Taipei Foundation Of Finance	Eight significant risks of the country workshop	3	Yes	None
			November 2, 2018	November 2, 2018	Taiwan Corporate Governance Association	Corporate internal control and risk management	3	Yes	None
			December 27, 2018	December 27, 2018	Taiwan Corporate Governance Association	Enhance the performance of Board of Directors	1.5	Yes	None
Independent Director	Ching-Hsiu Chen	July 1, 2016	January 26, 2018	January 26, 2018	Taiwan Corporate Governance Association	Key information in annual report and responsibility analysis: from the viewpoint of directors	2	Yes	None
			May 29, 2018	May 29, 2018	Taiwan Corporate Governance Association	How does a director avoid breach of trust and non-arm's length transaction	3	Yes	None
			October 30, 2018	October 30, 2018	Securities and Futures Institute	Legal issues that directors and supervisors of publicly traded companies need to pay attention to	3	Yes	None
Independent Director	Chung-Yuan Hsu	July 1, 2016	January 31, 2018	January 31, 2018	Taiwan Academy of Banking and Finance	The impact and adaptive strategy of Personal Information Protection Act of European Union to Taiwanese banks.	1.5	Yes	None
			January 31, 2018	January 31, 2018	Hua Nan Commercial Bank	Overseas legal compliance supervisors forum (morning session)	1.5	Yes	None
			February 1, 2018	February 1, 2018	Taiwan Academy of Banking and Finance	Trend of international financial regulations and key points of legal compliance	3	Yes	None
			March 5, 2018	March 5, 2018	Taiwan Stock Exchange (TWSE)	100% voting rate for electronic voting and company value enhancement forum	6	Yes	None
			May 8, 2018	May 8, 2018	Taiwan Stock Exchange (TWSE)	Corporate Governance Roadmap(2018-2020) Summit Forum	3	Yes	None
			December 27, 2018	December 27, 2018	Taiwan Corporate Governance Association	Enhance the performance of Board of Directors	1.5	Yes	None
Independent Director	Chun-Pin Chen	July 1, 2016	May 25, 2018	May 25, 2018	Taiwan Academy of Banking and Finance	The impact of U.S China trade war on global economy and finance and the adaptive strategy seminar	3	Yes	None
			May 30, 2018	May 30, 2018	Taiwan Academy of Banking and Finance	Board of Directors operations practice and corporate governance study	2	Yes	None
			November 23, 2018	November 23, 2018	Taiwan Corporate Governance Association	The backstage driving force of corporate governance-corporate secretary operation practice	3	Yes	None
			December 27, 2018	December 27, 2018	Taiwan Corporate Governance Association	Enhance the performance of Board of Directors	1.5	Yes	None
Director	T. Lin	July 1, 2016	January 8, 2018	January 8, 2018	Taiwan Institute of Directors	Digital transformation--from enhancing the digital capability of Board of Directors	3	Yes	None
			January 31, 2018	January 31, 2018	Taiwan Academy of Banking and Finance	The impact and adaptive strategy of Personal Information Protection Act of European Union to Taiwanese banks.	1.5	Yes	None
			January 31, 2018	January 31, 2018	Hua Nan Commercial Bank	Overseas legal compliance supervisors forum (morning session)	1.5	Yes	None
			February 1, 2018	February 1, 2018	Taiwan Academy of Banking and Finance	Trend of international financial regulations and key points of legal compliance	3	Yes	None
			May 17, 2018	May 17, 2018	Taiwan Academy of Banking and Finance	Board of Directors operations practice and corporate governance study	2	Yes	None
			June 6, 2018	June 6, 2018	Hua Nan Financial Holdings	2018 Group directors, supervisors, and top management GDPR training	0.5	Yes	None
			September 7, 2018	September 7, 2018	Taiwan Academy of Banking and Finance	The 28th corporate governance lecture-strategical thinking on information security and practical arrangement	3	Yes	None
			Oct. 5, 2018	Oct. 5, 2018	Taipei Foundation of Finance	Eight significant risks of the country workshop	3	Yes	None

Position	Name	Date of Appointment	Training start date	Training end date	Host by	Name of training	Duration	Does the duration comply with requirement?	Remarks
Director	Chih-Yu Lin	July 1, 2016	January 31, 2018	January 31, 2018	Hua Nan Commercial Bank	Overseas legal compliance supervisors forum (afternoon session)	2	Yes	None
			April 24, 2018	April 24, 2018	Taiwan Corporate Governance Association	The performance and efficacy of Board of Directors from the altitude of directors and supervisors	3	Yes	None
			May 17, 2018	May 17, 2018	Taiwan Academy of Banking and Finance	Board of Directors operations practice and corporate governance study	2	Yes	None
			September 7, 2018	September 7, 2018	Taiwan Academy of Banking and Finance	The 28th corporate governance lecture-strategical thinking on information security and practical arrangement	3	Yes	None
			October 4, 2018	October 4, 2018	Taipei Foundation Of Finance	Eight significant risks of the country workshop	3	Yes	None
			December 27, 2018	December 27, 2018	Taiwan Corporate Governance Association	Enhance the performance of Board of Directors	1.5	Yes	None
Director	Chih-Yang Lin	July 1, 2016	February 1, 2018	February 1, 2018	Hua Nan Commercial Bank	Overseas legal compliance supervisors forum (afternoon session)	2	Yes	None
			March 23, 2018	March 23, 2018	Taiwan Corporate Governance Association	Global and cross straight anti-tax avoidance policy and the adaptive strategy	3	Yes	None
			May 30, 2018	May 30, 2018	Taiwan Academy of Banking and Finance	Board of Directors operations practice and corporate governance study	2	Yes	None
			Aug. 22, 2018	Aug. 22, 2018	Securities and Futures Institute	Impact of latest tax regulation changes on corporate operation and the adaptive strategy	3	Yes	None
			Aug. 29, 2018	Aug. 29, 2018	Taiwan Academy of Banking and Finance	Global anti-tax avoidance policy and the adaptive strategy	3	Yes	None
			September 4, 2018	September 4, 2018	Taiwan Corporate Governance Association	Analysis of Taiwan anti-tax avoidance and case study	3	Yes	None
			September 7, 2018	September 7, 2018	Taiwan Academy of Banking and Finance	The 28th corporate governance lecture-strategical thinking on information security and practical arrangement	3	Yes	None
			December 27, 2018	December 27, 2018	Taiwan Corporate Governance Association	Enhance the performance of Board of Directors	1.5	Yes	None
Director	An-Lan Hsu Chen	July 1, 2016	March 6, 2018	March 6, 2018	Taiwan Corporate Governance Association	Shareholders' meeting and ownership management	3	Yes	None
			March 8, 2018	March 8, 2018	Securities and Futures Institute	Anti-money laundering and legal compliance	3	Yes	None
Director	Michael, Yuan-Jen Hsu	July 1, 2016	February 22, 2018	February 22, 2018	Taiwan Stock Exchange (TWSE)	2018 anti-money laundering operation training for securities company	3	Yes	None
			April 13, 2018	April 13, 2018	Taiwan Corporate Governance Association	The duty of loyalty and legal responsibility of directors and supervisors: hollowing out company asset and related party transactions	3	Yes	None
			May 17, 2018	May 17, 2018	Taiwan Academy of Banking and Finance	Board of directors operations practice and corporate governance study	2	Yes	None
			June 6, 2018	June 6, 2018	Hua Nan Financial Holdings	2018 Group directors, supervisors, and top management GDPR training	2	Yes	None
			September 11, 2018	September 11, 2018	Taiwan Academy of Banking and Finance	The 28th corporate governance lecture-strategical thinking on information security and practical arrangement	3	Yes	None
			December 27, 2018	December 27, 2018	Taiwan Corporate Governance Association	Enhance the performance of Board of Directors	1.5	Yes	None
Director	Vivien, Chia-Ying Shen	July 1, 2016	April 27, 2018	April 27, 2018	Taiwan Corporate Governance Association	Corporate fraud and the establishment of whistle blower system	3	Yes	None
			May 25, 2018	May 25, 2018	Taiwan Corporate Governance Association	Global trend analysis-risk and opportunity	3	Yes	None
			June 6, 2018	June 6, 2018	Hua Nan Financial Holdings	2018 Group directors, supervisors, and top management GDPR training	2	Yes	None
			September 11, 2018	September 11, 2018	Taiwan Academy of Banking and Finance	The 28th corporate governance lecture-strategical thinking on information security and practical arrangement	3	Yes	None
			October 4, 2018	October 4, 2018	Taipei Foundation Of Finance	Eight significant risks of the country workshop	3	Yes	None
			December 27, 2018	December 27, 2018	Taiwan Corporate Governance Association	Enhance the performance of Board of Directors	1.5	Yes	None
Director	Chun-Liang Lin	January 24, 2018	June 11, 2018	June 11, 2018	Taiwan Academy of Banking and Finance	Keynote speech on corporate governance	3	Yes	None
			November 5, 2018	November 5, 2018	Taiwan Academy of Banking and Finance	Analysis on the strengthening of corporate governance by latest amendment of the Company Act	3	Yes	None
Director	Chih-Wen Hsu	July 1, 2016	June 11, 2018	June 11, 2018	Taiwan Academy of Banking and Finance	Keynote speech on corporate governance	3	Yes	None
			November 5, 2018	November 5, 2018	Taiwan Academy of Banking and Finance	Analysis on the strengthening of corporate governance by latest amendment of the Company Act	3	Yes	None
Director	Shih-Ching Cheng	July 1, 2016	February 1, 2018	February 1, 2018	Hua Nan Commercial Bank	Overseas legal compliance supervisors forum (afternoon session)	2	Yes	None
			July 20, 2018	July 20, 2018	Taiwan Academy of Banking and Finance	Responsibility of financial institute top management on anti-money laundering	6	Yes	None
			December 27, 2018	December 27, 2018	Taiwan Corporate Governance Association	Enhance the performance of Board of Directors	1.5	Yes	None
Director	Lung-Hui Tai	July 1, 2016	January 31, 2018	January 31, 2018	Hua Nan Commercial Bank	Overseas legal compliance supervisors forum (afternoon session)	2	Yes	None
			May 30, 2018	May 30, 2018	Taiwan Academy of Banking and Finance	Board of Directors operations practice and corporate governance study	2	Yes	None
			September 6, 2018	September 6, 2018	Training Institute, Ministry of Finance	2018 Keynote speech on anti-money laundering	3	Yes	None
Director	Keh-Her Shih	November 10, 2017	January 31, 2018	January 31, 2018	Taiwan Academy of Banking and Finance	The impact and adaptive strategy of Personal Information Protection Act of European Union to Taiwanese banks.	1.5	Yes	None
			January 31, 2018	January 31, 2018	Hua Nan Commercial Bank	Overseas legal compliance supervisors forum (morning session)	1.5	Yes	None
			February 1, 2018	February 1, 2018	Taiwan Academy of Banking and Finance	Trend of international financial regulations and key points of legal compliance	3	Yes	None
Director	Yi-Hui Li	February 23, 2017	January 31, 2018	January 31, 2018	Hua Nan Commercial Bank	Overseas legal compliance supervisors forum (afternoon session)	2	Yes	None
			May 30, 2018	May 30, 2018	Taiwan Academy of Banking and Finance	Board of Directors operations practice and corporate governance study	2	Yes	None
			September 6, 2018	September 6, 2018	Training Institute, Ministry of Finance	2018 Keynote speech on anti-money laundering	3	Yes	None

2. Continuing Education/Training of Managers

January 1, 2018~December 31, 2018

Title	Name	Name of training	Duration
President	Pao -Chu Lo	Impact of the General Data Protection Regulation of the European Union on Taiwanese Banks and Adaptive Strategy	1.5
		Overseas Legal Compliance Supervisor Forum	2
		New Corporate Governance Roadmap (2018-2020) Summit	3
		Board of Directors Operations Practice and Corporate Governance Study	2
		Workshop on Eight National Significant Risks	3
		Enhance the performance of Board of Directors	1.5
		2018 Elite Keynote Speech - 1st Session: Director Yu-Hsien Lin	2
		2018 Group Directors, Supervisors, and Top Management GDPR Training	2
		2018 Elite Keynote Speech - 2nd Session: Immunity and Natural Healing Power	2
		2018 Elite Keynote Speech - 3rd Session: Introduction to the Anti-money Laundering Law of the U.S. and the Money Laundering Control Act of Republic of China, Bribery Prevention in Elections, and Money Laundering Prevention	2
		2018 Elite Keynote Speech - 4th Session: Fintech Innovation Trends and Opportunities in Taiwan	2
Executive Vice President and G.M.of Law and Ordinance Compliance Department	Hsin-Tien Ting	Seminar on Anti-money Laundering/Counter-terrorism Financing Practices	3
		Impact of the General Data Protection Regulation of the European Union on Taiwanese Banks and Adaptive Strategy	1.5
		Overseas Legal Compliance Supervisor Forum	1.5
		1st International Financial Supervision Trends and Compliance Priorities	3
		Board of Directors Operations Practice and Corporate Governance Study	2
		Seminar on New Corporate Governance Roadmap (2018-2020) - Corporate Governance Personnel	8
		2018 Group Directors, Supervisors, and Top Management GDPR Training	2
		Workshop on Eight National Significant Risks	3
		2018 Group Compliance Training	15
		2018 Elite Keynote Speech - 1st Session: Director Yu-Hsien Lin	2
		2018 Elite Keynote Speech - 2nd Session: Immunity and Natural Healing Power	2
		2018 Elite Keynote Speech - 3rd Session: Introduction to the Anti-money Laundering Law of the U.S. and the Money Laundering Control Act of Republic of China, Bribery Prevention in Elections, and Money Laundering Prevention	2
		2018 Elite Keynote Speech - 4th Session: Fintech Innovation Trends and Opportunities in Taiwan	2
Executive Vice President and G.M.of Finance Department	King-huo Lu	Carnegie Training - Presentation Skills	14
		Board of Directors Operations Practice and Corporate Governance Study	2
		2018 Group Directors, Supervisors, and Top Management GDPR Training	2
		Continuing Training Class for Principal Accounting Officers of Issuers, Securities Firms, and Securities Exchanges	12
		Workshop on Eight National Significant Risks	3
		2018 Elite Keynote Speech - 1st Session: Director Yu-Hsien Lin	2
		2018 Elite Keynote Speech - 2nd Session: Immunity and Natural Healing Power	2
		2018 Elite Keynote Speech - 3rd Session: Introduction to the Anti-money Laundering Law of the U.S. and the Money Laundering Control Act of Republic of China, Bribery Prevention in Elections, and Money Laundering Prevention	2
		2018 Elite Keynote Speech - 4th Session: Fintech Innovation Trends and Opportunities in Taiwan	2
Executive Vice President and G.M. of Administration Department	Sarah C.T. Hsu	11th Center for Corporate Sustainability (CCS) Board Meeting & CEO Workshop	3
		Carnegie Training - Presentation Skills	14
		Taiwan Sustainability Index Presentation & Sustainable Investment Forum	3.5
		Board of Directors Operations Practice and Corporate Governance Study	2
		2018 Group Directors, Supervisors, and Top Management GDPR Training	2
		2018 GRI Taipei Annual Meeting	4
		Potential Risks of Financial Market in China and China-US Trade War	3
		ATD 2018 APC	14
		2018 Elite Keynote Speech - 1st Session: Director Yu-Hsien Lin	2
		2018 Elite Keynote Speech - 2nd Session: Immunity and Natural Healing Power	2
		2018 Elite Keynote Speech - 3rd Session: Introduction to the Anti-money Laundering Law of the U.S. and the Money Laundering Control Act of Republic of China, Bribery Prevention in Elections, and Money Laundering Prevention	2
		2018 Elite Keynote Speech - 4th Session: Fintech Innovation Trends and Opportunities in Taiwan	2



Title	Name	Name of training	Duration
Chief Auditor	Neng-Tung Lin	Impact of the General Data Protection Regulation of the European Union on Taiwanese Banks and Adaptive Strategy	1.5
		Overseas Legal Compliance Supervisor Forum	6
		Board of Directors Operations Practice and Corporate Governance Study	2
		2018 Group Directors, Supervisors, and Top Management GDPR Training	2
		2018 Internal Auditor Workshop	20
		Internal Audit Seminar	3
		2018 Elite Keynote Speech - 1st Session: Director Yu-Hsien Lin	2
		2018 Elite Keynote Speech - 2nd Session: Immunity and Natural Healing Power	2
		2018 Elite Keynote Speech - 3rd Session: Introduction to the Anti-money Laundering Law of the U.S. and the Money Laundering Control Act of Republic of China, Bribery Prevention in Elections, and Money Laundering Prevention	2
		2018 Elite Keynote Speech - 4th Session: Fintech Innovation Trends and Opportunities in Taiwan	2
Chief Secretary Board of Directors	Hui-Ling Hsu	Regional Manager, Compliance Officer, and Internal Control Personnel/Internal Auditor Workshop	9
		2018 Elite Keynote Speech - 1st Session: Director Yu-Hsien Lin	2
		2018 Elite Keynote Speech - 2nd Session: Immunity and Natural Healing Power	2
		2018 Elite Keynote Speech - 4th Session: Fintech Innovation Trends and Opportunities in Taiwan	2
G.M. of the Audit Office of Board of Directors	Fang-Ling Zhou	2018 Compliance Seminar - Financial Examination Priorities (Banking Industry)	3
		Responsibility of financial institute top management on anti-money laundering	6
		2018 Internal Auditor Workshop	20
		2018 Elite Keynote Speech - 1st Session: Director Yu-Hsien Lin	2
		2018 Elite Keynote Speech - 2nd Session: Immunity and Natural Healing Power	2
		2018 Elite Keynote Speech - 4th Session: Fintech Innovation Trends and Opportunities in Taiwan	2
G.M. of Marketing Department	Chao-Chi Yeh	Carnegie Training - Presentation Skills	14
		FinTech Innovation Business Model Presentation	3.5
		Seminar on IBM Business Process Automation Practices	3.5
		Forum on Key FinTech Trends in Taiwan	8
		Crisis Management Workshop	3
		2018 Elite Keynote Speech - 1st Session: Director Yu-Hsien Lin	2
		2018 Elite Keynote Speech - 2nd Session: Immunity and Natural Healing Power	2
		2018 Elite Keynote Speech - 3rd Session: Introduction to the Anti-money Laundering Law of the U.S. and the Money Laundering Control Act of Republic of China, Bribery Prevention in Elections, and Money Laundering Prevention	2
		2018 Elite Keynote Speech - 4th Session: Fintech Innovation Trends and Opportunities in Taiwan	2
G.M. of Risk Management Department	Han-Chun Hsieh	Impact of the General Data Protection Regulation of the European Union on Taiwanese Banks and Adaptive Strategy	1.5
		Overseas Legal Compliance Supervisor Forum	10
		1st International Financial Supervision Trends and Compliance Priorities	3
		Board of Directors Operations Practice and Corporate Governance Study	2
		Workshop on Eight National Significant Risks	3
		2018 Elite Keynote Speech - 2nd Session: Immunity and Natural Healing Power	2
		2018 Elite Keynote Speech - 3rd Session: Introduction to the Anti-money Laundering Law of the U.S. and the Money Laundering Control Act of Republic of China, Bribery Prevention in Elections, and Money Laundering Prevention	2
		2018 Elite Keynote Speech - 4th Session: Fintech Innovation Trends and Opportunities in Taiwan	2
G.M. of Information & Technology Department	Michael Duh	Carnegie Training - Presentation Skills	14
		2018 Elite Keynote Speech - 1st Session: Director Yu-Hsien Lin	2
		2018 Elite Keynote Speech - 2nd Session: Immunity and Natural Healing Power	2
		2018 Elite Keynote Speech - 3rd Session: Introduction to the Anti-money Laundering Law of the U.S. and the Money Laundering Control Act of Republic of China, Bribery Prevention in Elections, and Money Laundering Prevention	2
		2018 Elite Keynote Speech - 4th Session: Fintech Innovation Trends and Opportunities in Taiwan	2

(VI) The composition, duty, and operation of the Remuneration Committee

The Company stipulates the "Remuneration Committee Charter" according to "Regulations Governing the Appointment and Exercise of Powers by the Remuneration Committee of a Company Whose Stock is Listed on the Stock Exchange or Traded Over the Counter". The Compensation Committee was established to set up compensation policy, procedure, standard, and structure for directors and managers, periodically evaluate the compensation of directors and managers, and propose the suggestion to Board of Directors for discussion.

1. Information on the members of the Remuneration Committee

Position	Criteria	At Least Five Years Work Experience and Meets the Following Professional Qualification Requirements			Criteria (Note)								Number of Other Taiwanese Public Companies Concurrently Serving as a Compensation Committee Member	Remarks
		An Instructor or Higher Position in a Department of Commerce, Law, Finance, Accounting, or Other Academic Department Related to the Business Needs of the Company in a Public or Private Junior College, College or University	A Judge, Public Prosecutor, Attorney, Certified Public Accountant, or Other Professional or Technical Specialists Who Has Passed a National Examination and Been Awarded a Certificate in a Profession Necessary for the Business of the Company	Have Work Experience in the Area of Commerce, Law, Finance, or Accounting, or Otherwise Necessary for the Business of the Company	1	2	3	4	5	6	7	8		
Independent Director	Kuei-Sun Wu			V	V	V	V	V	V	V	V	V	0	
Independent Director	Chung-Yuan Hsu	V	V	V	V	V	V	V	V		V	V	1	
Independent Director	Chun-Pin Chen	V	V	V	V	V	V	V			V	V	0	
Independent Director	Ching-Hsiu Chen	V	V	V	V	V	V	V	V	V	V	V	0	

Note: Compensation Committee Members, during the two years before being elected or during the term of office, meet any of the following situations, please tick the appropriate corresponding boxes:

- (1) Not employed by the Company or its affiliated companies.
- (2) Not a director or supervisor of the company or any of its affiliates. The same does not apply, however, in cases where the person is an independent director of the company, its parent company, or any subsidiary, as appointed in accordance with the laws of Taiwan or with the laws of the country of the parent company or subsidiary.
- (3) Not a natural-person shareholder who holds shares, together with those held by the person's spouse, minor children, or held by the person under others' names, in an aggregate amount of one percent or more of the total number of issued shares of the company or ranks as one of its top ten shareholders
- (4) Not a spouse, relative within the second degree of kinship, or lineal relative within the third degree of kinship, of any of the above persons in the preceding three subparagraphs
- (5) Not a director, supervisor, or employee of a corporate/institutional shareholder that directly holds five percent or more of the total number of issued shares of the company or ranks as its top five shareholders
- (6) Not a director, supervisor, officer, or shareholder holding five percent or more of the shares of a specified company or institution that has a financial or business relationship with the company.
- (7) Not a professional individual who, or an owner, partner, director, supervisor, officer, or a spouse thereof of a sole proprietorship, partnership, company, or institution that, provides commercial, legal, financial, accounting services or consultation to the company or to any affiliate of the company.
- (8) Not been a person of any conditions defined in Article §30 of the Company Act.

2. Operations of the Remuneration Committee

- (1) The Company's Remuneration Committee consists of four members.
- (2) The term of Committee members: from July 1, 2016 to June 30, 2019. Six (A) Remuneration Committee meetings were convened in the past year. The Committee members' qualifications and attendance status are as follows:

Position	Name	Attendance in Person (B)	By Proxy	Attendance Rate in Person (%) (B/A) (Note)	Remarks
Chairman	Kuei-Sun Wu	6	0	100	
Member	Chung-Yuan Hsu	6	0	100	
Member	Ching-Hsiu Chen	6	0	100	
Member	Chun-Pin Chen	5	1	83.33	

Other required disclosures:

I. There was no recommendation of the Compensation Committee which was not adopted or was modified by the Board of Directors

II. There were no written or otherwise recorded resolutions on which a member of the Compensation Committee had a dissenting opinion or qualified opinion.

- (3) The contents of proposals, resolutions, and the Company's actions in response to opinions of the Remuneration Committee for 2018 are as follows:

Term and Session of Remuneration Committee Meeting	Content of Proposal	Resolution	The Company's Actions in Response to Opinions of the Remuneration Committee
11th meeting of the 3rd Remuneration Committee January 15, 2018	2018 special salary adjustment for employees.	Passed by all members.	This proposal was passed at the 20th meeting of the 6th-term Board of Directors on January 29, 2018.
12th meeting of the 3rd Remuneration Committee on February 9, 2018	Remuneration standards for the Company's Director of Information & Technology Department.	Passed by all members.	This proposal was passed at the 21st meeting of the 6th-term Board of Directors on February 26, 2018.
13th meeting of the 3rd Remuneration Committee on March 16, 2018	Amendments to HNCB's "Principle for Evaluation of Managers' Performance Bonus".	Passed by all members.	This proposal was passed at the 22nd meeting of the 6th-term Board of Directors on March 26, 2018.
	Remuneration standards for the Chairman & President of Hua Nan Venture Capital.	Passed by all members.	This proposal was passed at the 22nd meeting of the 6th-term Board of Directors on March 26, 2018.
	Percentage of distribution of 2017 director remuneration and employee remuneration.	Passed by all members.	This proposal was passed at the 22nd meeting of the 6th-term Board of Directors on March 26, 2018.
	Approving 2018 salary adjustment and 2017 performance bonus for the Company's employees above director level.	Passed by all members.	This proposal was passed at the 22nd meeting of the 6th-term Board of Directors on March 26, 2018.
14th meeting of the 3rd Remuneration Committee on May 10, 2018	Salary adjustment of the President of the subsidiary South China Insurance.	Passed by all members.	This proposal was passed at the 24th meeting of the 6th-term Board of Directors on May 28, 2018.
15th meeting of the 3rd Remuneration Committee on June 6, 2018	Amendments to HNCB's "Principle for Hua Nan Bank Employee Bonuses".	Passed by all members.	This proposal was passed at the 25th meeting of the 6th-term Board of Directors on June 25, 2018.
16th meeting of the 3rd Remuneration Committee on July 16, 2018	Amendments to the Company's "Principle for Employee Bonuses".	Passed by all members.	This proposal was passed at the 26th meeting of the 6th-term Board of Directors on July 30, 2018.



(VII) Social Responsibility Implementation Status: The policy, actions, and implementation of the Company on environment protection, community participation, social contribution, social service, social charity, consumer rights, human rights, safety and health, and other social responsibility activities.

Assessment Item	Implementation Status			Differences with Corporate Social Responsibility Best Practice Principles for TWSE/TPEX Listed Companies and their root causes
	Yes	No	Brief Description	
I. Implementing the Promotion of Corporate Governance	V		(I) The Company established Corporate Social Responsibility Committee in 2014 and stipulated the key strategy as implementing corporate social responsibility for the Group. The Committee takes on corporate social responsibility from top to down and published corporate social responsibility report in 2015. The report presented five areas of corporate social responsibility in corporate governance, customer rights, employee care, perpetual environment, and social participation through the statement and communicated thoroughly with stakeholders and review in time.	Compliant
(I) Has the Company established Corporate Social Responsibility (CSR) policy or system and reviewed the performance of implementation?	V		(II) The Company organizes regular social welfare activities to promote CSR and corporate ethics to its directors, supervisors, and employees. The directors, supervisors, and the employees have also joined internal and external ethics-related training sessions.	Compliant
(II) Does the Company conduct CSR education and training on a regular basis?	V		(III) The Company has set up a CSR Committee for the Group. The Department of General Administration is in charge of planning CSR related matters and reports to the Board on significant implementation plan and execution status.	Compliant
(III) Does the Company establish a full-(or part-) time CSR Unit, with the Board of Directors empowering higher management to handle the matter and report the situation to the Board?	V		(IV) As part of the performance management system, line managers 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. Various briefing sessions will be conducted to communicate and listen to the voices of the employees for issues that may have significant impacts on employees.	Compliant
(IV) Has the Company established a reasonable salary and remuneration policy, and combined its employee performance appraisal system with the CSR policy? Has the Company established a clear reward and penalty system?	V			
II. Developing a Sustainable Environment	V		(I) 1. The Company abides by government energy conservation policy, adjust the air-conditioning system to appropriate temperature, and use energy conserving illumination fixtures to reduce power consumption. 2. The Company has also set up an electronic documentation system to promote paperless operations and reduce paper use. 3. The Company has installed water-saving equipment to conserve water.	Compliant
(I) Has the Company endeavored to maximize the efficiency of various resources and utilize renewable materials that have the least environmental impact?	V		(II) 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. The Company introduced ISO 14001 (Environmental Management System) in 2016 and has obtained the BSI certification for three consecutive years.	Compliant
(II) Has the Company established an appropriate environmental management system according to the specific nature of the industry?	V		(III) 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. The Company introduced ISO 14064-1 (Greenhouse Gas Inventory) in 2016 and has obtained the BSI certification for three consecutive years. The Company introduced ISO 50001 (Energy Management System) and obtained the SGS certification at the end of 2018.	Compliant
(III) 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?	V			
III. Maintaining Social Welfare	V		(I) 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
(I) Has the Company drafted the management policy and procedures according to the relevant laws and the International Conventions on Human Rights?	V			



Assessment Item	Implementation Status			Differences with Corporate Social Responsibility Best Practice Principles for TWSE/TPEX Listed Companies and their root causes
	Yes	No	Brief Description	
(II) Has the Company established the employee appeal system and channels, and are the employee appeals handled appropriately?	V		(II) To maintain good communication with employees, the Company has established an Performance Evaluation Committee, an Employee Welfare Committee, and a complaint hotline to protect the interests of staff members.	Compliant
(III) Has the Company provided employees with safe and healthy work environments as well as regular classes on health and safety?	V		(III) 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
(IV) 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?	V		(IV) As part of the performance management system, line managers will meet 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. Various briefing sessions will be conducted to communicate and listen to the voices of the employees for issues that may have significant impacts on employees.	Compliant
(V) Has the Company established an effective competency development career training program for employees?	V		(V) 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 contribution, and career development needs. Employees are encouraged to receive continuous education and provided with resource for development.	Compliant
(VI) Has the Company set up relevant consumer protection policy and complaint procedure for R&D, procurement, operations, and customer services?	V		(VI) To protect consumer rights, the Company has established the firewall policy and cross-selling management regulations. In addition, the Company published confidentiality measures regarding customer information and website privacy policy on corporate website to comply with the competent authorities' regulations.	Compliant
(VII) Does the Company follow the relevant regulations and international norms with regard to the marketing and labeling of products and services?	V		(VII) The Company and its subsidiaries have established the relevant internal procedures in accordance with the "Financial Consumer Protection Act," "Regulation for the cross-selling of Financial Holding Company and Subsidiaries", and other relevant laws.	Compliant
(VIII) Has the Company evaluated whether the suppliers have past records of adverse impact on the society and the environment before conducting businesses with them?	V		(VIII) The Company double checks the stakeholder information system when dealing with suppliers, and evaluates the information regarding suppliers' social and environmental impacts as one of the requirements for the awarding of supplier contracts.	Compliant
(IX) 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 be in violation of its CSR policy and to have caused any adverse impact on the society and the environment?	V		(IX) The Company stipulated "Hua Nan Financial Holding Group Supplier Code of Conduct" in December 2017. The code of conduct requires all suppliers of Hua Nan Group to sign "supplier acknowledgement letter" to acknowledge the loyal operation, perpetual environment development, and sustaining human rights in the letter.	Compliant
IV. Strengthening Information Disclosure Has the Company disclosed relevant and reliable information pertaining to CSR on its website and the Market Observation Post System (MOPS)?	V		The Company has disclosed important CSR information on the official website and MOPS and formulated a CSR report.	Compliant
V. If the Company has drafted its Corporate social responsibility principles in accordance with the "Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies", please state any differences between the actual operation and the principle: The "Best Practice Principles" is a reference example provided by the Taiwan Stock Exchange 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 the Group's Corporate social responsibility principles to fulfill its corporate social responsibility.				
VI. Additional important information that may assist in the understanding of CSR operations: Please refer to page to page of the annual report for "Major charitable events in 2018" and 2018 corporate social responsibility report.				
VII. Please state if the Company's CSR report has passed the verification standards of relevant verification bodies: The 2018 corporate social responsibility report of the Company adopted Standard for Assurance Over Non-Financial Information No.1(set up with reference to ISAE 3000).				

The Group integrates all of its resources to hold charity events in order to promote economic prosperity and stability. Our four primary goals are to popularize knowledge and education, care for the disadvantaged groups in society, support sports activities, and nurture the cultural and creative industries to assist the society's stable development and fulfill our corporate social responsibility are to. The Group sponsored or hosted over 30 charitable events in 2018. Major events are as below:

Item	Name	Date	Active Content
1	Future New Trillion Green Energy Industry—Insight in Trend and Business Opportunity of Offshore Wind Energy Seminar	January 22, 2018	Sponsored "Future New Trillion Green Energy Industry—Insight in Trend and Business Opportunity of Offshore Wind Energy Seminar" hosted by Wealth Magazine. The subject was to discuss the development of Taiwan offshore wind energy and promote localized supply chain.
2	Disaster relief after the earthquake on February 6, 2018 in Hualien	February 6, 2018	A magnitude 6.0 earthquake struck Hualien at 11:50 pm on February 6, 2018. The Richter magnitude scale in Hualien City was 7 and caused serious damage. The Company and the Group jointly donated NT\$3.5 million, assisting the disaster relief in Hualien.
3	Martha Graham Dance Company	March 16 to 18, 2018	The Company sponsored udnFunLife to host the performance of "Martha Graham Dance Company" in Sun Yat-sen Memorial Hall on March 16 to 18, 2018. The Company devotes itself in promoting high quality international performances to provide people in Taiwan with exposures to diversified culture and art.
4	2018 Planning for Taiwan's New Finance Forum	March to December 2018	The Company sponsored Taiwan Competitiveness Forum Association to host "2018 Planning for Taiwan's New Finance Forum" series. Five sessions were held from March to December. The forum invited experts and scholars from the industry, government, and academy in Taiwan to give speeches on topics related to FinTech, which helped in promoting interaction and cooperation in domestic financial industry.
5	Meet Taiwan of the Next Decade—Forum of Face-to-Face talk between High Schoolers and President Tsai	May 12, 2018	The Company sponsored the "Meet Taiwan of the Next Decade—Forum of Face-to-Face talk between High Schoolers and President Tsai" organized by Business Today magazine with the theme of "Meet Taiwan of the Next Decade." President Tsai was invited to speak with senior high school delegates across the nation in the face-to-face interaction.
6	2018 Hua Nan Financial Group Badminton and Table Tennis Tournaments	May 12, 2018	The "2018 Hua Nan Financial Group Badminton and Table Tennis Tournaments" was hosted at NTU Sports Center. With the theme of "Self-Improvement, Be Ready for the Next Move," employees within the Group were called on to participate and foster the ethos of exercise in the Group.
7	2018 Hua Nan Financial Holdings Cup Junior Baseball Championship Games	May 23 to 30, 2018	The Company supported the Chinese Taipei Baseball Association in organizing the "2018 Hua Nan Financial Holdings Cup Junior Baseball Championship Games" so as to promote grassroots baseball development and select athletes for the national team.
8	2018 Taiwan Finance Association Annual Meeting and International Conference	May 25 to 26, 2018	The Company sponsored the annual meeting and international conference hosted by Taiwan Finance Association at National Chengchi University on May 25 and 26, 2018. The theme of the seminar was "New Trend in Finance" in the hope of promoting the study of finance theory and practice.
9	2018 Financial Services Concerning for the Community Carnival (Keelung)	May 26, 2018	The Company participated in the carnival of "Financial Services Concerning for the Community (Keelung)" hosted by the Taiwan Financial Services Roundtable and donated to Keelung City Government in helping local disadvantaged groups.
10	2018 Hua Nan Financial Holdings Cup Youth Baseball Championship Games	June 2 to 10, 2018	The Company supported the Chinese Taipei Baseball Association in organizing the "2018 Hua Nan Financial Holdings Cup Youth Baseball Championship Games" so as to promote baseball grass roots development and select athletes for the national team.
11	Mullova, Greilsammer, and Geneva Camerata	June 12, 2017	The Company sponsored the performance of "Mullova, Greilsammer and Geneva Camerata" hosted by Philharmonic Radio Taipei. The Company devotes itself in promoting high quality international performances to provide people in Taiwan with exposures to diversified culture and art.
12	2018 Love from Financial Sector—Food (Goods) Bank	July 2018 to June 2019	The Company donated to the "2018 Love from Financial Sector—Food (Goods) Bank" initiated by Taiwan Futures Exchange to take care of the disadvantaged families in 22 counties and cities in Taiwan and to fulfill the corporate social responsibility of the Company.
13	Financial Knowledge Plus Lectures	July 13, 2018	The Company co-organized "Financial Knowledge Plus Lectures" with the Accounting Research and Development Foundation. Around 150 elderly people and women were invited. Topics included investment and wealth management, anti-fraud, anti-money laundering, digital finance, financial consumer protection, etc.
14	2018 Teacher Chang Foundation Teenagers Self-Challenge Camp	July to August, 2018	The Company sponsored "2018 Teacher Chang Foundation Teenagers Self-Challenge Camp" hosted by Teacher Chang Foundation. The camp took four days and three nights. 200 high-risk junior high school students were invited to join as the implementation of social care from the Company.
15	2018 Influence Forum	July 26, 2018	The Company sponsored the "2018 Influence Forum" organized by WealthMagazine. The chief economist of Nomura Research Institute, Richard C. Koo, was invited to give a keynote speech in the topic of "New Global economy cycle and the Great Prospect of Taiwan Finance."
16	2018 MLB CUP Taiwan	July 31 to August 5, 2018	The Company sponsored the first "2018 MLB CUP Taiwan" in Taiwan and expanded the scale of "Hua Nan Financial Holdings MLB CUP Dream Comes True Baseball Camp." The Company donated to "Grassroots Baseball Development Fund" managed by Chinese Taipei Baseball Association for the funding of four grassroots baseball schools in Yilan county to buy baseball gears.
17	2018 New Energy International Forum	August 2, 2018	The Company sponsored "2018 New Energy International Forum" hosted by Business Today Magazine and invited President Tsai to give a welcome speech. Holland Energy Research Center Business Development Director Harm Jeeninga and Germany's father of renewable energy Hans-Josef Fell were invited to give keynote speeches. The forum expected to leverage the experience of global green energy development and discuss how to speed up energy transformation in Taiwan.



Item	Name	Date	Active Content
18	FinTech Ecosystem Leadership Summit	August 6 to 7, 2018	The Company sponsored "FinTech Ecosystem Leadership Summit" hosted by National Chengchi University and invited renowned local and overseas lecturers from the industry, government, and academy to discuss FinTech development issues and gain experience through international industry-academic cooperation.
19	The Tenth BFA Junior Baseball Asia Cup in 2018	August 13 to 19, 2018	The Company supported the Chinese Taipei Baseball Association in organizing the "Tenth BFA Junior Baseball Asia Cup" and supported Chinese Taipei Team to win the championship. Visibility of Taiwan baseball was raised in the world.
20	0823 Southern Taiwan Flood	August 23, 2018	A flood caused by tropical depression on August 23, 2018 created severe damage in southern Taiwan. The Company and the Group jointly donated NT\$3.5 million, assisting the disaster relief.
21	Moscow Classical Ballet—Swan Lake	August 24 to 26, 2018	The Company sponsored the performance "Moscow Classical Ballet—Swan Lake" hosted by udnFunLife. The Company devotes itself in promoting high quality international performances to provide people in Taiwan with exposures to diversified culture and art.
22	The 2018 Invoice Cup Road Race of Ministry of Finance (Kaohsiung)	September 9, 2018	The Ministry of Finance, National Taxation Bureau of Kaohsiung, Kaohsiung City Government, and Hua Nan Financial Holdings Group co-organized the 2018 Invoice Cup Road Race of Ministry of Finance (Kaohsiung) to encourage sports for all and raised 258,168 GUI invoices. All GUI invoices raised were donated to five social welfare organizations, including Kaohsiung Concentric Circle Hope Association, Kaohsiung Entrepreneurship Association, Taiwan His Hands Christian Home, Kaohsiung Po Cheng Children's Development Center, and Kaohsiung Tzu Hsin Family Care Association. The event turned the GUI invoices obtained with no efforts after purchase into the love and strength that empowered disadvantaged groups.
23	Excellent Hua Nan Care for the Elderly	September to December 2018	The Company supported HonDao Senior Citizen's Welfare Foundation in organizing the "Excellent Hua Nan Care for the Elderly" dinner parties and donations in Taoyuan, Changhwa, Taichung, and Kaohsiung. The Company sponsored home-delivered meal and breakfast subsidy programs to care for the disadvantaged elderly who lead a solitary life.
24	2018 Master Think Tank Forum—Corporate Ethics and Perpetual Development	October 2, 2018	The Company sponsored "2018 Master Think Tank Forum—Corporate Ethics and Perpetual Development" organized by the Economy Daily News and invited 2007 Nobel Peace Prize co-winner Mohan Munasinghe as keynote speaker.
25	Financial Services Concerning for the Community Carnival (Taoyuan)	October 13, 2018	The Company participated in the carnival of "Financial Services Concerning for the Community (Taoyuan)" hosted by Taiwan Financial Services Roundtable and donated to Sunshine Social Welfare Association and Senior Happiness Welfare Development Association in helping the local disadvantaged groups.
26	Rueibin Chen Piano Concert	November 4 to 15, 2018	The Company sponsored "Rueibin Chen Piano Concert" hosted by Capriccio Chamber Orchestra. The concert was held in Taichung, Taipei, and Kaohsiung.
27	Chen Ya Lan Taiwanese Opera Troupe "Orphaned Cowherd and Weaving Maid" Taichung session	November 9 to 11, 2018	The Company sponsored Taiwanese opera "Orphaned Cowherd and Weaving Maid" Taichung session co-organized by udnFunLife and Chen Ya Lan Taiwanese Opera Troupe to nurture local art and carry forward Taiwanese culture.
28	"Taiwan Baseball Spirit—NALUWAN@KANO Series"	November 11, 2018	The Company sponsored "Taiwan Baseball Spirit—NALUWAN@KANO Series" co-organized by Taiwan Baseball Hall of Fame and Chiayi City Government. "Taiwan Baseball Spirit—NALUWAN@KANO 100th Anniversary Baseball Classic" was hosted to celebrate the 100th anniversary of the Chiayi City Baseball Stadium, and "Baseball Historical Relics Touring Exhibition" was held in Chiayi Baseball Stadium and National Taitung University.
29	26th Securities and Financial Market Theory and Practice Seminar	December 7 to 8, 2018	The Company sponsored "26th Securities and Financial Market Theory and Practice Seminar" hosted by Department of Finance, National Sun Yat-sen University. The topic was "Innovations and Fluctuations of the Financial Market" to provide a reference of future market trends.
30	The Company has sponsored gymnasts Li, Chih-Kai, Huang, Ko-Chiang, and coach Lin, Yu-Hsin over a long period of time and co-organized "Little gymnast camp" with Hua Nan Commercial Bank.	2017 to 2020	The Company has been sponsoring gymnasts Li, Chih-Kai, Huang, Ko-Chiang, and coach Lin, Yu-Hsin with Group resources since 2017. The fund needed for the sponsorship is NT1.68 million every year. The Company also sponsored personal injury insurance for the two athletes with insurance coverage of NT10 million until they compete in 2020 Tokyo Olympic Games. The "pommel horse prince" Li, Chih-Kai won the 2018 Asian Games gold medal in pommel horse. The Company paid NT\$500 thousand incentive bonus to Li in order to encourage him to keep up the good work. Hua Nan Bank also hosted the "Little gymnast camp" at National Sports Training Center in Zuoying, Kaohsiung. Li, Chih-Kai, Huang, Ko-Chiang, and coach Lin, Yu-Hsin joined as head coaches of the camp. Coaches of the national team were invited to lead the training in person. They shared precious experiences in international competitions with little gymnasts, cultivating the future gymnast stars together for Taiwan.
31	The fund for national team training and league matches managed by Chinese Taipei Football Association for this year	2018 to 2019	The Company donated fund for 2018 and 2019 national team training and league matches managed by Chinese Taipei Football Association to assist in the football grass roots development for Taiwan and link up with the world.



Figure 1 Foreseeing Taiwan 10 Years Later - President Tsai, Ing-Wen and Senior High School Student Forum

Figure 2 Future New Trillion Green Energy Industry - Insight in Trend and Business Opportunity of Offshore Wind Energy Seminar

Figure 3 Inauguration of 2018 HNFHC Badminton & Table Tennis Competition

Figure 4 Inauguration of Baseball Promotion Trilogy

Figure 5 HNFHC National Youth League Champion Won 2018 Championship for New Taipei City Team

Figure 6 2018 Donation Ceremony of Grassroots Baseball Cultivation Foundation

Figure 7 Guishan Players Won Championship in 2018 MLB CUP Taiwan

Figure 8 Press Release of 2018 X BFA U12 Baseball Championship

Figure 9 2018 International Forum on New Energy

Figure 10 HNCB Organizes Gymnastics Camp for Students to Experience the Life of National Athletes

Figure 11 Chih-Kai Lee (Right) Receives NT\$500,000 for Winning Pommel Horse Gold in Asian Games

Figure 12 Joint Donation Ceremony of 2018 Food (Object) Bank





Figure 13 Then Chairman Tang-Chieh Wu (Right) Receives a Certificate of Appreciation from Taoyuan City Vice Mayor Chien-Hua Yu (Left) in 2018 Charitable Financial Service Carnival (Taoyuan)

Figure 14 Then Chairman Tang-Chieh Wu (Right) Receives a Certificate of Appreciation from Keelung City Mayor You-Chang Lin (Left) in 2018 Charitable Financial Service Carnival (Keelung)

Figure 15 Chairman of Financial Supervisory Commission Li-Hsiung Ku (4th from the Right) Visits the Group's Booth in 2018 Charitable Financial Service Carnival (Taoyuan)

Figure 16 2018 HNFHC Senior Care Initiative (Taoyuan)

Figure 17 2018 Ministry of Finance Uniform Invoice Marathon (Kaohsiung) Collects 258,168 Uniform Invoices

Figure 18 2018 Influence Forum

**(VIII) The Implementation of Ethical Corporate Management**

Assessment Item	Implementation Status (Note 1)			Non-implementation of Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies, and its reasons (Note 2)
	Yes	No	Brief Description	
I. Establishment of Corporate Conduct and Ethics Policy and Implementation Measures	V		(I) The Company states the integrity and ethics behavior that employees shall follow in "Employee Work Rules". The Board of Directors and management also follow the Company Act, Securities and Exchange Act, other related regulations, and Company internal procedures to implement corporate conduct and ethics.	Compliant
(I) Does the company have bylaws and publicly available documents addressing its corporate conduct and ethics policy and measures, and the commitment regarding implementation of such policy from the Board of Directors and the management team?	V		(II) The Company has stated related reward and punishment policy regarding integrity and ethics in "Employee Work Rules". Trainings on legal compliance for new hires and existing employees are also in place.	Compliant
(II) Does the company establish relevant policies which are duly enforced to prevent unethical conduct and provide implementation procedures, guidelines, consequence of violation and complaint procedures in such policies?	V		(I) The Company forbids fraud, receipt of gifts, rebates, or other illegal profits in "Employee Work Rule". The Company also stipulated the internal control procedure of donations.	Compliant
(III) Does the company establish appropriate compliance measures for the business activities prescribed in paragraph 2, article 7 of the "Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies" and any other such activities associated with high risk of unethical conduct?	V		(II) Legal department assists in reviewing all contracts to avoid violation of any law. In addition, internal auditors irregularly conduct audit and continuously follow up corrective actions.	Compliant
II. Ethic Management Practice	V		(I) When conducting business, the Company first evaluates whether the counterparty has any record of unethical conducts to ensure the fairness of business activity. The Company does not ask for, provide, or receive gifts, rebates, or other illegal profits.	Compliant
(I) Does the company assess the ethics records of whom it has business relationship with and include business conduct and ethics related clauses in the business contracts?	V		(II) The Company's Administration Department is the responsible department. The ethical standards are implemented in internal control and internal audit system by all departments. The department clearly defines job duties, strengthens employee performance appraisal, periodically performs audit, and provides operation reports to Board of Directors. Internal auditors report audit activities to board of directors. All departments need to take corrective actions regarding deficiencies.	Compliant
(II) Does the company set up a unit which is dedicated to or tasked with promoting the company's ethical standards and reports directly to the Board of Directors with periodical updates on relevant matters?	V		(III) The Company stipulates director recusal system in "Procedure for Board of Directors Meeting". "Principles in Governing Transactions with Related Parties" was also stipulated to prevent conflict of interests.	Compliant
(III) Does the company establish policies to prevent conflict of interests, provide appropriate communication and complaint channels and implement such policies properly?	V		(IV) In order to ensure the implementation of ethical conducts, the Company has established effective management rules and accounting policy. Internal auditors periodically audit the implementation of the system.	Compliant
(IV) To implement relevant policies on ethical conducts, does the company establish effective accounting and internal control systems that are audited by internal auditors or CPA periodically?	V		(V) The Company periodically sends stock ownership legal compliance training materials to directors and top management, and also arranges external professional trainings for directors and top management.	Compliant
(V) Does the company provide internal and external ethical conduct training programs on a regular basis?	V		(I) The Company has stipulated the method, channel, and responsible department to report unethical conducts and announced them on the Company's website.	Compliant
III. Implementation of Complaint Procedures	V		(II) The Company has stipulated "Ethical Corporate Management Principles", "Guidelines for Operation in Complaints", "Notices for Operation in Complaints", and required the Company to keep identity of complainant and detail of the complaint as strictly confidential.	Compliant
(I) Does the company establish specific complaint and reward procedures, set up conveniently accessible complaint channels, and designate responsible individuals to handle the complaint received?	V		(III) The Company has stipulated "Ethical Corporate Management Principles", "Principle of operation in complaints", "Notices for operation in complaints", to prevent complainant from retaliation due to complaints.	Compliant
(II) Does the company establish standard operation procedures for investigating the complaints received and ensuring such complaints are handled in a confidential manner?	V		The Company has established company website in Chinese and English. The Company's Chinese website provides guidelines and informative articles on ethics and honorable business conduct. The Company publishes material information and announcements for investors to obtain material information.	Compliant
(III) Does the company adopt proper measures to prevent a complainant from retaliation for his/her filing a complaint?	V			
IV. Strengthening Information Disclosure	V			
Does the company disclose its Ethical Corporate Management as well as information about implementation of such guidelines on its website and Market Observation Post System ("MOPS")?	V			
V. If the company has established Ethical Corporate Management Principles based on Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies, please describe any discrepancy between the policies and the implementation: The Company has set up its own Ethical Corporate Management Principles and established Ethics Committee. All company operations follow the Ethical Corporate Management Principles.				
VI. Other important information to facilitate better understanding of the company's corporate conduct and ethics compliance practices (e.g., review the company's corporate conduct and ethics policy). All of the Company's operation follow Ethical Corporate Management Principles and information is disclosed according to regulation.				

Note 1: Please describe in remark column whether "yes" or "no" is selected for implementation status.

Note 2: Financial holding companies that are not listed do not need to fill in "Non-implementation of Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies, and its reasons" column.

(IX) For companies that have stipulated corporate governance policy and related rules, the method to inquire them shall be disclosed.

Please refer to website: <http://www.hnfhc.com.tw/01investor/01index.shtml>

(X) Other important information that may facilitate the understanding of the Company's corporate governance implementation.

Please refer to (4) Corporate Governance Implementation as Required by Corporate Governance Best Practice Principles for Financial Holding Companies.

(XI) The implementation of corporate governance, corporate social responsibility, and ethical conduct by the Company's full- (or part-) time corporate governance unit or personnel.

1. The Company has set up corporate governance team under Administration Department to take charge of corporate governance, corporate social responsibility, and ethical conduct for the Company.
2. Please refer to website: <http://www.hnfhc.com.tw/01investor/01index.shtml>



(XII) Below items need to be disclosed for the implementation of internal control system:

1. Statement of Internal Control System

Hua Nan Financial Holdings Company Statement of Internal Control System

Hua Nan Financial Holdings Company certifies that for the period of January 1, 2018 to December 31, 2018, the Company complies with "Implementation Rules of Internal Audit and Internal Control System of Financial Holding Companies and Banking Industries" to establish internal control system, implement risk management, conduct audit by independent internal audit department, and periodically report Board of Directors and Audit Committee. After prudent evaluation, the internal control and legal compliance of all departments are implemented effectively except those prescribed in the appendix. This Statement is an integral part of the Company's annual report and prospectus, and will be made public. Any falsehood, concealment, or other illegality in the content made public will entail legal liability under Articles §20, §32, §171, and §174 of the Securities and Exchange Act.

To Financial Supervisory Commission

Certified by

Chairman: Tang-Chieh Wu (Signature/Seal)

President: Pao-Chu Lo (Signature/Seal)

Chief Auditor: Pi-E Huang (Signature/Seal)

Legal Compliance of Headquarter: Tien-Yu Chen (Signature/Seal)

March 25, 2019

2. If CPA was engaged to conduct a special audit of internal control system, provide its audit report: The Company did not engage CPA to conduct internal control system audit.
3. Internal control system deficiencies pending improvement and corrective action.

Hua Nan Financial Holdings Co., Ltd.
Internal control system deficiencies pending improvement and corrective action
(Record date: December 31, 2018)

Deficiencies pending improvement	Corrective action	Date of completion
<p>[Subsidiary Hua Nan Commercial Bank Ltd.</p> <p>I</p> <p>The joint financial inspection conducted by Federal Reserve Bank of New York(FRB) and New York State Department of Financial Services toward the Company's New York Branch 106. The inspection found deficiencies in New York Branch complying with Bank Secrecy Act and Anti-Money Laundering Act(BSA/AML) and risk management. Due to the findings and in order to ensure the compliance of regulation in operation, the Federal Reserve Board, the Company, and the New York Branch jointly agreed to sign the cease and desist order.</p> <p>Other improvement items:</p> <ol style="list-style-type: none"> 1. Enhance corporate governance, management, and monitoring. 2. Engage independent third party to review wire transactions. 	<p>I</p> <ol style="list-style-type: none"> 1. The improvement plan of Cease and Desist Order includes corporate governance, management and monitoring, BSA/AML compliance framework, due diligence of customers, suspicious transaction monitoring and report, OFAC compliance, and BSA/AML risk evaluation internal audit plan. 2. The New York Branch has engaged FRB recognized independent third party consultant to inspect wire transfer transactions incurred between January to June of 2016. 	<p>I</p> <p>Except (2) the second audit of wire transfer transaction by independent third party that is planned to be completed by end of May 2019; rest of the improvements have all been completed.</p>
<p>II</p> <p>Below deficiencies were found in shared internet banking service:</p> <ol style="list-style-type: none"> 1. Lack of related control mechanism in application of shared internet banking service by new customers. 2. Although AML system has been established to perform continuous monitoring and produce warning records, the Company failed to conduct comprehensive analysis on customer transactions, inward and outward remittances. The Company allowed transactions to be handled as no need to report and maintain hard copy record before necessary verification. 3. Lack of continuous monitoring on customer abnormal transactions and following up adjustment in customer risk level. 4. Lack of "Know Your Customer" activity. <p>Other improvement items:</p> <ol style="list-style-type: none"> 1. Set up related control procedures. 2. Set up related system control procedures. 3. Enhance trainings. 	<p>II</p> <ol style="list-style-type: none"> 1. Set up related control procedures as below: <ol style="list-style-type: none"> (1) Cease personal account customers to apply shared internet banking service. (2) Establish "case review department" to centrally review suspicious transactions. (3) Modify account opening checklist. Geo-relation information is added in the checklist. 2. Add AML system related control procedures: <ol style="list-style-type: none"> (1) Adjust risk allocation on clients applying "shared internet banking service". The risk level for clients who use shared internet banking service will be raised to one level up. (2) Establish monitoring mechanism for clients' suspicious behavior in using shared internet banking service. (3) Summarize the counterparties of transactions with the same suspicious client in one warning profile to facilitate the overall review for inspection personnel. 3. Conduct overseas branch transaction monitoring deficiency improvement project. 4. Enhance employee training. 	<p>II</p> <p>Except (3) the improvement of overseas branches monitoring deficiency that is planned to be completed by end of April 2019, rest of the improvements have all been completed.</p>
<p>III</p> <p>Deficiencies in overseas branch audit, second audit in deficiency improvement, monitoring outsourced audit:</p> <ol style="list-style-type: none"> 1. Some of the evidences were not kept for internal audit in overseas branches. The audit scope of credit granting to stakeholders did not include other transactions and contracts. 2. Audit working papers were not kept and sample selection was not performed for some of the second audits in overseas branch deficiencies. 3. The audit plan of outsourced internal audit in part of the overseas branches did not include audit frequency according to the significance of inspection opinion from competent authority and operating risk. The engagement contract did not include the follow up and second audit of improvements for deficiencies found in internal and external audit. <p>Other improvement items:</p> <ol style="list-style-type: none"> 1. Modify audit working paper. 2. Set up related rules. 	<p>III</p> <ol style="list-style-type: none"> 1. Modify audit working paper: <ol style="list-style-type: none"> (1) Add remarks in working paper to remind auditors to keep audit evidence and add "sample" and "evidence" columns in the working paper for auditors to fill in sample details and describe name of the evidence. (2) Add audit item of "transactions other than credit granting" with stakeholders in audit working paper. Add the requirement to verify whether the non-stakeholder is substantive related party by detail checklist when dealing with non-stakeholder cases. 2. Revise the frequency of outsourced internal audit in related rules. The Company has modified "Guidance in Outsourced Overseas Branches Internal Audit Activity". The second audit of improvement status for internal and external audit shall be listed in the internal audit outsource contract. 	<p>III</p> <p>The improvement has been completed.</p>
<p>IV</p> <p>Deficiency in the audit of Ta-Tao-Cheng Branch in mortgage loan:</p> <ol style="list-style-type: none"> 1. Failed to audit all cases done by the specific bank clerk and take respective action. 2. Failed to report audit results. <p>Other improvement items:</p> <ol style="list-style-type: none"> 1. Set up related rules. 2. Enhance trainings. 	<p>IV</p> <ol style="list-style-type: none"> 1. Set up related rules. <ol style="list-style-type: none"> (1) Conduct an overall review of the Company's internal control system and improvement, summarize and include them into "Mortgage Loan Product Plan" and the newly released "Notice in Preventing Loan not Applied in Person". (2) Set up SOP for report checklist and internal audit conclusion summary report. (3) The after loan review originally done by the operating unit was changed to independent professional personnel in channel management center. 2. Enhance employee training. 	<p>IV</p> <p>The improvement has been completed.</p>



Deficiencies pending improvement	Corrective action	Date of completion
<p>[Subsidiary South China Insurance Co., Ltd.]</p> <p>I</p> <p>Although the Company has set up a compare and notify mechanism for outstanding payables to policy holders at the beginning of 2017, the comparison was only conducted on whether there was new insurance purchase record for payables transferred to miscellaneous revenue within past three years. Not all payables were included and the notification was done only twice. Lack of periodic inspection and proactive notification mechanism is unfavorable to consumer rights and the healthy operation of the Company. The Company has been ordered correction by Financial Supervisory Commission regarding the above deficiency.</p>	<p>I.</p> <ol style="list-style-type: none"> 1. The percentage of clearance of outstanding payables to policyholders done by finance department in first quarter of 2018 is 67.18%. 2. In order to improve performance, the database function has been enhanced and database structure has been adjusted. Those payables transferred to miscellaneous revenue are all included in the database for continuous comparison. The above works have been completed in first quarter of 2018 and reviewed on monthly basis going forward. 3. The Company has established principle of handling payables to policyholders on March 26, 2018. The principle will be a basis to protect customer's right. 	<p>I</p> <p>The improvement has been completed.</p>
<p>II</p> <p>The Company won the bid from Hsinchu Gas Company owned by Hsinchu County Government for 2016 and 2017 "Public Gas Company Insurance" through the tender offer according to Government Procurement Law. The premium rate was not calculated according to the content of insurance to include multiple-location coefficient, deductible adjustment coefficient, and pure premium of clause. The Company also failed to calculate high insurance coverage coefficient of the main contract according to the submitted product instruction manual and resulted in shortage in collecting insurance premium. The above violated Article §7.1.8 (2) and Article §17 of "Regulations Governing Business Solicitation, Policy Underwriting and Claim Adjusting of Insurance Enterprises" stipulated in accordance with Article §148.3.1 of the Insurance Act, and the Company was imposed penalty of NT\$600 thousand by the Financial Supervisory Commission.</p>	<p>II</p> <ol style="list-style-type: none"> 1. All commissions have been collected on April 26, 2017. 2. The Company has asked the insured to provide related tender offer documents and filed the document. 3. The Company has established tender offer operating procedure and added tender offer checklist for a more prudent management. 	<p>II</p> <p>The improvement has been completed.</p>
<p>III</p> <p>For insurance premium payment received in cash or through bank deposit, payment receive date were later than insurance effective date in some car insurance payment receipt and underwriting activities, which violated Article §1.4 of "Procedure for Car Insurance Payment Receipt and Underwriting and Matters Need Attention". Some payments from insurance agent were not received within one month according to contract, which violated Article §5.1.2 of "Procedure for Insurance Companies to Implement Internal Control and Audit" stipulated in accordance with Article §148-3.1 of the Insurance Act. The Company was imposed penalty of NT\$1.2 million thereon.</p>	<p>III</p> <p>In order to comply with regulation, the Company has set up controls in payment receipt system to disallow all car insurances to be effective before premiums are collected.</p>	<p>III</p> <p>The improvement has been completed.</p>
<p>IV</p> <p>The actual commission rate paid was more than surcharge rate used in calculating the premium when conducting commission payment activity in group injury insurance, which was harmful to the operation and the Company has been ordered correction by the Financial Supervisory Commission.</p>	<p>IV</p> <ol style="list-style-type: none"> 1. When providing quote of group injury insurance to a group of less than 50 persons, the underwriter shall attach rate trial balance to calculate pure premium and surcharge rate. The quote review table shall be reviewed and approved according to level of authority in order to prevent the commission rate from being greater than the surcharge rate. 2. The commission rate shall be input into system after approval. A control mechanism is set up in the system to reject the case if commission rate is greater than surcharge rate. 	<p>IV</p> <p>The improvement has been completed.</p>
<p>V</p> <p>For data creating activity for restricted party in stakeholder transaction, the data creation was not complete due to untimely notice by the director, which was harmful to the operation and the Company has been ordered correction by the Financial Supervisory Commission.</p>	<p>V</p> <ol style="list-style-type: none"> 1. Provide "stakeholder data" form on monthly basis for directors and supervisors to verify or fill in. Directors and supervisors shall feedback latest changes in the form. 2. The Company's responsible department collects stakeholder related information through outside information and verifies whether they are in conformity with data provided by directors and supervisors. The information is updated when there is any change in business to ensure the timeliness and correctness of the data in system. 	<p>V</p> <p>The improvement has been completed.</p>
<p>VI</p> <p>For insurance premium receipt through credit card activity, one credit card was used to pay several premiums in different cardholder names. The Company failed to verify the abnormal situation of same card number with different cardholder names, which deteriorates the control over illegal holding of premiums. The failure to establish control mechanism on abnormal credit card holder name violated Article §5.1.8 of "Procedure for Insurance Companies to Implement Internal Control and Audit" stipulated in accordance with Article §148-3.1 of the Insurance Act. The Company was imposed penalty of NT\$600 thousand by the Financial Supervisory Commission.</p>	<p>VI</p> <p>The Company has started to record cardholder name in the system after the credit card has been used for payment to prevent the same card number from being used by different cardholder name.</p>	<p>VI</p> <p>The improvement has been completed.</p>

(XIII) Penalty received by the financial holding company and its subsidiaries due to violation, the major deficiency and related improvement in past two years and until the date of publishing the annual report. Below items shall be disclosed:

Item	Case and Status of Improvement
1. The company's representative or employee has been prosecuted by prosecutor due to crime committed in business.	None for the financial holding company
2. Penalty received from FSC due to violation of regulation.	<p>None for the financial holding company</p> <p>Hua Nan Commercial Bank</p> <p>1. The Company did not establish or did not execute related internal control procedure when conducting the credit check and credit granting operation for Ching Fu Boat Construction Co. and its affiliates, which is harmful to the healthy operation of the Bank. On December 29, 2017, the Financial Supervisory Commission imposed penalty of NT\$2 million according to Article §129.7 of the Banking Act due to violation of Article §45-1.1 of the Banking Act:</p> <p>(1) Major violation is described as below:</p> <ol style="list-style-type: none"> Failed to implement corporate governance. The Company failed to implement the control of credit granting operation to analyze borrower's cashflow gap, evaluate solvency, and require the borrower to provide capital increase plan. The data submitted to the managing directors' meeting did not present a complete financial status of the borrower and the result of risk evaluation. Failed to implement internal control and procedure for project financing. The Company failed to establish operating procedure for project financing, or set up an internal rule for the specific project. Failed to implement controls over credit check, credit granting, and post loan management operation. <ol style="list-style-type: none"> Failed to analyze the cashflow gap of the borrower and evaluate the ability to fulfill the contract and repay the loan. Failed to analyze the reasonableness of the borrower's capital increase plan. Failed to follow up the effect of client's negative incidents on agreed terms of loan agreement. <p>(2) The improvement completed by operating unit:</p> <ol style="list-style-type: none"> The credit granting management department has informed all operating units through a formal letter on November 3, 2017 and required attention on below items when granting credit lines: <ol style="list-style-type: none"> Analyze the cashflow gap of the borrower to evaluate the working capital needed for operation and the ability to repay the loan. If the credit granting case involves the execution of purchase agreement, and the borrower needs to reimburse huge amount of payment due to the purchase, the bank shall evaluate the subsequent source of cash inflow, ability to execute the agreement and repay the loan. For the case with conditions requiring a subsequent capital increase, the bank shall investigate the source of subsequent funding to verify the authenticity of capital increase. The industry and economic research department of credit granting has informed all operating units on December 12, 2017 to require operating units to disclose following items in credit checklist in time: <ol style="list-style-type: none"> The bank shall investigate the reason and analyze in credit checklist when there is significant change in borrower's operation and financial status. The bank shall collect significant information of the borrower, latest industry news, and economic conditions from multiple sources and analyze it in credit checklist. The credit granting management department informed all operating units on January 3, 2018 and required the operating units to check every item on the secondary review checklist. The secondary review and follow up of following items shall be conducted to grasp the warning signal of the borrower: <ol style="list-style-type: none"> When conducting secondary review, the bank shall contact the borrower and understand status of fulfillment on major or significant commitment of the syndicated loan such as financial commitment or plant and equipment to be constructed or installed. The progress of construction or installment shall be followed up. When negative news of the borrower incurred such as default in purchase, financially insolvent, contract terminated by counterparty, suspicious false transactions, investigated by the prosecuting office, or other warning signals of potential risk, the bank shall follow the warning signal operation procedure to timely take corresponding measures. The credit granting management department informed all operating units on January 3, 2018 that for all loans with maturity date later than the end of credit line effective period, the renewal of loan before the maturity date is not allowed in order to enhance the review of credit granting. The credit granting management department issued a letter to all operating units on January 5, 2018 to ensure operating units can obtain syndicated loan department's review opinion when trying to win the syndicated loan as lead arranger so that operating units can include the opinion in the evaluation. The credit granting management department issued a letter to all operating units on January 10, 2018 and required attention on below items when granting credit lines: <ol style="list-style-type: none"> When conducting domestic or overseas letter of credit or overseas payable financing in foreign currency, the bank shall verify the relation between beneficiary and the applicant to verify the authenticity of the transaction. If the loan agreement requires the borrower to provide the construction to be built as mortgage after completing the construction, the value of construction after completion shall be adequately evaluated in the loan application form. The bank shall consider the financial status, business condition, and transaction with affiliates within the group. If there is any warning signal, the impact of the warning signal on borrower's finance and operation shall be evaluated in the loan application form. If the bank participates in other syndicated loan of the borrower, the bank shall review the transaction status of the syndicated loan, including but not limited to the execution of exemption, amendment of contract, and commitment. The impact on borrower's debt-paying ability shall be stated in the loan application form as a reference of the review. The application to be a participating bank in syndicated loan project shall be based on evaluation done by its own. Do not rely too much on data provided by the lead arranger or borrower. The bank shall still execute the credit evaluation activity based on 5P principle. If there is item with big amount or big change in the financial report, the bank shall contact the borrower to understand the detail and reason to analyze and control credit risk.



Item	Case and Status of Improvement
2. Penalty received from FSC due to violation of regulation.	<p>7. The industry and economic research department of credit granting has informed all operating units on January 10, 2018 and required the operating units to request borrowers to provide supporting documents and fill in additional information when below conditions happen:</p> <ol style="list-style-type: none"> (1) When the percentage or balance of borrower's loan receivable from or loan payable to related party is significantly high, the major counterparty and purpose of loan shall be indicated. (2) When the percentage or balance of borrower's receivable from related party is significantly high, the relationship with major counterparty, whether it is arms-length-transaction, reason for non-arms-length-transaction, and whether the receivable is overdue. (3) If there is significant capital increase, the source of capital shall be prescribed and verified to ensure the authenticity of capital increase. <p>(3) Measures that operating management departments plan to take:</p> <ol style="list-style-type: none"> 1. Enhance the risk evaluation ability of headquarter credit review personnel through internal training and professional courses provided by external professional institutions in order to ensure the proposal submitted to managing directors' meeting for review can completely present the financial status and operating condition as well as the risk evaluation. 2. The Bankers Association suggested to establish a triple reference mechanism between the government procurement department, vendors, and the bank for confirming contract and information. In order to enhance the project financing of large-scale public construction, the amendment of member principles for guidelines to be followed for project financing of large-scale public construction is to be planned. In response to it, the bank is going to adopt the guidance of Bankers Association on project financing of public construction as a guidance for future project financing to enhance the internal control system and procedure of the bank. <p>South China Insurance</p> <p>1. The Financial Supervisory Commission imposed NT\$600 thousand penalty on the commercial movable property floating comprehensive insurance (hereunder referred to as "the insurance") business according to Article §171-1.5 of Insurance Act and ordered correction according to Article §149.1 of the same act.</p> <p>(1) Description of the violation</p> <ol style="list-style-type: none"> 1. The Company signed the insurance contract with Morespace (the proposer) on August 1, 2015(with renewal of one year on August 1, 2016). The owner of the subject matter (the lessee of the warehouse) is the insured. Both parties agreed the proposer would report the list of insured on monthly basis. The premium would be settled before the insurance period ended, and the additional premium would be paid then. 2. The Financial Supervisory Commission concluded that the Company failed to confirm the identity of the insured from accepting insurance application until releasing the insurance agreement and during underwriting procedure, which violated the Article §7.1.2 and Article §5 of "Regulations Governing Business Solicitation, Policy underwriting and Claim Adjusting of Insurance Enterprises" stipulated in accordance with Article §148-3.2 of the Insurance Act. The proposer is not the owner of the subject matter, which violated Article §3 of Insurance Act that proposer shall have an insurable interest in the subject matter. Therefore, the penalty of NT\$600 thousand was imposed in accordance with Article §171-1.5 of the Insurance Act. The Financial Supervisory Commission ordered correction according to Article §149.1 of the same act. <p>(2) Status of improvement</p> <ol style="list-style-type: none"> 1. The reflect on violation: Suitable insurance product shall be carefully selected going forward. If the insurable interest derives from liability, the liability insurance shall be selected to avoid disputes on whether insurable interest exists and the failure in confirming identity of the insured upon underwriting. 2. Future control and improvement of the violation: <ol style="list-style-type: none"> (1) Perform an overall inspection on existing commercial movable property comprehensive floating insurance policies and see if the above violation exists. Continuously dispose business with concerns. (2) Inform all levels of underwriting personnel to refuse accepting insurance policy with concerns on whether insurable interest exists. Modify related underwriting rules to make it clearer to follow. (3) Require sales personnel to verify the identity of the proposer and the insured, verify the existence of insurable interest, and follow the procedure in underwriting, accepting, and releasing insurance policy to enhance the review. 3. The legal compliance within the unit and improvement in implementation: The Company will conduct trainings of commercial movable property comprehensive floating insurance for underwriting personnel and raise the level of approval for the insurance. If there is any concern over the insurable interest or applicable type of insurance, legal compliance department shall be consulted to comply with regulation. 4. The implementation and improvement of legal compliance consultation: The legal department has informed all departments that legal and compliance department shall be consulted when there are any concerns over applicable regulation. After the incident, the legal department will inform all departments regarding the above again and ask all departments to consult legal and compliance department when there is any concern over legal compliance to avoid violation in advance. <p>2. The Financial Supervisory Commission imposed penalty of NT\$2.4 million on February 9, 2018 through Chin-kuan-bao-chan-tzu-ti-10704520192 letter for the deficiency discovered in general business inspection of 2017:</p> <ol style="list-style-type: none"> (1) When conducting underwriting activity, the premium rate was not calculated according to the content of insurance to include multiple-location coefficient, deductible adjustment coefficient, and pure premium of clause. The Company also failed to calculate high insurance coverage coefficient of the main contract according to the submitted commodity instruction manual and resulted in shortage in insurance premium. The above violated Article §7.1.8. (2) and Article §17 of "Regulations Governing Business Solicitation, Policy Underwriting and Claim Adjusting of Insurance Enterprises" stipulated in accordance with Article §148-3.1 of the Insurance Act, and the Company was imposed penalty of NT\$600 thousand. The status of improvement: <ol style="list-style-type: none"> 1. Use this case as a reference and call for all underwriting personnel to discuss about deficiencies. 2. Enhance the premium double review mechanism. Require the precision and reasonableness of premium calculation. 3. Include the related deficiency cases in the annual national underwriters' meeting material. Call for the correctness of calculation and prevent the mistake from happening. 4. Include the case in quarterly legal compliance training for unit legal compliance heads. 5. Include the check of similar case in the quarterly legal compliance self-assessment activity.



Item	Case and Status of Improvement
2. Penalty received from FSC due to violation of regulation.	<p>(2) When conducting car insurance payment receipt and underwriting activity, some payment receipt dates are later than effective date. Some insurance agent premiums were not received within the agreed one-month period according to contract in insurance agent premium receipt activity, which violated "Procedure for Car Insurance Payment Receipt and Underwriting and Matters Need Attention" and Article §5.1.2 of "Procedure for Insurance Companies to Implement Internal Control and Audit" stipulated in accordance with Article §148-3.1 of the Insurance Act. The Company was imposed penalty of NT\$1.2 million in accordance with Article §171-1.5 of the Insurance Act. The status of improvement:</p> <ol style="list-style-type: none"> For sales personnel who delays the payment of premiums received: <ol style="list-style-type: none"> After the sales personnel completes payment in finance payment system, and the system completes the writing off of receivables, the system automatically prints out insurance policy. Finance department prepares monthly exception report. Car business department assists in exception report follow up. Any delayed payment shall wait until the reason for delay is input in system before the insurance policy can be printed out. If the delayed payment is caused by the fault of sales personnel, in order not to affect customer's right, the policy will still be printed out after the payment. However, finance department will include it in the violation report and the sales personnel will receive administrative punishment. If the insurance agent fails to make payment within the agreed one-month period according to contract, responsibility will be identified and below actions will be taken to rectify the delay: <ol style="list-style-type: none"> The delay is caused by insurance agent: In order to rectify the violation, either one of the three actions will be taken by the seriousness of violation: communication with the agent, warning in written format, suspension of agency. Policy sold through the insurance agent, but the Company's own personnel caused the delay: In order to rectify the violation, either one of the three actions will be taken by the seriousness of violation: administrative punishment, retain part of the operation bonus, suspension of the person's sales activity. Periodically summarize and announce delayed premium collection incidences and the reason. Operating unit head shall communicate with his subordinates by the reason. The incidence will be included in quarterly self-assessment activity and continuously followed up. <p>(3) The Company failed to further verify the abnormal situation of same card number with different card holder name for insurance premium receipt through credit card activity, which made it difficult to control the illegal holding of premiums. This is a violation of Article §5.1.8 of "Procedure for Insurance Companies to Implement Internal Control and Audit" stipulated in accordance with Article §148-3.1 of the Insurance Act. The Company was imposed penalty of NT\$600 thousand according to Article §171-1.4 of the Insurance Act. The status of improvement:</p> <ol style="list-style-type: none"> The Company has strengthened the control of credit card authorization code in the system. Starting from January 2018, the cardholder name will be tied with card number after the credit card has been used for payment. The cardholder name cannot be changed afterwards. This will remediate the deficiency of same card number with different cardholder name. The list of same card number with multiple cardholder names discovered in the audit will be included in the exception list. When the premium is not paid by the policy holder, the system will refuse to obtain the authorization code. Publicize related regulation and control procedure again. Implement related operation procedure and enhance the periodic review. <p>(4) Although the Company has set up a comparison and notification mechanism for outstanding payables to policy holders at the beginning of 2017, the comparison was only conducted on whether there were new insurance purchase records for payables transferred to miscellaneous revenue within past three years. Not all payables were included and the notification was only done twice. Lack of periodic inspection and proactive notification mechanism was unfavorable to consumer rights and the healthy operations of the Company. The FSC ordered corrections according to Article 149.1 of the Insurance Act. The status of improvement:</p> <ol style="list-style-type: none"> To successfully refund to customers and reduce the amount of payables, the payables were classified into new and old groups. For old payables that have been transferred to miscellaneous revenue in past years, the responsible personnel will contact the customers. If refund still cannot be made, the record will be transferred to the database and compared with front end information. When there is a new insurance purchase, claim, or refund record, the Company shall contact the customers and make refund. If there is no match for the comparison, the Company will send out letter notification. For newly generated payables, the Company shall complete the refund within two months. If the refund is not successful, the Company shall notify the customers twice through written letter (six months and ten months since the payable booking date). If the fund is still unable to be returned, the data will be transferred into the database for systematic comparison. If the transaction record for the recipient is found, the Company shall notify the customers to receive the refund, so as to successfully return the fund. Communicate with related personnel regarding the procedure to implement related regulations. Put emphasis on deficiencies during legal compliance self-assessments to prevent recurrence. <p>(5) The actual commission rate paid was more than the surcharge rate used in calculating the premium when conducting commission payment activity in group injury insurance, which was harmful to the healthy operations of the Company. The Company was ordered correction in accordance with Article 149.1 of the Insurance Act. The status of improvement:</p> <ol style="list-style-type: none"> When providing quote for group injury insurance, the underwriter shall attach rate trial balance to calculate pure premium and surcharge rate. The quote review table shall be reviewed and approved according to level of authority to prevent the commission rate from being greater than the surcharge rate. A control mechanism is set up in the system to reject the case if the commission rate is greater than the surcharge rate. Implement the internal audit. When reviewing the quote for group injury insurance, underwriters shall not only ensure the commission rate to be no greater than the surcharge rate but also follow the underwriting guidelines and authorization rules. <p>(6) For data creating activity for restricted parties in stakeholder transaction, the data creation was incomplete due to untimely notice by a director, which was harmful to the operations of the Company. The Company was ordered correction in accordance with Article 149.1 of the Insurance Act. The status of improvement:</p> <ol style="list-style-type: none"> Provide "stakeholder data" form on a monthly basis for directors and supervisors to verify or fill in. Directors and supervisors shall feedback latest changes in the form. The Company's responsible department collects stakeholder related information through outside information and verify whether it is in conformity with data provided by directors and supervisors. The information is updated when there is any change in business to ensure the timeliness and correctness of data in the system. To implement legal compliance, the Company has requested the "stakeholder" form through written letter on a monthly basis. Bold letters are used to remind the receiver of filing according to laws to avoid penalty on the Company due to incomplete recording of data. Meantime, the Company will enhance the legal compliance self-assessment of the activity.

Item	Case and Status of Improvement
3. Deficiencies that have been ordered correction by the Financial Supervisory Commission.	<p>None for the financial holding company</p> <p>Hua Nan Commercial Bank</p> <p>1. The Financial Supervisory Commission (hereunder referred to as FSC) conducted project inspection on subsidiary Hua Nan Bank in the opening of deposit account and anti-money laundering activity from April 6 to April 14, 2016. FSC informed the bank through Chin-kuan-yin-kon-tzu-ti-10500285360 letter regarding the deficiencies in opening deposit account and anti-money laundering activity. The deficiencies include inappropriate operation in the account opening for judicial person, and need for improvement in client review and control procedure. The FSC ordered correction according to Article §61-1.1 of the Banking Act. The status of improvement:</p> <p>(1) When accepting the account opening application from judicial person in the past year, the bank failed to file and safeguard the verification document of beneficiary provided upon verifying the beneficiary, which is inappropriate procedure:</p> <ol style="list-style-type: none"> On December 24, 2014, the bank already stipulated in "Notices for Anti-Money Laundering and Counter Terrorist Financing" that when the client is a judicial person, the bank shall verify the identity of the ultimate beneficiary. The Notice already required that corporate clients to provide certificate from the registering authority, Board of Directors' meeting minutes, company charter, or financial reports. The operating units can understand the shareholder structure of the corporate client and confirm the identity of ultimate beneficiary. According to July 28, 2016 Chuan-yi-tzu-ti-1050002642A letter "Q&A on Related Rules and Samples for Notices for Anti-Money Laundering and Counter Terrorist Financing" from the Bankers Association, Q3 to Q9 and Q13 stipulate the rules for the clear identification of the identity of the ultimate beneficiary and required document from corporate client and ownership calculation. The bank informed all operating units on August 30, 2016 through a formal letter and required operating units to implement the rule. As mentioned above, the bank has already required all operating units to verify the identity of actual beneficiary. The bank will ask operating units to ensure the record filing is in place going forward. <p>(2) Although the Company has purchased the database of person in foreign important political positions, the Company failed to verify whether the representative of corporate clients in OBU is holding important political positions in other countries. The Company also failed to enhance the client review activity on high risk clients, which is inappropriate procedure.</p> <ol style="list-style-type: none"> Regarding the review of corporate client representative upon the account opening, the Bank already included well-known political figures in the scope of checking whether the figure is acting as the representative of existing corporate client through the AML system launch from March 1, 2016. Starting from March 1, 2016, the AML implemented the examination activity on all clients (including natural person and corporate client) to check the name of the account. The system generates the list of suspicious well-known political figures for the operating units to perform further inspection. In order to enhance the review on representative of the corporate client, the AML system will check whether the name of the representative matches with well-known political figures when opening the account. If the representative has been verified to be the well-known political figure, the bank will review the client by the standard of high risk client. The mechanism has been launched since August 30, 2016. <p>(3) For the acceptance of the account opening application from judicial person in the past year, the bank failed to understand the purpose of opening the account, which is inappropriate procedure:</p> <p>The Bank informed all operating units through a letter on August 15, 2016 and required the operating units to ask the client fill in "occupation or type of operation" column and fill in the purpose of opening the account on account opening application form. The operating unit is also required to tick on "OBU account opening activity checklist" and verify purpose of opening the account to keep the verification record. On September 6, 2016, the "OBU client data addition/change register" is added. The bank clerk shall additionally fill in "purpose of opening the account" column in the system according to the "purpose of opening account" column filled in by the OBU client during account opening in order to completely record KYC information including purpose of opening the account in written format.</p> <p>2. FSC informed the Company through Chin-kuan-yin-kon-tzu-ti-10600065860 letter on May 10, 2017 that the concerns caused by former branch manager of Po-Ai Branch, Hua Nan Bank in handling credit granting is harmful to the healthy operation of the bank. FSC ordered correction in accordance with Article §61-1.1 of the Banking Act. The status of improvement:</p> <p>(1) Regarding the inappropriate control mechanism on credit granting procedure:</p> <ol style="list-style-type: none"> The bank informed all operating units on November 29, 2016 and defined the types of affiliate credit clients and require all operating units to enhance the comprehensive evaluation on borrower's shareholder background, financial resources, credit record on notes and loans, purpose of the loan, and solvency. The bank informed all operating units on September 5, 2016 and required all operating units to take protective measures on related claims and refuse the case referred by the specific third party, if cases referred by the third party is concentrated to one branch while the borrowing lacks relationship with the location, or several borrowers referred by the specific third party delayed repayment or has abnormal activity. Set up "checklist of highest loan-to-value on mortgage loan" and include it in credit granting system. The bank informed all operating units on December 30, 2016 and required operating units to register every information on the checklist in the system in order for the credit granting system to determine the appropriate loan-to-value. The above is included in trainings additionally. <p>(2) Regarding the inappropriate control over post loan management for credit granting cases:</p> <ol style="list-style-type: none"> In order to enhance the risk control over renovation loan operation, below control procedures are launched: <ol style="list-style-type: none"> The bank informed all operating units on August 31, 2015 that appraisers need to perform on-site examination at the place of renovation to evaluate the reasonableness of the loan amount. If the applied amount is greater than NT\$1 million, the responsible bank clerk shall go to the place of renovation and confirm whether the renovation has started before drawdown. No drawdown is allowed without the launch of renovation. The bank informed all operating units on January 15, 2016 that the evidence of fund flow shall be obtained after drawdown. The fund shall not be transferred to accounts of construction company, seller, or trust account for the trading. The business was ceased in January 1, 2017. The improved procedure for the post-loan management is as below: <ol style="list-style-type: none"> The post loan second review has been handled by independent second review personnel in channel management center since July 1, 2016. The bank informed all operating units on June 23, 2016 to strictly forbid operating units from asking clients to keep certain amounts of principle and interest of the borrowed fund in the account for a certain period in addition to the terms of loan. The bank also informed the channel management center on November 21, 2016 and required them to put emphasis on the audit on fund flow when performing second review.



Item	Case and Status of Improvement
3. Deficiencies that have been ordered correction by the Financial Supervisory Commission.	<p>(3) Regarding the inappropriate control over receipt and payment of money between employees and clients.</p> <p>The bank informed all operating units on March 21, 2017 to strictly forbid all levels of employees (including managers) to have any receipt or payment of money with clients or any behavior against the internal control. Serious punishment will be imposed upon violation in purpose. Managers in all levels will be responsible for the act if they fail in monitoring the activity. In addition, if an employee finds any receipt or payment of money between clients and other employee/manager or other condition that is against the internal control, the employee shall actively report to headquarter or unit leader. The employee will be rewarded if the reported incident is proved to exist.</p> <p>(4) Responsibility of personnel:</p> <p>The employee that violated the rule has been reported to the performance committee for review on November 21, 2016. The result of review and disciplinary action has been announced on November 28, 2016. The former branch manager Mr. Chen has been transferred to non-managerial position in another operating unit. The former manager Mr. Chen has applied for retirement on December 20, 2016.</p> <p>3. The treasury personnel of Xindian Branch overcharged customers for the purpose of occupying cash. The Company was ordered the following corrections by the FSC on April 9, 2019:</p> <p>(1) Failed to undertake deposit and withdrawal for customers appropriately;</p> <p>(2) Transferred customers' deposits in the name of cash withdrawal in violation of related regulations;</p> <p>(3) Failed to review and identify wrong account entries during closing; and</p> <p>(4) Failed to make account entries for overcharge and intended to occupy cash; internal operating procedures and risk controls were not appropriately implemented.</p> <p>Other improvement items:</p> <p>(1) Emphasize related regulations.</p> <p>(2) Strengthen the effectiveness of the internal control system.</p> <p>(3) Strengthen employee training.</p> <p>Improvement status:</p> <p>(1) Emphasize related regulations:</p> <ol style="list-style-type: none"> Each business unit appoints the personnel to collect payment from time to time in accordance with the HNCB Directions for Undertaking Deposit/Withdrawal for Customers. Each business unit shall implement voucher verification and put a check on any transfer of NTD deposit collection in the name of cash withdrawal; if any business unit is found to violate the above, it will be reported to the Personnel Evaluation Committee for disciplinary action. Each business unit shall implement daily closing in compliance with HNCB's accounting handbook. <p>(2) Strengthen the effectiveness of the internal control system:</p> <ol style="list-style-type: none"> To implement the internal audit system, avoid recurrence, and raise the awareness of managers and assistant managers, material punishments (fines) or defects are included in the field audit or annual performance evaluation of business supervisors or employees or subject to disciplinary action. The business management department emphasizes that each business unit shall keep customers' receipts, comply with related collection regulations, and verify vouchers in accordance with the daily closing procedures prescribed in the accounting handbook. The Auditing Department under the Board of Directors includes defects in audit working papers to strengthen the implementation of business units. <p>(3) Strengthen employee training.</p> <p>Hua Nan Securities</p> <p>1. Hua Nan Securities was engaged to be the lead underwriter for the issuance of new shares and issued the evaluation report. However, the reason for capital need and its necessity and reasonableness was not described in the report. The change in revenue and benefit of capital increase was not specifically described in the report, either. In addition, the complete business plan was not submitted along with the report, and the Company failed to assist the issuer to prepare complete filing documentation according to regulation, which violated Article §25.5 of "Regulations Governing Securities Firms". FSC ordered correction through Chin-Kuan-Cheng-fa-tzu-ti-1060043348 letter:</p> <ol style="list-style-type: none"> Assign designated second review team to review and check all document and working paper before submitting the document. Provide trainings on short-term consulting activity for newly hired consultants. Personnel sent to attend seminars held by competent authority or external trainings shall report on monthly meetings and share the content of the training. Hold monthly trainings for all consultants. Invite lecturers from Securities and Futures Bureau, Taipei Exchange, and Taiwan Stock Exchange to give lectures on special topics to improve professional capability. Conduct quarterly case study on deficiencies in "Summary of Frequently Seen Deficiencies in the Underwriters' Evaluation of Marketable Securities Offering and Issuance by Publicly Traded Companies". The concerned department has reviewed the case on the monthly department meeting held on December 4, 2017 and included related regulations in 2017 fourth quarter legal compliance self-assessment. The concerned personnel will attend all related trainings held by training institutions designated by the competent authority within one year from receiving the penalty disposition date according to the Company's "Notices for the Management of Legal Compliance Case". Related improvement plans has been submitted to FSC and reported to the Board of Directors' meeting on December 18, 2017. The case was included in the self-assessment checklist in the fourth quarter of 2017. The case will also be included in the case study in the cross department legal compliance meeting and 2018 first quarter legal compliance training. Review on personnel responsibility: <p>Mr. Chen, VP of underwriting department, Mr. Yen, director of Kaohsiung branch office, and Mr. Ko, assistant manager of Kaohsiung branch office have been given oral warnings or ordered correction.</p>



Item	Case and Status of Improvement
3. Deficiencies that have been ordered correction by the Financial Supervisory Commission.	<p>South China Insurcone</p> <ol style="list-style-type: none"> The Company violated the Personal Information Protection Act when providing insurance service. According to Subparagraph 4, Article 48 of the Personal Information Protection Act, the FSC ordered on March 31, 2017 that the Company should complete correction by June 30, 2017. <ol style="list-style-type: none"> Case: Part of the database audit function was not enabled so that the audit trail of query, addition, modification, and deletion was not kept, which violated Article 14.1 and Article 14.3 of the "Guideline of Safeguarding and Protecting Personal Data by FSC Determined Non-Government Organizations" stipulated in accordance with Article 27.1 and Article 3 of the "Personal Information Protection Act". The authority in charge ordered that the Company should complete correction by June 30, 2017. Status of improvement: The Company has planned the "DSS system software and hardware upgrade project" on November 21, 2016 upon approval. The project started on January 11, 2017 and was completed by June 30, 2017. The project was to upgrade and purchase related software and add database for keeping audit trail. After the implementation of the project, the complete Sybase database audit trail, related data, evidence, and records can be kept. All of them shall be kept at least five years according to regulations. Refer to Case 1: Fine on South China Insurance. Refer to Case 2: Fine on South China Insurance. <p>Hua Nan Investment Trust</p> <ol style="list-style-type: none"> SFC issued Chin-kuan-cheng-to-tzu-ti-1070348179 letter on December 27, 2018 to order corrections on three deficiencies found by SFC in 2017 general business inspection: <ol style="list-style-type: none"> When conducting the risk assessment of anti-money laundering and counter terrorist financing, the first time transaction amount and complexity of corporate client shareholder structure was not included in the risk factor consideration, the address of client was too far away from the Company, lack of geological relation, and lack of reasonable explanation, which caused the Company unable to appropriately evaluate client risk, which violated Article §3 of "Guidelines for Securities Investment Trust Enterprises and Securities Investment Consulting Enterprises to Evaluate and Establish Anti-Money Laundering and Counter Terrorism Financing Policies and Procedures" stipulated by Securities Investment Trust and Consulting Association of the R.O.C. and Article §6.2 of "Regulations Governing the Establishment of Internal Control Systems by Service Enterprises in Securities and Futures Markets". Status of improvement: <ol style="list-style-type: none"> On September 5, 2018, the Company added "For clients who opened the account in past year and accumulated transaction such as transfer, investing, or redemption reaches certain amount (currently NT\$5 million) or equivalent foreign currency within three months" as criteria for monitoring and evaluating first time business transaction amount with new clients. On July 31, 2018, the Company amended corporate client appropriateness evaluation checklist and added the column to evaluate the complexity of shareholding structure as "whether there are more than three layers of shareholding structure to the ultimate beneficiary", and held trainings on August 18, 2018 to promote the amendment. On July 31, 2018, the Company amended account opening agreement and added the column of "Describe the source of client if the correspondence address is located in Hualien, Taitung, Kinmen, Matsu, or Penghu area" for operation personnel to fill in after KYC as a reference for future evaluation. The Company held trainings on August 18, 2018 to promote the change. The case has been included as one type of deficiency in anti-money laundering. It has also been included in the 2018 second half Board of Directors' anti-money laundering and counter terrorist financing execution report. When conducting natural person client account opening activity, the verification of client's occupation or industry was loosely conducted. The money laundering risk of the client was not identified. There was no operating procedure for verifying existing client through Thomson Reuters system or the self-constructed database. The verification mechanism of client name is not sound enough, which violated Article §6.2 of "Regulations Governing the Establishment of Internal Control Systems by Service Enterprises in Securities and Futures Markets". Improvement status: <ol style="list-style-type: none"> On July 31, 2018, the Company amended natural person client appropriateness evaluation checklist. If "others" or "freelancer" is selected in the occupation column, a hand writing of the description behind the column is needed. The Company held trainings on August 18, 2018 to promote the change. On December 21, 2018, the Company amended anti-money laundering and counter terrorist operation handbook. "(5) existing client name (including representative and ultimate beneficiary) verification operating procedure" was added in chapter one identifying client. The case has been included in 2018 second half Board of Directors' anti-money laundering and counter terrorist financing execution report.
4. Orders from SFC in accordance with Article §54.1 of the Act.	None for the financial holding company
5. If safety incidents occurred due to fraud, significant incidents(fraud, theft, appropriation, embezzlement, false transaction, false certificate or marketable securities, receipt of rebate, natural disaster, loss due to external forces, hack, theft of information, leakage of confidential business secret or client information), or failure in following guideline for the safety maintenance of financial institutions, and loss for each incidence or in total exceeds NT\$50 million, the nature and amount of loss shall be disclosed.	None for the financial holding company
6. Other items that SFC requires disclosure.	None for the financial holding company

(XIV) Significant resolutions in Shareholders' Meeting and Board of Directors' meeting as of the date of 2018 annual report.

1. Significant resolutions by the Board of Directors.

Session	Significant Resolutions
the 20th meeting of the sixth Board of Directors	In order to fulfill corporate social responsibility, approving the subsidiary Hua Nan Bank proposed to issue unsecured senior green financial bond within NT\$1 billion.
	Approving the investment plan and related control procedure of subsidiary Hua Nan Asset Management in Taiwan Urban Regeneration & Financial Services Co., Ltd.
	Approving the assignment of subsidiary Hua Nan Investment Trust's Vice President.
	Approving the assignment of subsidiary Hua Nan Venture Capital's personnel.
	Approving the assignment of subsidiary Hua Nan Securities' personnel.
	Approving the retainment of 2014 capital expenditure.
	Approving the change of independent auditor.
	Approving the engagement and proposed service fees for 2018 financial reports audit and corporate income tax report audit.
	Approving amendments to "The Evaluation and Classification of Assets for Hua Nan Financial Group".
	Approving amendments to the Company's "Corporate Governance Policy".
	Approving amendments to subsidiary Hua Nan Bank Charter.
	Approving 2018 special salary adjustment.
the 21st meeting of the six Board of Directors	Approving amendments to the Group's financing products review guideline.
	Approving amendments to subsidiary Hua Nan Bank Charter.
	Approving amendments to the Company's "Employee Work Rule".
	Approving the assignment of subsidiary Hua Nan Bank's Directors.
	Approving the compensation of the Company's G.M. of Information & Technology Department.
the 22nd meeting of the six Board of Directors	Approving the performance evaluation result of the President.
	Approving amendments to the Company's "Accounting Policy".
	Approving 2017 financial statements and business report of the Company.
	Approving amendments to "Rules of Organization".
	Approving "Establishment Guidelines for Legal Compliance Committee of the Group".
	Approving amendments to "Guidelines for Management of Subsidiaries".
	Approving the Company's 2017 Statement of Internal Control System.
	Approving the subsidiary Hua Nan Asset Management to raise the threshold of reporting significant asset transactions and cease the current reporting and approval procedure.
	Approving the time, venue, and meeting agenda of 2018 Annual Shareholders' Meeting.
	Approving the proposal to report the regulation regarding same person or same related party holding more than a certain percentage of a specific financial holding company in Annual Shareholders' Meeting.
	Approving amendments to the subsidiary Hua Nan Bank's "Principle for evaluation of managers' performance bonus".
	Approving the Company's 2017 Board of Directors' and employees' compensation and percentage.
The 23rd meeting of the six Board of Directors	Approving the standard of salary for subsidiary Hua Nan Venture Capital Chairman and President's salary.
	Approving 2018 salary adjustment and 2017 performance bonus for the Company's employees above director level.
	Approving 2017 Directors' compensation.
	Approving proposal to release the non-competition clause of the sixth Board of Directors in 2018 Annual Shareholders' Meeting.
	Approving the acting of Channel Business Department Vice President of subsidiary Hua Nan Securities.
The 24th meeting of the six Board of Directors	Approving 2017 earnings(loss) appropriation for all subsidiaries.
	Approving 2017 earnings appropriation for the Company.
	Approving the issuance of new shares for the dividend distribution
	Approving amendments to the Company's "Principle for the establishment of Group legal compliance committee".
	Approving amendments to the Company's "Principle for the execution of legal compliance system".
The 25th meeting of the six Board of Directors	Approving amendments to subsidiary Hua Nan Bank's "Articles of Incorporation"
	Approving amendments to subsidiary Hua Nan Asset Management's "Rules of Organization".
	Approving the application of one-year credit line of NT\$65.8 billion from financial institution.
	Approving subsidiary Hua Nan Bank to invest NT\$380 million in Limited Partnership Buffalo II initiated by Tainwania.
	Approving the salary adjustment of subsidiary South China Insurance's President.
The 26th meeting of the six Board of Directors	Approving amendments to subsidiary Hua Nan Bank's "Principle of Management in Hua Nan Bank Employee Bonus".
	Approving the re-assignment of subsidiary Hua Nan Bank's Directors and Supervisors.
	Approving the re-assignment of subsidiary Hua Nan Securities' Directors and Supervisors.
	Approving the re-assignment of subsidiary South China Insurance's Directors and Supervisors
	Approving the assignment of subsidiaries' Presidents.
The 27th meeting of the six Board of Directors	Approving amendments to "Principle in Management of Related Party Transactions Between Hua Nan Financial Holdings and its Subsidiaries".
	Approving amendments to subsidiary Hua Nan Bank's "Articles of Incorporation"
	Approving the establishment of the Company's "Principle in Whistleblower System".
	Approving amendments to the Company's "Principles for Management in Employee's Bonus"
	Approving the record date of cash and stock dividend distribution to be on August 24, 2018.
The 28th meeting of the six Board of Directors	Approving 2018 second quarter financial statements.
	Approving amendments to subsidiary South China Insurance's "Rules of Organization".
	Approving amendments to "Principles for Management of Cross-Selling in Hua Nan Financial Group".
	Approving the assignment of subsidiary South China Insurance's independent directors.
	Approving the participation of Taipei Financial Center Corp Supervisor's election.
The 29th meeting of the six Board of Directors	Approving amendments to the Company's level of authority.
	Approving the renewal of the Group's directors and managers liability insurance.
	Approving the statement of 2017 overall anti-money laundering and counter terrorist financing risk evaluation result and risk appetite of the Group and 2018 anti-money laundering and counter terrorist plan.
	Approving the assignment of subsidiary South China Insurance's Chief Auditor and Vice President.
	Approving 2019 information strategy
The 30th meeting of the six Board of Directors	Approving 2019 budget for all subsidiaries.
	Approving 2019 budget for the Company.
	Approving 2019 internal audit plan of the Company.
	Approving the re-assignment of subsidiary Hua Nan Investment Trust's Directors and Supervisors.
	Approving the assignment of subsidiary Hua Nan Investment Trust's President.
	Approving the assignment of the Company's Vice President.(headquarter legal compliance head)
	Approving the assignment of the Company's Chief Auditor.
The 31st meeting of the six Board of Directors	Approving the assignment of the Company's Department Directors.

2. Reviewing significant resolution and the status of execution for 2018 Annual General Shareholders' Meeting.

Date of the Meeting	Proposed Resolutions	Resolution	Status of Execution
June 24, 2018	To approve the proposal for appropriation of 2017 earnings: Each common share holder is entitled to receive a NT\$0.5 cash dividend and NT\$0.45 stock dividend.	The affirmative voting shares exceeded the legal threshold. Proposed resolution approved.	The dividend distribution has been completed according to shareholders' resolution. The 2017 dividend distribution in cash and through capital increase have been announced on July 29, 2016. The 2017 cash dividend of NT\$0.5 per share was distributed by the stock transfer agent Hua Nan Securities agent department through wire transfer or check sent by registered mail on September 12, 2018. The dividend distribution through capital increase is NT\$0.45 per share. The record date of delivering new shares certificate: September 14, 2018. The capital increase was made through non-physical issuance and new shares were deposit directly into shareholders' central depository accounts on the record date.
	497,093,393 shares were issued for the stock dividend.	The affirmative voting shares exceeded the legal threshold. Proposed resolution approved.	The issuance and registration of new shares have been completed according to Shareholders' Meeting resolution. Ministry of Economic Affairs – Sep. 17, 2018-Letter No. of Ching-shou-shangtzu-ti-1070116700.
	Releasing the Prohibition on Directors from participation in Competitive Business.	The affirmative voting shares exceeded the legal threshold. Proposed resolution approved.	The announcement has been completed according to Shareholders' Meeting resolution.

(XV) Major Issues of Record or Written Statements Made by Any Director or Supervisor Dissenting to Important Resolutions Passed by the Board of Directors during 2018 and as of the Date of this Annual Report: None.

(XVI) Does the Company Disclose the Dissenting Opinion from Any Independent Director, and the Disposition by the Company regarding the Opinion? None.

(XVII) Resignation or Dismissal of personnel related with financial reports (including Chairman, President, Heads of Accounting, Finance, and Internal Audit) during 2018 and as of the Date of this Annual Report.

Position	Name	On Board Date	Resignation Date	Reason for the Resignation or Dismissal
Chief Auditor	Neng-Tung Lin	Jun. 1, 2017	Jan. 15, 2018	Retirement
Chairman	Tang-Chieh Wu	September 12, 2016	April 8, 29	Discharged, according to Ministry of Finance Letter Ta-Cai-Ku-Zi No. 10803650460

Note: Related personnel in the Company means Chairman, President, Heads of Accounting, Finance, and Internal Audit.

IV. Information on CPA Professional Fees:

(I) Range of CPA Professional Fees

Accounting Firm	Name of CPA	Auditing Period	Remark
Deloitte Taiwan	Ting-Sheng Chang	Kuan-Chung Lai	2018.1.1.~2018.12.31

Category of Fees		Audit Fees	Non-audit Fees	Total
Interval of Amount				
1	Less than NT\$2,000 thousand		V	335
2	NT\$2,000 thousand (inclusive) to NT\$4,000 thousand	V		3,000
3	NT\$4,000 thousand (inclusive) to NT\$6,000 thousand	-	-	-
4	NT\$6,000 thousand (inclusive) to NT\$8,000 thousand	-	-	-
5	NT\$8,000 thousand (inclusive) to NT\$10,000 thousand	-	-	-
6	Over NT\$10,000 thousand (inclusive)	-	-	-

- (II) When Non-audit Fees Paid to CPAs, Their Accounting Firm, and Affiliated Companies of Their Accounting Firm Exceed One-fourth of Audit fees Paid to Them, the Amount of Audit and Non-audit Fees and Content of Non-audit Services Shall Be Disclosed. The Audit Fees Mean Professional Fees Paid to CPAs for Auditing, Review, and Secondary Reviews of Financial Statements, Financial Forecast Reviews, and Tax Certification: None.

Non-audit fees paid to CPAs' accounting firm and its affiliated companies are as follows:

Accounting Firm	Name of CPA	Audit Fees	Non-audit Fees					Auditing Period	Remark
			System Design	Business Registration	Human Resources	Others (Note)	Subtotal		
Deloitte Taiwan	Ting-Sheng Chang Kuan-Chung Lai	3,000	-	-	-	335	335	2018.1.1.~2018.12.31	

Note: Administration of taxation, etc.

- (III) When the Company Changes Its Accounting Firm and the Audit Fees Paid for the Year where Such Change Took Place Are Lower than Those for the Previous Year, the Amounts of Audit Fees before and after the Change and the Reasons Shall Be Disclosed: None.

- (IV) When Audit Fees Paid for the Current Year Are Lower than Those for the Previous Year by 15% or More, the Reduction in the Amount of Audit Fees, Reduction Percentage, and Reasons Shall Be Disclosed: None.

V. Information on Replacement of CPAs: If the Company Has Replaced Its CPAs within the Most Recent Two Years or Any Subsequent Interim Period, It Shall Disclose the Following Information:

(I) Former CPAs

Date of Replacement	January 29, 2018		
Reason for Replacement	Internal restructuring of Deloitte Taiwan		
Statement on whether the Company or the CPA Terminates or Rejects Engagement	Party	CPA	The Company
	Voluntary termination	N/A	
	Rejection	N/A	
Opinions and Reasons in the Issued Audit Report Expressing Other than an Unqualified Opinion in the Most Recent Two Years	None		
Disagreement between the Company and CPAs	None		
Other Disclosures (under Item 1-4, Subparagraph 6, Article 10 of the Regulations Governing Information to be Published in Annual Reports of Public Companies)	None		

(II) Successor CPAs

Name of Accounting Firm	Deloitte Taiwan
Name of CPA	Ting-Sheng Chang, Kuan-Chung Lai
Date of Appointment	January 29, 2018
Results of Consultation about the Accounting Treatment or Accounting Principles for Specified Transactions or the Type of Audit Opinions that Might Be Rendered on the Financial Statements before Engagement	None
Written Opinions from the Successor CPAs on the Disagreement between the Company and Former CPAs	None

- (III) Any Response Mails from Former CPAs regarding Items Specified in Items 1 and 2-3, Subparagraph 6, Article 10 of the Regulations Governing Information to Be Published in Annual Reports of Public Companies: None.

VI. Chairman, President, or Manager in Charge of Finance or Accounting Matters Having Held a Position at the Accounting Firm of CPAs or at an Affiliated Company of Such Accounting Firm in the Most Recent Year: None.



VII. Any Transfer or Pledge of Equity Interests in the Most Recent Year up to the Date of Publication of the Annual Report by a Director, Supervisor, Manager, or Individual or Related Party Holding Shares of the Same Financial Holding Company with Voting Rights Issued over a Certain Ratio Set Forth in Article 11 of the Regulations (I):

Title (Note 1)	Name	2018		As of April 16, 2019	
		Increase/Decrease in Number of Shares Held	Increase/Decrease in Number of Shares Pledged	Increase/Decrease in Number of Shares Held	Increase/Decrease in Number of Shares Pledged
Chairman (Major Shareholder)	Ministry of Finance	8,449,900	0	0	0
Institutional Representative of Chairman	Tang-Chieh Wu (discharged on April 8, 2019)	0	0	0	0
Institutional Representative of Chairman	Yun-Peng Chang (assumed office on April 26, 2019)	7,605	0	0	0
Vice Chairman (Major Shareholder)	Memorial Scholarship Foundation to Mr. Lin Hsiung-Chen	8,779,032	0	0	0
Institutional Representative of Vice Chairman	Ming-Cheng Lin (Note 2)	22,644,653	0	0	0
Director (Major Shareholder)	Ministry of Finance	8,449,900	0	0	0
Institutional Representative of Director	Pao-Chu Lo	4,868	0	0	0
Director (Major Shareholder)	Bank of Taiwan	105,539,147	0	0	0
Institutional Representative of Director	Chih-Wen Hsu	0	0	0	0
Director (Major Shareholder)	Bank of Taiwan	105,539,147	0	0	0
Institutional Representative of Director	Shih-Ching Jeng	0	0	0	0
Director (Major Shareholder)	Bank of Taiwan	105,539,147	0	0	0
Institutional Representative of Director	Lung-Huei Tai	0	0	0	0
Director (Major Shareholder)	Bank of Taiwan	105,539,147	0	0	0
Institutional Representative of Director	I-Hui Lee	0	0	0	0
Director (Major Shareholder)	Bank of Taiwan	105,539,147	0	0	0
Institutional Representative of Director	Hsiu-Hsien Hsieh (discharged on January 24, 2018)	0	0	0	0
Institutional Representative of Director	Chun-Liang Lin (assumed office on January 24, 2018)	450	0	0	0
Director (Major Shareholder)	Bank of Taiwan	105,539,147	0	0	0
Institutional Representative of Director	Keh-Her Shih (dismissed on April 22, 2019)	0	0	0	0
Director (Major Shareholder)	Memorial Scholarship Foundation to Mr. Lin Hsiung-Chen	8,779,032	0	0	0
Institutional Representative of Director	Chih-Yen Lin	0	0	0	0
Director (Major Shareholder)	Memorial Scholarship Foundation to Mr. Lin Hsiung-Chen	8,779,032	0	0	0
Institutional Representative of Director	Chih-Yu Lin	0	0	0	0
Director (Major Shareholder)	Memorial Scholarship Foundation to Mr. Lin Hsiung-Chen	8,779,032	0	0	0
Institutional Representative of Director	Chih-Yang Lin	0	0	0	0
Director (Major Shareholder)	Yongchang Charity Foundation	17,167	0	0	0
Institutional Representative of Director	An-Lan Hsu Chen	0	0	0	0
Director (Major Shareholder)	Yongchang Charity Foundation	17,167	0	0	0
Institutional Representative of Director	Michael, Yuan-Jen Hsu	0	0	0	0
Director (Major Shareholder)	China Man-Made Fiber Corporation	2,479,549	0	0	0
Institutional Representative of Director	Vivien, Chia-Ying Shen	3,025	0	0	0
Independent Director	Kuei-Sun Wu	0	0	0	0
Independent Director	Chung-Yuan Hsu	3,630	0	0	0
Independent Director	Chun-Pin Chen	3,025	0	0	0
Independent Director	Ching-Hsiu Chen	3,025	0	0	0
President	Pau-Chu Lo	4,868	0	0	0
Chief Auditor	Neng-Tung Lin (retired on January 16, 2019)	6,058	0	0	0
Chief Auditor	Pi-E Huang (assumed office on January 16, 2019)	4,438	0	0	0
Executive Vice President & Director of General Administration Department	Sarah C.T. Hsu	35,031	0	0	0
Executive Vice President & Director of Finance Department	King-Huo Lu	0	0	0	0
Executive Vice President & Director of Legal Compliance Department	Hsin-Tien Ting (retired on January 16, 2019)	6,091	0	0	0
Executive Vice President & Director of Legal Compliance Department	Tian-Yu Chen (assumed office on January 23, 2019)	1,993	0	0	0
Chief Secretary of Board of Directors	Hui-Ling Hsu	5,542	0	0	0
Director of Information Technology Department	Michael Duh	2,624	0	0	0
Director of Marketing Department	Chao-Chi Yeh	3,025	0	0	0
Director of Auditing Department of Board of Directors	Fang-Ling Zhou	5,024	0	0	0
Director of Risk Management Department	He-Chun Hsieh (dismissed on January 1, 2019)	6,672	0	0	0
Director of Risk Management Department	Chin-Hua Yang (assumed office on January 1, 2019)	0	0	0	0
Entity Holding a Stake of 10% or More	Bank of Taiwan	105,539,147	0	0	0
Related Party Holding a Stake of 10% or More	Bank Taiwan Life Insurance Co., Ltd.	19,101,337	0	0	0

Note 1: If a shareholder holds more than 1% of the financial holding company's shares, he/she shall be marked "major shareholder" separately.

Note 2: If counterparties involving in transfer or pledge of equity interests are related parties, the following table shall be filled in.

Note 3: "As of the date of publication of the Annual Report" shall refer to the date when the Annual Report is adopted by the Board of Directors.

Transfer of Equity Interests (II)

Name (Note 1)	Reason for Transfer of Equity Interests (Note 2)	Transaction Date	Counterparty	Relationship between Counterparty and the Financial Holding Company and Its Directors, Supervisors and Shareholders with Shareholding Percentage of 10% or More	Number of Shares	Transaction Price
Ming-Cheng Lin	Trust Return	April 13, 2018	Hua Nan Commercial bank Trust Department (Trustee)	Hua Nan Commercial bank is 100% owned by Hua Nan Financial Holdings co., Ltd	21,669,525	None

Note 1: Name of director, supervisor, manager, or individual or related party holding shares of the same financial holding company with voting rights issued over a certain ratio set forth in Article 11 of the Regulations shall be disclosed.

Note 2: Acquisition or disposal shall be indicated.

Pledge of Equity Interests (III)

Name (Note 1)	Reason for Pledge of Equity Interests (Note 2)	Date of Change	Counterparty	Relationship between Counterparty and the Financial Holding Company and Its Directors, Supervisors and Shareholders with Shareholding Percentage of 10% or More	Number of Shares	Amount of Pledge (Redemption)
None	None	None	None	None	None	None

Note 1: Name of director, supervisor, manager, or individual or related party holding shares of the same financial holding company with voting rights issued over a certain ratio set forth in Article 11 of the Regulations shall be disclosed.

Note 2: Pledge or redemption shall be indicated.

VIII. Information on Relationship if among Top 10 Shareholders Any One Is a Related Party or a Relative within the Second Degree of Kinship of Another.

Name (Note 1)	Shares Held in Person		Shares held by Spouse and Children of Minor Age		Shares Held in Name of Another Person		Title or Name and Relationship of Top 10 Shareholders who Are Related Parties or Each Other's Spouse and Relative within the Second Degree of Kinship Note 3		Remark
	Number of Shares	Percentage of Shares	Number of Shares	Percentage of Shares	Number of Shares	Percentage of Shares	Title (or Name)	Relationship	
Bank of Taiwan (Chieh-Cheng Lu)	2,450,853,525	21.23%	0	0	0	0	Ministry of Finance	Ministry of Finance holds 100% equity interests in its parent company, Taiwan Financial Holdings Co., Ltd.	None
							BankTaiwan Life Insurance	100% held by Taiwan Financial Holdings Co., Ltd.	None
							First Bank	Bank of Taiwan invests in the parent company of First Bank, First Financial Holding Co., Ltd.	None
Bank Taiwan Life Insurance Co., Ltd. (Yu-Chih Liu)	443,575,505	3.84%	0	0	0	0	Ministry of Finance	Ministry of Finance holds 100% equity interests in its parent company, Taiwan Financial Holdings Co., Ltd.	None
							Bank of Taiwan	100% held by Taiwan Financial Holdings Co., Ltd.	None
First Commercial Bank (Tsai-Chang Liao)	281,858,602	2.44%	0	0	0	0	Ministry of Finance	Ministry of Finance invests in its parent company, First Financial Holding Co., Ltd.	None
							Bank of Taiwan	Bank of Taiwan invests in the parent company of First Bank, First Financial Holding Co., Ltd.	None
Yuan Ding Investment Co., Ltd. (An-Lan Hsu Chen)	250,937,801	2.17%	0	0	0	0	None	None	None
Yung Tsai Investment Co., Ltd. (Ching-Ling Yen)	222,270,406	1.93%	0	0	0	0	None	None	None
The Memorial Scholarship Foundation to Mr. Lin Hsiung-Chen (Ming-Cheng Lin)	203,868,643	1.77%	0	0	0	0	None	None	None
Ministry of Finance (Chien-Jung Su)	196,225,460	1.70%	0	0	0	0	Bank of Taiwan BankTaiwan Life Insurance	Ministry of Finance holds 100% equity interests in its parent company, Taiwan Financial Holdings Co., Ltd.	None
							First Bank	Ministry of Finance invests in its parent company, First Financial Holding Co., Ltd.	None
HWATAI Bank as custodian of Trust Account	155,838,776	1.35%	0	0	0	0	None	None	None
J.P. Morgan Chase Bank as custodian of Vanguard Emerging Market Stock Index Fund Account	139,165,843	1.21%	0	0	0	0	None	None	None
J.P. Morgan Chase Bank as custodian of Vanguard Star Vanguard Total International Stock Index	134,826,698	1.17%	0	0	0	0	None	None	None

Note 1: All top 10 shareholders shall be listed. For institutional shareholders, their names and the names of their representatives shall be listed separately.

Note 2: The percentage of shares held by the shareholders or his/her spouse or children of minor age or in the name of another person shall be listed separately.

Note 3: The relationship between the aforementioned shareholders, including institutional shareholders and natural person shareholders shall be disclosed based on the Regulations Governing the Preparation of Financial Reports by Financial Holding Companies.



IX. Total Number of Shares Held by the Financial Holding Company and Its Subsidiaries, Directors, Supervisors, Managers, and Businesses either Directly or Indirectly Controlled by the Financial Holding Company as a Result of Investment, and the Ratio of Consolidated Shares Held.

Invested Company (Note 1)	Investment of the Company		Investment of Directors, Supervisors, Managers and Directly or Indirectly Controlled Businesses		Total Ownership	
	Number of Shares	Percentage of Shares	Number of Shares	Percentage of Shares	Number of Shares	Percentage of Shares
Hua Nan Commercial Bank Ltd.	7,999,200,000	100.00	-	-	7,999,200,000	100.00
Hua Nan Securities Co., Ltd.	811,174,346	100.00	-	-	811,174,346	100.00
South China Insurance Co., Ltd.	200,138,625	100.00	-	-	200,138,625	100.00
Hua Nan Investment Trust Corp.	30,839,927	100.00	-	-	30,839,927	100.00
Hua Nan Venture Capital Co., Ltd.	200,000,000	100.00	-	-	200,000,000	100.00
Hua Nan Assets Management Co., Ltd.	100,000,000	100.00	-	-	100,000,000	100.00
Taiwan Depository & Clearing Corporation	921,928	0.25	1,529,975	0.41	2,451,903	0.66
Hua Nan Securities Investment Management	-	-	13,713,800	99.95	13,713,800	99.95
Hua Nan Securities Holdings Corp.	-	-	11,150,000	100.00	11,150,000	100.00
Hua Nan Futures Co., Ltd.	-	-	53,393,000	99.80	53,393,000	99.80
Hua Nan Securities (Hong Kong) Limited	-	-	79,975,000	100.00	79,975,000	100.00
Hua Nan International Leasing Co., Ltd	-	-	150,000,000	100.00	150,000,000	100.00
Hua Nan International Leasing Co., Ltd	-	-	-	100.00	-	100.00

Note 1: Investment made in accordance with Article 36 of the Financial Holding Company Act.

Activeness



IV Capital Overview

I. Stocks and Dividends

(I) 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
2001.12	\$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
2002.08	\$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-tzuti-09101432670
2003.08	\$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) 802,650,000 (Hua Nan Investment Trust)	Ministry of Economic Affairs—Aug. 15, 2003—Letter No. of Ching-shou-shang-tzuti-09201240920 Ministry of Economic Affairs—Aug. 27, 2003—Letter No. of Ching-shou-shang-tzuti-09201253580
2004.08	\$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-tzuti-09301166350
2005.08	\$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-tzuti-09401173590
2008.08	\$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-tzuti-09701216840
2009.09	\$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-tzuti-09801205810
2010.08	\$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-tzuti-09901194810
2011.09	\$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-tzuti-10001207630
2011.12	\$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-tzuti-10101009540
2012.09	\$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-tzuti-10101185540
2013.09	\$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-tzuti-10201181880
2014.09	\$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-tzuti-10301189410
2015.09	\$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-tzuti-10401204820
2016.09	\$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-tzuti-10501226210
2017.09	\$10	18,000,000,000	180,000,000,000	11,046,519,863	110,465,198,630	Capitalization of earnings 5,260,247,550	Ministry of Economic Affairs—Sep. 18, 2017—Letter No. of Ching-shou-shang-tzuti-10601130940
2018.09	\$10	18,000,000,000	180,000,000,000	11,543,613,256	115,436,132,560	Capitalization of earnings 4,970,933,930	Ministry of Economic Affairs—Sep. 17, 2018—Letter No. of Ching-shou-shang-tzuti-10701116700

Note 1: The information for the year shall be updated to the publication date of the annual report.

Note 2: The effective (approval) date together with the document number shall be added for any capital increase.

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

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

Note 5: Those who have private placement shall indicate it in a noticeable way.

Unit: shares

Kind of Stock	Authorized Capital			Remarks
	Outstanding capital stock	Un-issued shares	Total	
Common stock	11,543,613,256	6,456,386,744	18,000,000,000	Listed stock

(II) Shareholder Structure

Unit: Shares; April 16, 2019

Quantity	Shareholder Structure	Government Agency	Financial Institution	Other Corporation	Individual	Foreign Company or Foreigner	Total
Number (people)		9	31	862	280,788	983	282,673
Number of Shares Held (shares)		3,247,354,622	438,025,529	2,419,759,800	3,092,742,790	2,345,730,515	11,543,613,256
Shareholding Percentage (%)		28.13	3.80	20.96	26.79	20.32	100.00

(III) Status of Stock Dispersion

Date: April 16, 2019

Level of Shares Held	Number of Shareholders	Number of Shares Held	Shareholding Percentage (%)
1 ~ 999	103,243	16,415,839	0.14%
1,000 ~ 5,000	98,848	217,481,320	1.88%
5,001 ~ 10,000	28,965	201,751,013	1.75%
10,001 ~ 15,000	15,153	182,277,906	1.58%
15,001 ~ 20,000	7,705	133,206,447	1.15%
20,001 ~ 30,000	8,918	215,742,927	1.87%
30,001 ~ 40,000	4,695	161,021,876	1.39%
40,001 ~ 50,000	2,840	126,951,956	1.10%
50,001 ~ 100,000	6,419	441,386,102	3.82%
100,001 ~ 200,000	3,332	452,954,562	3.92%
200,001 ~ 400,000	1,371	370,021,123	3.21%
400,001 ~ 600,000	364	176,169,631	1.53%
600,001 ~ 800,000	174	121,513,552	1.05%
800,001 ~ 1,000,000	114	102,069,363	0.88%
1,000,001 above	532	8,624,649,639	74.71%
Total			282,673

(IV) List of Major Shareholders

The shareholder whose shareholding percentage is more than 1% of the company's shares or belongs to top ten shareholders of the Company:

Date: April 16, 2019

Name of Major Shareholders	Shares	Number of Shares held (shares)	Shareholding Percentage (%)
Bank of Taiwan		2,450,853,525	21.23%
Bank Taiwan Life Insurance Co., Ltd.		443,575,505	3.84%
First Commercial Bank		281,858,602	2.44%
Yuan Ding Investment Co., Ltd.		250,937,801	2.17%
Yung Tsai Investment Co., Ltd.		222,270,406	1.93%
Memorial Scholarship Foundation to Mr. Lin Hsiung-Chen		203,868,643	1.77%
Ministry of Finance		196,225,460	1.70%
HWATAI Bank as custodian of Trust Account		155,838,776	1.35%
JPMorgan Chase Bank as custodian of Vanguard Emerging Market Stock Index Fund Account		139,165,843	1.21%
JPMorgan Chase Bank as custodian of Vanguard Star Vanguard Total International Stock Index		134,826,698	1.17%
Citibank Hosting Norwegian Central Bank Investment Account		128,959,094	1.12%
		4,608,380,353	39.93%

(V) Market Value Per Share, Net Value, Earnings, Dividends, and Related Information for Past 2 Years

Item		Year	2018	2017	From beginning of the year to March 31, 2019 (Note 8)
Market Price per Share (Note 1)	Highest		18.80	18.40	19.40
	Lowest		16.55	16.15	17.35
	Average		17.67	17.00	18.52
Net Value per Share (Note 2)	Before issuance		15.09	14.87	15.76
	After issuance		Note 9	14.23	Note 10
Earnings per Share	Weighted average of shares (thousand shares)		115,436,133	11,046,520	115,436,133
	Earnings per share—before adjustment (Note 3)		1.27	1.09	0.36
	Earnings per share—after adjustment (Note 3)		None ⁹	1.04	Note 10
Dividend per Share	Cash dividend		0.545	0.50	Note 10
	Stock dividend	Appropriated from retained earnings	0.545	0.45	Note 10
		Appropriated from capital surplus	None	None	Note 10
	Accumulated undistributed dividend (Note 4)		None	None	Note 10
Return on Investment	Price/earnings ratio (Note 5)		13.91	15.60	12.86
	Dividend ratio (Note 6)		32.42	34.00	Note 10
	Cash dividend yield (Note 7)		3.08%	2.94%	Note 10

* When distributing the dividend from retained earnings or capital reserve, the information on stock market price adjusted according to the number of 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 based on the number of shares issued at year end and the appropriation resolved in the shareholders' meeting of the following year.

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

Note 4: If the terms of equity securities issued stipulate that the current year undistributed dividend could be accumulated until the year having surplus, undistributed dividend accumulated in each year until the current year should be disclosed respectively.

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

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

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

Note 8: The current year data should be updated to the date the annual report is published.

Note 9: The 2018 earnings distribution will be resolved in the 2019 shareholders' meeting.

Note 10: The 2018 earnings have yet to be distributed.

(VI) 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 residual dividend policy.

The earnings (if any) of the company shall be first used to pay the tax due and offset accumulated loss over the years according to law, followed by setting aside a legal surplus reserve. Then, a special surplus reserve shall be allocated or reversed according to the regulations and laws or as required by business needs. Any balance left over along with prior year undistributed earnings shall be the distributable amount, and the shareholders' meeting shall resolve the distribution of the shareholder's dividend and bonus within 30% to 100% of the distributable amount. Based on the Company's operation plan, cash dividend and stock dividend may be distributed, in which the cash dividend shall not be lower than 10% of the total amount of dividend to be distributed. In the case that the cash dividend per share is less than NT\$0.1, unless otherwise separately resolved by shareholders' meeting, it shall not be distributed.

2. Dividend distribution to be proposed in shareholders' meeting: Cash dividends at NT\$0.545 per share for NT\$6,291,269,225 and stock dividends at NT\$0.545 per share for NT\$6,291,269,220 (NT\$ per share in total) will be proposed in this general shareholders' meeting.

(VII) The Effects of the Stock Grant Proposed by the Shareholders' Meeting on Business Performance and Earnings per Share:

		2019 (Estimated)
Paid-up capital at the beginning of the period		115,436,133,000
Dividend distribution status for this year	Cash dividend per share	NT\$ 0.545
	Surplus to capital increase shares allocated per share	0.0545 shares
	Capital reserve to capital increase shares allocated per share	-
Changes in business performance	Operating income	Not applicable (Note)
	Operating profit increase (decrease) ratio over the same period last year	
	Net income after tax	
	NIAT 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	If the surplus to capital increase is changed to cash dividend distribution	Pro-forma earnings per share
		Pro-forma average annual return on investment
	If capital reserve to capital increase is not undertaken	Pro-forma earnings per share
		Pro-forma average annual return on investment
	If capital reserve to capital increase is not 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
Note: The Company did not announce 2019 financial forecast. Disclosure of the information is not required if the Company did not announce a financial forecast pursuant to the provisions provided by Letter No. TCZ(1)Z00371 of the Securities and Futures Bureau of the Financial Supervisory Commission R.O.C. dated February 1, 2000 (2000).		

(VIII) Employee Compensation and Director and Supervisor Remuneration:

- The ratio and scope of employee compensation and director remuneration prescribed in the Articles of Association:
If the Company has net income for the year, the Company shall set aside a certain amount as director remuneration and employee compensation based on net income before tax. The compensation shall be determined according to the below-mentioned ways, and the Board of Directors shall be authorized to proceed. However, net income of the year shall be first used to offset accumulated loss, if there is any.
 - Director remuneration shall be no more than 1%.
 - Employee compensation ranges from 0.02% to 0.15%. If employee compensation will be distributed by issuing new shares, employees of affiliated companies that meet certain requirements may be entitled to them. The Board of Directors shall set rules specifying the requirements.
- Accounting treatment for any differences between the estimation basis of the current period employee compensation and director remuneration amounts, calculation basis of the shares distributed to employees, and actual distributed amount:
The 2018 employee compensation and director remuneration are estimated pursuant to the Articles of Association of the Company and profits in 2018 and 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.
- Information on the distribution of employee compensation and director remuneration approved by the Board of Directors:
 - In 2018, NT\$147,540,000 was distributed as remuneration to directors, and NT\$14,683,000 was distributed as compensation to employees, all of which were distributed in cash.
 - The ratio of employee compensation in the form of stock to the net profit after tax in the standalone financial statement and the total employee compensation: Not applicable as the company does not plan to distribute share bonuses.
- Distribution of director remuneration and employee compensation from the earnings of the previous year:
The 2017 director remuneration and employee compensation distributed in 2018 were NT\$ and NT\$ respectively.



(IX) 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.

II. Corporate Bonds

Type of Corporate Bonds		2012 First term of unsecured corporate bonds—Issue B	2017 First term of unsecured corporate bonds—Issue A	2017 First term of unsecured corporate bonds—Issue B
Date of Issuance (Undertaking)		January 21, 2013	January 9, 2018	January 9, 2018
Face Value		NT\$10,000,000	NT\$10,000,000	NT\$10,000,000
Place of Issuance and Transaction (Note)		R.O.C.	R.O.C.	R.O.C.
Issuing Price		Issued according to 100% of face value	Issued according to 100% of face value	Issued according to 100% of face value
Total amount		NT\$4.9 billion	NT\$7 billion	NT\$5 billion
Coupon Rate		Fixed annual rate of 1.55%	Fixed annual rate of 0.92%	Fixed annual rate of 1.75%
Term		Seven years, maturing on January 21, 2020	Five years, maturing on January 9, 2023	Ten years, maturing on January 9, 2028
Priority Order of Compensation		Placed behind all other company creditors	Normal order	Placed behind all other company creditors
Warranty Agency		None	None	None
Trustee		Trust Department, Yuanta Bank	Trust Department, Yuanta Bank	Trust Department, Yuanta Bank
Underwriting Agency		None	Hua Nan Securities	Hua Nan Securities
Legal Service Signatory		Chan, Kang-Jung Attorney Office: Attorney Chan, Kang-Jung	Eternity Attorney Office: Attorney Chan, Kang-Jung	Eternity Attorney Office: Attorney Chan, Kang-Jung
CPA signatories		Deloitte & Touche: Chung, Wei, Wu, Yi-Chun	Deloitte & Touche: Wu, Yi-Chun, Lai, Kuang-Chung	Deloitte & Touche: Wu, Yi-Chun, Lai, Kuang-Chung
Terms of Payment		One-time payment upon maturity	One-time payment upon maturity	One-time payment upon maturity
Unpaid Principal		NT\$4.9 billion	NT\$7 billion	NT\$5 billion
Provisions for Redemption or Advance Payoff		None	None	None
Limiting Provisions		If interest or principal payments 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).	None	If interest or principal payments 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		Yes	No	Yes
Name of Credit Rating Agency (CRA), Rating Date, and Results of Corporate Bond Ratings		Agency name: Taiwan Ratings Corporation Rating date: November 15, 2012 Rating: twA-	None	None
Other Appended Rights	Amount of converted (exchanged or subscribed) ordinary shares, GDRs, or other securities as of the annual report publishing date	None	None	None
	Issuance and conversion (swap or subscription) methods	None	None	None
Dilution Effect and Other Effects on Existing Shareholders Caused by the Issuance, Conversion, Trade, or Subscription, and Issuance Condition of Shares		None	None	None
Name of the Custodian Institution Entrusted with Securities to be Converted		None	None	None



III. Issuance of Preferred Stock: None.

IV. Issuance of Global Depositary Receipts: None.

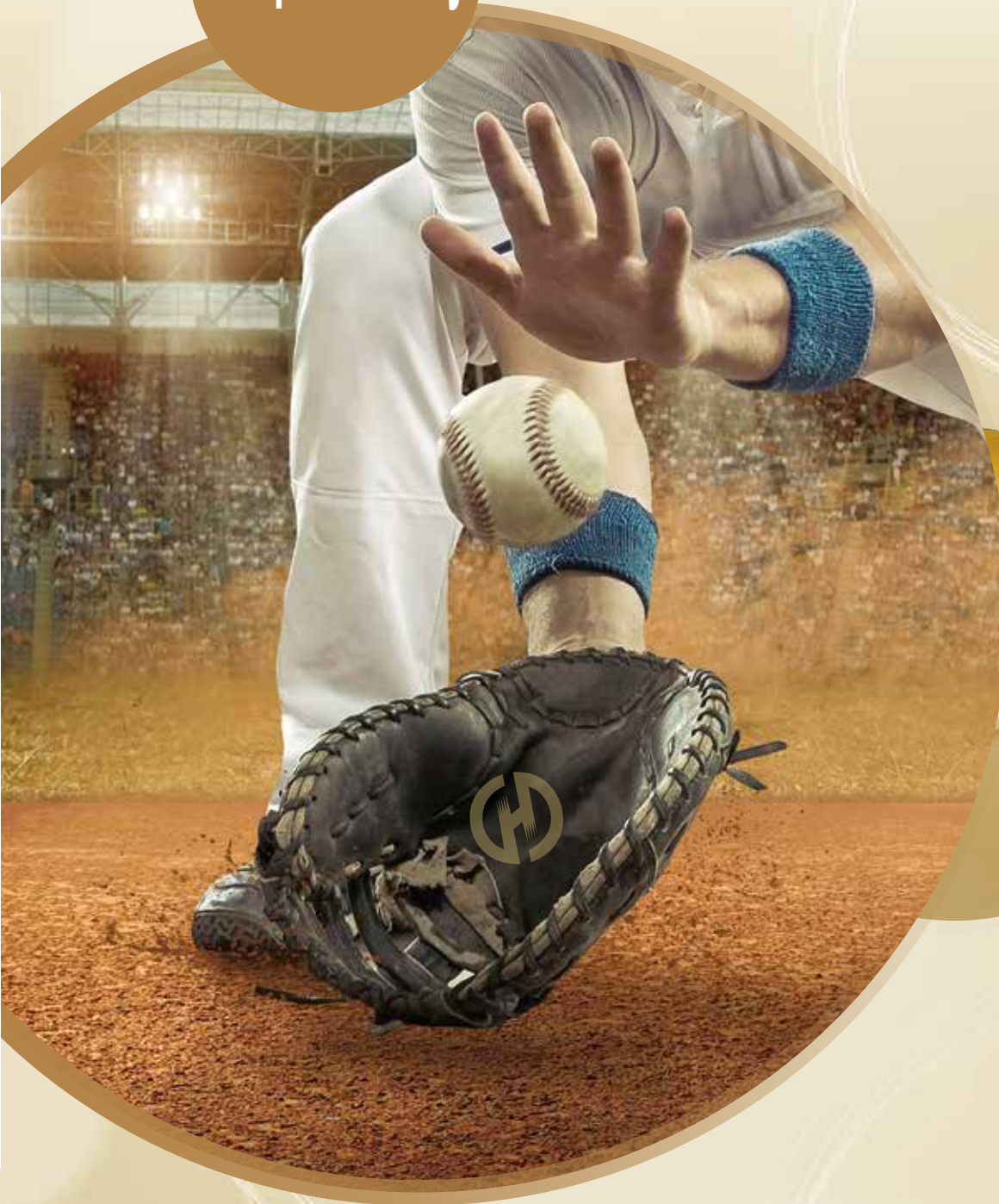
V. New Issuance of Restricted Employee Shares: None.

VI. Merger by Other Financial Institutions or Acquisition of Other Financial Institutions:
Not applicable. The Company does not engage in such affairs.

VII. Execution of Fund Application Plans:

As of the first quarter of the annual report, the previous issue of securities has been completed and the project benefits have been revealed.

Responsibility



V Business Overview

Details on Group business

(I) Hua Nan Financial Holdings

1. Business Scope:

(1) Main business

A. The Company is engaged in the financial holding business. According to the Financial Holding Company Act, the business is limited to investments and management of invested enterprises.

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

- | | |
|---------------------------------|---|
| (1) Financial holding companies | (7) Securities enterprises |
| (2) Banking enterprises | (8) Futures enterprises |
| (3) Bills finance enterprises | (9) Venture capital enterprises |
| (4) Credit card business | (10) Foreign financial institutions approved by the competent authorities for investment |
| (5) Trust enterprises | (11) Other enterprises related to financial businesses as recognized by the competent authorities |
| (6) Insurance enterprises | |

C. Also, in accordance with Article 37 of the Financial Holding Company Act, the Company may apply to the competent authority for approval to invest in enterprises other than those prescribed in Article 36 of the same act. Unless otherwise approved by the competent authority, a financial holding company and its representative shall not act as the director or supervisor of the enterprise in question or designate anyone to be the manager of the enterprise. The total amount of investment in other enterprises shall not exceed 15% of the financial holding company's net value. The financial holding company's investment in an enterprise shall not exceed 5% of the voting shares issued by the invested enterprise.

D. According to Article 6 of the Regulations Governing Cross-Selling among Financial Holding Company's Subsidiaries, subsidiaries of a financial holding company may engage in cross-selling business among themselves. The business covers the deposit account opening, credit cards, securities brokerage, futures, funds, insurance, etc.

(2) Business proportions over the past two years:

Unit: NT\$1,000

Item \ Year	2018		2017	
	Amount	%	Amount	%
Operating Income				
Gains on Long-term Equity Investments (Note)	15,433,564	-	12,662,017	-
Hua Nan Commercial Bank	14,306,738	93	11,363,268	88
Hua Nan Securities	456,087	3	729,526	6
South China Insurance	635,235	4	671,259	5
Hua Nan Investment Trust	13,911	-	12,014	-
Hua Nan Venture Capital	12,679	-	6,401	-
HNAMC	8,914	-	157,071	1

Note: The gain of NT\$277 million from property transaction between related parties HNAMC and HNCB has been eliminated from the Company's profits in 2017.

2. 2019 Business Plans

The Company's 2019 business plans cover five major directions: 1. Diversify income sources; 2. Balance the profit contribution within the Group and increase the benefit of asset and capital utilization; 3. Deepen financial technology, simplify process flow, improve service quality and operating efficiency, and expand customer base across generations and groups; 4. Build a culture of internal control, internal audit, risk management, legal compliance (GRC) to ensure information security 5. Fulfill corporate social responsibility, strengthen corporate governance, cultivate talent, and achieve sustainable operation. The above are illustrated as below:

- (1) Diversify income sources: Increase net service charge income and net finance income
 - A. Adjust the structure of deposits and loans, increase the percentage of NTD and foreign currency deposits, maintain low cost of capital, promote small and medium-sized enterprises (SMEs) and foreign-currency loans and bonds in order to improve loan-to-deposit ratio and interest spreads between deposit and loan.
 - B. Build a complete personal financing product service platform to provide convenient one-stop-shopping. Combine it with the "wonderful life" integrated promotion project to provide customers with exclusive packaged service. Increase profit of personal financing products by differentiated service and segment marketing.
 - C. Implement the execution of wealth management improvement project and expand the financial advisor team. Enable the growth of wealth management business by team work and profit sharing.
 - D. Continually promote syndicated loan business as the lead arranger and agent and win cases as the participating bank to increase syndicated loan service charge income. Partner with other banks to accumulate experience as well as professional knowledge and capability in project financing and large-scale construction financing to promote business.
 - E. Enhance the professions of investment research and trading personnel. Improve overall financial investment gain by grasping the trends in macro economy and market, swiftly trading NTD and foreign currency positions to increase exchange gain, and improving performance in discretionary investment.
- (2) Balance the profit contribution within the Group and increase the benefit of asset and capital utilization
 - A. The Group capital planning team reviews capital requirements, allocation, adequacy, and utilization efficiency on quarterly basis and plans respective actions.
 - B. Implement capital adequacy management, and incorporate the capital at risk concept into the performance appraisal of business units to link performance with risk undertaken in order to improve the asset structure and increase capital utilization efficiency.
 - C. Enhance subsidiaries' operating performance. Profit contribution shall match asset allocation.
 - D. Maximize the Company's cross-selling comprehensive effects with cross-selling and co-marketing referral mechanisms.
- (3) Deepen financial technology, simplify process flow, improve service quality and operating efficiency, and expand customer base across generations and groups
 - A. Make good use of investment credit incentives to engage in research and development of financial innovation, promote mobile, blockchain, AI (MBA) digital development strategies, and improve digital financial operating ability.
 - B. Build an online wealth management and financing platform, optimize traditional financial product service, and develop a business model of innovation and efficiency through strategic alliance with FinTech companies.
 - C. Upgrade and improve the IT system structure, simplify process flow, centralize and professionalize the operation to improve service quality and operating efficiency and enhance internal control. Replace manual operation with automated check and verification to decrease negligence in operation.
 - D. Realize the value of financial inclusion. Provide financial products or services for nursing, retirement, and life care needs in response to the trends of population aging and low birth rate. Keep on the continuous efforts in cultivating internet and social media to strive for transactions with younger generations and therefore extend the business.

- E. With big data analysis, develop the pilot membership plan for high net worth customer group to provide customer-oriented exclusive precision marketing activities, and to increase adhesiveness and contribution of high quality customers.
- (4) Build a culture of internal control, internal audit, risk management, legal compliance (GRC) to ensure information security
 - A. Construct a GRC culture for the Group. Enhance the triple lines of internal control: legal compliance, risk management, and internal audit. Periodically provide related training.
 - B. Carry out the Group's legal compliance system through concerns over changes in regulatory environment, regular seminars, reporting mechanisms, survey on execution performance, risk evaluation on legal compliance, analysis and management of violations, and continuous monitoring and evaluation.
 - C. Keep track of important changes in domestic and overseas laws and regulations through the Group's key legal compliance projects, and take competitors' practice to stipulate the Group's compliance standards to ensure its overall compliance effectiveness.
 - D. Carry out information management systems and information security evaluation procedures. Proactively use information security information through Financial Information Sharing and Analysis Center (F-ISAC) and add an active protection mechanism to strengthen the information security protection capability of the Group.
- (5) Fulfill corporate social responsibility, strengthen corporate governance, cultivate talent, and achieve sustainable operation
 - A. Build a sound governance structure and culture for a healthy corporate governance to protect shareholders' rights and follow regulations in the place of operation.
 - B. Reduce greenhouse gas emissions and energy consumption from operations, improve the efficiency of energy and resource utilization, and promote the idea of going green in the workplace and green procurement in order to achieve environmental sustainability.
 - C. Strive to provide employees with a safe and healthy work environment, protect human rights, place importance on employee compensation and benefits, enhance employee training, provide a smooth channel of communication between the management and employees, and create a sound environment for career development.
 - D. Make use of the spreading power of media technology to generate publicity of the Group's brand image, and integrate group resources to promote and sponsor charity events to realize the idea of an integrated society.
 - E. Continuously evaluate and mitigate the potential impact of investments and loans on the environment and society, and develop green and innovative financial products or services to capitalize on the core influence of the financial industry.
- 3. Industry Overview:
 - (1) Financial management
 - A. Banking industry: Profits of the entire banking industry reached NT\$320.1 billion in 2014. It maintained at a level of above NT\$300 billion in following years. Several large-scale bad debts incurred during the period and increased credit cost. Profit of the entire banking industry was NT\$334.2 billion as of 2018. mainly due to the increase of interest spread between U.S. and Taiwan so that exchange gains from USD/TWD SWAP and investment income increased.
 - B. Security industry: The entire security industry generated profits of NT\$33.3 billion in 2018, which is a decrease of NT\$11 billion or 24.8% compared to NT\$44.3 billion in 2017. The primary causes were the growth of 24% in trading volume caused by reduction of day trading transaction tax. Proprietary trading business grew 10%. However, the stock index dropped 8.6% which resulted in the decrease of 66% and 55% in proprietary trading business and underwriting business, respectively.

C. Property insurance industry: As of the end of November 2018, the entire property insurance industry generated profits of approximately NT\$12.484 billion mainly due to fewer natural disasters and major accidents. However, the investment income is not performing well as expected due to global financial market fluctuation. Profit for the whole year is estimated to be close to NT\$12.7 billion earned in 2017.

(2) Marketing

With the emerging financial technology, customers are no longer satisfied with traditional financial services and prefer experience. Thus the financial products and services started to develop toward becoming intelligent and personalized.

In order to maintain competitiveness, companies in financial industry put efforts in innovation and provide faster and more convenient services such as applying AI on investment, customer service, and precision marketing to increase efficiency, and identity recognition through facial, fingerprint, finger vein, palm print, and other biological identities to build a digital finance environment with upgraded security, and using the universal QR code to support electronic payment such as Taiwan Pay so that payment becomes more convenient.

In response to the trend of digital finance development and evolving requirement from customers, the Group will keep enriching internal R&D momentum, discovering external cooperation opportunities, and reforming comprehensively from the lower-layer systems and technology to applicational products, channels, and processes for the goal of becoming quality digital financial institution in Asia Pacific.

4. Research and Development:

(1) Marketing

The major research of marketing department in 2018 and 2017 covers study on financial technology in mobile, blockchain, AI, and proof of concept (P.O.C.) and its innovative application. The Company keeps polishing its big data technology and capacity, and expanding the use of big data statistics in precision marketing, risk management, and anti-money laundering.

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

a. S.M.A.R.T. Marketing

Be customer centric. Integrate products across subsidiaries and marketing resources through digital and physical channels. Satisfy customer needs and provide brilliant customer experience through automated product recommendation service chain.

- i. Single View: Build a Group customer complete view and know customers in all dimensions.
- ii. Mobility: Dynamically track customers' behavior and response in digital and physical channels.
- iii. Automation: Automatically quote recommended product information.
- iv. Real Time: Respond to customer needs in real time.

b. FinTech innovation competition

Organized three Hua Nan Financial Holdings FinTech Innovation Competitions to build a platform for exchange between the industry, academy, and research institutions, and inspire the energy of product innovation and research within the Group. Devote in the development of commercial applications in mobile, blockchain, and AI such as intellectual blockchain agreement and AI financing robot. The innovated concepts and empirical technology will become a reference for all subsidiaries in developing new financial service products.

B. Future research and development plans are as follows:

Through three stages of continuous innovation, cutting-edge technology application, and ultimate customer service experience, actively devote in the development of FinTech such as artificial intelligence, machine learning, blockchain, IoT, identity recognition, open banking, and automated robot process.

a. Research and development in FinTech innovations:

Pay attention to international and domestic FinTech development and application trends. Set customers application as the core, actively develop FinTech innovated products and services such as AI mobile bank, intelligent customer service, financing robot, finger print recognition, and mobile payment. Partner with external organizations, start-ups, and FinTech research centers in colleges to develop financial innovation in the hope of integrating fast, convenient, safe, and innovated financial service into daily life of the public.

b. Multiple application in big data:

Study the internal and external data that can be imported legally to expand the customer centric database. Build a machine learning model and verification mechanism to ensure the effectiveness of analysis output. Form a big data analysis team and cultivate data scientists to enhance the technical, analytical, and commercial skills of the Group in big data. Optimize marketing and customer experience through big data analysis model. Extend the application in anti-money laundering, post loan management, and risk management.

c. Interdisciplinary cooperation in open banking:

Under the international trend in open banking API, plan the API of all types of financial services across subsidiaries to share financial data and discover the new opportunities for financial industry to break traditions. Connect existing financial services through open API can speed up the linkage between current financial services for FinTech companies, create more life scenes that meet consumers' requirement, unveil the new chances for financial industry to break traditions, and build a brand new business model and FinTech ecosystem that can cooperate across the field.

(2) Risk management

A. Construct a Group risk management information platform.

Utilize the Group's data mining system and database tool to build the Group's risk management information platform. Risk management personnel can query credit risk and risk exposure of Hua Nan Insurance's enterprise customers through the platform to understand the impact of customers' negative information on the Group.

B. Renew the asset-liability management system

Assist subsidiaries in renewing their asset-liability management systems and enhancing the precision of interest rate risk analysis by reviewing and adjusting the asset-liability management models. We will also strengthen the liquidity risk analysis instruments to enhance our control capacity over asset-liability management.

C. Complete the upgrade of Group's value at risk (VaR) system

Complete the upgrade of Group's VaR system, upgrade and replace related software and hardware to facilitate the output of Group's daily VaR and risk analysis reports, the control over market risk limits of daily trading positions, and the stabilization of system operations.

D. Reach a balance between risk and return

In order to meet requirements from competent authority and Group policy of solid capital adequacy ratio, meet the direction of management from the Group capital planning team, the Company plans the capital adequacy ratio and capital utilization efficiency information disclosure for the Group and subsidiaries in order to ensure compliance with competent authority and the business development plan.

E. Management of non-financial risks

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 specific fields, e.g. operational conduct risk, in order to obtain a better understanding of the Group's overall risk outline.

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

(1) Financial management

A. Short-term—

- a. Diversify income sources: Increase net service charge income and net financial income.
- b. Balance profit contribution within the Group and increase the benefit of asset and capital utilization.
- c. Deepen financial technology, simplify process flow, improve service quality and operating efficiency, and expand customer base across generations and groups.
- d. Build a culture of internal control, internal audit, risk management, legal compliance (GRC) to ensure information security.
- e. Fulfill corporate social responsibility, strengthen corporate governance, cultivate talent, and achieve sustainable operation.

B. Long-term—

Develop FinTech innovations and a financial institution that is profitable, legally compliant and risk-bearing.

(2) Marketing management:

A. Short-term business development plans:

- a. Keep developing the customer management operating mechanism in the Group. Understand customer behavior through the big data analysis and intelligent marketing platform. Tighten the bond between customers and the Group, deepen customer group management, and increase operating efficiency through segment marketing.
- b. Provide financial products or services for nursing, retirement, and life care needs in response to the trends of population aging and low birth rate in Taiwan. Analyze the attributes and behavior of young customers through big data analysis, implement precision marketing to target audiences, and provide the products and services needed by customers to increase profit of the Group.
- c. Use the digital channel as an effective channel to communicate with customers in response to the development of digital financial environment and popularization of smart mobile devices to proactively extend digital customer base and enhance ability to gain customers.
- d. Provide one-stop-shopping and suitable and real-time consulting service and financial products to fulfill customers' needs in different stages of life. Increase operation synergy through the differentiated service and segmented marketing model.
- e. Integrate subsidiaries' products and promote marketing campaigns for complex products to satisfy customers' requirements for comprehensive financial products and maximize HNFHC's marketing synergy.
- f. Integrate the Group's marketing resources and publicize the Group's brand image and key products. Use digital advertising to enhance our digital finance brand image.
- g. Form the Group's big data operation development team and big data analysis team to integrate resources in products, channels, and marketing of the subsidiaries, build an integrated financial service platform, and provide a consistent customer experience through all channel real-time product recommendation.
- 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. Promote the development of innovated digital financial products and services to realize the value of financial inclusion and create sound customer experience. Develop the financial ecosystem across the field and integrate FinTech into industry and customers' life to create synergy of "one plus one bigger than two."
- c. Continuously improve the customer management model, optimize customer experience, and build relationship with high quality customers to create a win-win relationship with customers.

(II) Hua Nan Commercial Bank

1. Business Scope

(1) Main business

HNCB currently engages in the following business items:

- Accept a variety of deposits (Replace the checking deposits, demand deposits, time deposits, savings deposits, etc. originally listed on the business license with this one).
- Issue bank debentures.
- Engage in loan business (Replace the provision of short-term and long-term loans, deposit certificate pledge, and consumer loans originally listed on the business license with this one).
- Engage in note discounting business.
- Invest in securities (Replace the investments in government bonds, short-term notes, corporate bonds, bank debentures and corporate stocks originally listed on the business license with this one).
- Engage in domestic exchange business.
- Engage in commercial draft acceptance business.
- Issue domestic L/Cs.
- Issue corporate bonds with guarantee.
- Engage in local guarantee business (Replace the engagement in guarantee business originally listed on the business license with this one).
- Act as a collecting and payment agent.
- Act as an agent to sell government bonds, treasure notes, corporate bonds, and corporate stocks.
- Underwrite securities (Replace the underwriting of government bonds, treasure notes, corporate bonds, and corporate stocks originally listed on the business license with this one).
- Proprietary trading of securities.
- Trade securities for customer accounts.
- Engage in custody and warehouse business.
- Engage in safety deposit box rental.
- Engage in agency services related to the businesses listed in the business license or approved by the competent authorities.
- Engage in credit card business (Replace the issuance of credit cards and the provision of cash advances originally listed on the business license with this one).
- Act as an agent to sell gold bullion, gold coins, and silver coins.
- Trade gold bullion, gold coins and silver coins.
- Engage in export and import exchange, inward and outward remittances, foreign-currency deposits, foreign-currency loans and foreign-currency guaranteed payments.
- Engage in inward and outward remittance and foreign-currency deposits.
- Engage in foreign-currency note and traveler's check.
- Engage in derivative financial product business approved by the competent authorities.
- Engage in businesses prescribed by the Trust Enterprise Act.
- Engage in trust business of the Headquarters' dedicated trust department approved by the competent authorities.
- Engage in proprietary trading of government bonds.
- Engage in margin purchase or short sale of securities.
- Engage in short-term bill brokerage, proprietary trading, certification, and underwriting.
- Issue stored-value cards.
- Engage in public welfare lottery agency business approved by the competent authorities.
- Proprietary trading of corporate bonds and bank debentures.
- Proprietary trading of bonds.
- Engage in receivables acquisition.
- Engage in asset-backed beneficiary securities.
- Concurrently engage in securities investment consulting business.

- Engage in personal insurance agency business.
- Engage in property insurance agency business.
- Engage in money trusts.
- Engage in the trust of money loans and their security interests.
- Engage in securities trust business.
- Engage in real estate trust.
- Engage in superficies trusts.
- Engage in discretionary investment services in the form of trust.
- Act as an agent to issue, transfer and register securities and to distribute stock dividends, interest and bonuses.

- Offer advisory services for issuance and placement of securities.
- Act as a certifying agent for stock and bond issuance.
- Engage in securities certification.
- Engage in custody business.
- Consigned for custody of securities investment trust funds.
- Offer investment, property management and real estate development advisory services.
- Act as the trustee for bond issuance.
- Act as an agent for the collection and payment of actual transaction funds.
- Receive stored funds.
- Transfer funds between e-payment accounts.

(2) Proportions of main business items

Summary Table of Income from Main Business Items

Unit: Millions of NT dollars

Business Item	Year	2018		2017		Increase/ (decrease)	
		Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)
Corporate banking		12,593	21%	12,837	25%	(244)	(2%)
Consumer banking		12,406	21%	12,243	24%	163	1%
Financial transactions		9,031	15%	6,498	13%	2,533	39%
Foreign exchange		19,459	32%	14,760	28%	4,699	32%
Trust and wealth management		4,572	8%	4,379	8%	193	4%
Others		1,630	3%	1,245	2%	385	31%
Total main income		59,691	100%	51,962	100%	7,729	15%

Note: 1. The above business income includes interest, service charges and profits of financial assets/liabilities, currency exchange, and investments in real estate.

2. Consumer banking covers credit and cash card business. Foreign exchange includes the overseas and international financial branch business.

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

- Start from customer experience, provide convenient AI services and optimized AI experience such as mobile bank, internet bank, intelligent customer service, intelligent financial advisor, intelligent counter service, and intelligent receptionist.
- Aggressively develop the mobile payment business and align with international standards. Collaborate with different industries, e.g. electronic ticketing or e-payment, to create new business models so as to achieve synergies and build a win-win relationship.
- Plan and execute customer service channel marketing project (including inbound and outbound telephone marketing) to increase cross-selling business and enhance customer loyalty and contribution.
- Establish a "voice to text" mechanism in customer service in response to HNFHC's "big data project."
- Replace "full customer service system."
- Plan to build the "Smart Voice Dialogue and Navigation."
- Win enterprise customers that plan to return to Taiwan and invest in new plants. Provide customized financing products and promote loan and credit business in response to "the action plan on welcoming the backflow investment from Taiwanese entrepreneurs" promulgated by the government.

- In response to the government's dangerous and old building reconstruction policy, grasp the business opportunity in reconstructing dangerous and old buildings, provide reconstruction business consulting and financing service, and form a cross-industry alliance with construction companies to expand the Bank's market share in credit and loan business.
- Actively introduce young customers and issue an exclusive internet shopping card, I-Shopping Life Card, to reach the young consumer groups that love internet shopping. Strengthen global payment services and promote Apple Pay and Google Pay to provide favorite payment method of the young generations and enhance their user loyalty.
- Proactively promote global payment services and strengthen the cooperation with Apple Pay. After the successful binding of VISA and MasterCard issued by the Bank, soon JCB will be the next that can be bound. The binding of Taiwan Pay with credit cards is under planning. The scope of use in mobile payment is enlarged accordingly.
- Introduce the use of automated tools for securities investment advisory service. It facilitates HNCB to explore young customers through its features of low threshold, low cost and innovation.
- The Bank plans to provide a structured investment product. Investors can choose one or two combination within four types of products: interest rate, exchange rate, commodity, and equity. The principle is guaranteed for the product.

2. 2019 Business Plans

- (1) Continue to strengthen the deposit quality management in order to maintain HNCB's advantage of low capital cost.
- (2) Continue to explore new customers and fulfill customers' multiple financial needs through big data analysis.
- (3) Promote the intelligent reception system, reservation through mobile APP, and advanced processing services. Use digital FinTech to connect online and offline customer experience and thus improve customer service quality.
- (4) Evaluate and select appropriate business units to initiate the safe deposit box service or install more safe deposit boxes in order to improve the occupancy rate and thus the service charge income.
- (5) Work in line with the parent company's policies and collaborate closely with sister companies to increase HNCB's cross-selling proportion within the Group and the service charge income.
- (6) First year of AI movement:
 - A. AI conversational mobile bank:
Customers are able to interact with the cross-channel AI conversational platform through conversation. Complicated financial transactions and inquiry such as wire transfer and inquiry on transactions can be executed, which greatly optimizes customers' mobile experience.
 - B. Intelligent branch counter:
Customers can promptly operate application through the smart e-counter. Customers' digital experience and mutual marketing is also enhanced accordingly.
- (7) Plan and execute customer service channel marketing project (including inbound and outbound telephone marketing) to increase cross-selling business and enhance customer loyalty and contribution.
- (8) In response to the development of digital finance, optimize "Smart customer service HUA" and provide precision answering and all new sensible customer service experience.
- (9) Establish a "voice to text" mechanism in customer service in response to HNFHC's "big data project."
- (10) Plan and implement the replacement of "full customer service system" project.
- (11) Continue to adjust the New Taiwan Dollar loan structure under corporate finance, increase the number of profitable SME loans and take advantage of the various policy-oriented preferential loan projects and credit guarantee mechanisms to reduce HNCB's credit risk and enhance competitiveness in SME credit business.

- (12) Actively promote syndicated loan business where HNCB acts as the leading and managing bank. Strengthen HNCB's cooperation with financial peers in international syndicated loans on top of cultivating quality customers in order to improve the Bank's market share in the syndicate loan market and increase service charge income.
- (13) Increase fee income from corporate finance, strengthen the professional knowledge and marketing capability of corporate finance personnel and offer customers tailor-made financing proposals to expand the sources of service charge revenue.
- (14) Take advantage of the business opportunities arising from the 5+2 innovative industries initiative promoted by the government and aggressively explore corporate customers in relevant industry. Offer customized project financing products to strengthen the bonding between customers and HNCB.
- (15) In response to the business opportunity of Taiwan entrepreneurs' backflow incurred by U.S. China trade disputes, proactively win enterprise customers that plan to come back to Taiwan and make investment in plants. Provide all sorts of preferential project loan and consulting services to assist enterprises to obtain necessary fund for investment and in the end extend the Company's credit and loan business.
- (16) Provide various green energy preferential loan projects or special quotas in line with government's green energy policy to support the development of green energy industry, and evaluate and participate in syndicated project financing of green energy industry (offshore wind power, solar power). Incorporate SME credit guarantee mechanism whenever necessary to strengthen risk management and control measures and enhance HNCB's competitiveness in green energy financing business.
- (17) Continue to promote online e-financing operations, strive for financing opportunities within the customers' supply chain, and cultivate new customers through the online financing promotion activities and the supplier lists of center factory. Explore new customers, tighten the bonding with customers and increase the average financing balance and revenue of this business.
- (18) Expand the self-liquidating loan businesses and reward business units for actively searching for customer sources via the development of supplier list and regular promotion activities. Also, strengthen cooperation with financial industry peers, search for large receivables acquisition sources and increase the credit business volumes and revenues.
- (19) Through the "Urban Renewal Promotion Team", HNCB takes the initiative to work with Chung Hwa Real-Estate Management Co., Ltd. and the Ministry of Trust and actively visits local construction and autonomous urban renewal committees to promote urban renewal and reconstruction of dangerous and old residential buildings so as to enhance the visibility of our urban renewal business and increase the Bank's income from deposits, loans and trust business.
- (20) Aggressively expand overseas presence: Increase overseas footholds and profit contribution.
 - A. Greater China region:
 - Incorporate leasing and cross-selling with Group subsidiaries and utilize existing business locations in Shenzhen, Shanghai, Fuzhou, Baoan, etc., to expand our presence in the Greater China Region.
 - B. Southeast Asia Region:
 - a. Actively strive for the upgrade of Hanoi Office in Vietnam to a branch.
 - b. 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.
- (21) Center on the quality mortgage loan groups and target on the "revolving mortgage" and "mortgage life insurance" to improve credit quality and increase the contribution of high quality customers.
- (22) Respond positively to the government's "reverse mortgage" policy, promote the Bank's image as devoting to social welfare, and provide senior citizens with selections and security over living funds. Continue to promote "Good Luck Home Credit" and "Wonderful Life Loan."

- (23) Increase other personal loan business with higher interest rate spreads (other than mortgage). Continue to promote revolving loans, "Quick and Easy Loans," an e-loan application, and credit loans. By using internet technology, news media advertising, and social platforms to enhance product marketing so as to raise the loan amount and service charge income for other personal finance.
- (24) Promote credit card bundled insurance package to top wealth management customers, help build up investment and financing plans, tighten the bonding with credit card customers, effectively increase new customers, improve active card rate, and increase the amount of credit card transaction.
- (25) Expand young generation customers and new credit card customers and enlarge overall scale of card issuance. Sanrio Cute Stars Card and Kanahei's Small Animals LED Card were issued in May and August of 2018, which created uniqueness and successfully attracted target customers and fans of the idols to apply the cards.
- (26) Integrate induction mobile pay to promote acquiring business and increase reward point redemption stores to enhance market competitiveness, and increase acquiring business volume and ratio of card issued by the Bank.
- (27) Product strategy: Emphasize both in fund and insurance business, value performance of customer's investment, and flexibly adjust allocation between equity and bond with the market trend.
Channel strategy: Comprehensively enhance the quality and quantity of personnel in physical channels and explore customer groups in virtual channels through diversified marketing campaigns.
Customer group strategy: Offer wealth management review services and establish a comprehensive post-sales service procedure. Group customers based on asset scale and attributes, effectively manage customer groups at all levels using diversified activities, and activate and contact existing wealth management customers.
Price strategy: Improve customer service, enhance investment performance, and provide flexible service charge discounts to increase total income.
- (28) To celebrate the 100th anniversary of the Bank and continue the intention to safeguard numerous customers' impressive wish in the first place, the Bank launched "Hua Nan 100-purse for the dream, guard in the first place" project, combining products such as trust, foreign bonds, investment trust fund, insurance, and loan to assist customers to get prepared for plans and capital needed in all stages of life and fulfill their dreams in the hope of triggering personal financing business and bringing up enterprise financing business momentum as well.
- (29) HNCB launched a new type of account service which combines deposits with the value-added features of money market funds to meet the customers' needs for wealth management and spending.
- (30) Add foreign funds with subsequent service charge collection as trustee investment subjects to enhance trust product diversity.
- (31) Strive to win business opportunities from retirement security demands. Continue to promote safety and health-care trust and incorporate cross industry resources, individual investment products, loans, and credit cards to create happy lives for customers.
- (32) Properly adjust allocation of excess NTD current assets and elevate the yield of current capital.
- (33) Strengthen foreign-currency securities investments in line with changes of international financial status and increase capital gains and dividend income.
- (34) Flexibly leverage the net FX swap position to increase the Bank's income.
- (35) Expand areas of investment and trading of financial products.
- (36) Starting from the hedging needs of enterprise customers, the Bank promotes interest rate derivatives business to flexibly satisfy the exchange rate and interest rate hedge and fund dispatching needs from customers. In addition, the Bank provides diversified types of low risk investment tools to satisfy the investment needs from customers and control risk.
- (37) Understand market trends and products and provide high quality and competitive products to satisfy customers' needs for insurance, wealth management, and security.

- (38) Extend the Wonderful Life project and provide appropriate insurance product combinations to five targeted groups: the youth, single, family, matured, and aged. Provide exclusive products combining credit card promotions and Purse for Dreams tied with integrated marketing on all sorts of personal finance products to satisfy customers' needs for wealth management products and enhance HNCB's market penetration.
- (39) Continue to promote policy-oriented products such as micro insurance, long-term care, and disability assistance insurance, in order to enhance the HNCB's brand image.
- (40) Develop insurance service in the internet banking customer group with internet insurance business, provide competitive internet insurance products to enhance the management of internet customers and promote digital insurance service.
- (41) Introduce mainstream products suitable for the securities channel, assist the development of insurance business promotion ability, enhance salesperson performance, and create synergies within the Group.

3. Industry Overview:

The fierce competition among banks in Taiwan limits the growth potential of profitability. Thus government-owned banks aggressively continue expanding their markets overseas. As the development of FinTech is becoming more matured, and information security has increased, the general public is more willing to utilize FinTech, which helps government-owned banks to develop new markets and customer groups. Domestic banks have been gradually implementing anti-money laundering and countering the financing of terrorism. The risk control capability also increases and thus the domestic financial market and operating environment will be more stable and good for international presence.

4. Research and Development:

- (1) Research and development expenses in past two years:
 2018: 10,978 thousands of New Taiwan Dollars.
 2017: 10,148 thousands of New Taiwan Dollars.
 Mainly used for: commissioning research, printing and binding, lecture hour and draft fees and purchasing newspapers and magazines.
- (2) R&D items over the past two years: A total of 118 cases have produced results, which significantly enhanced HNCB's business performance, operational efficiency, and service quality. In the future, HNCB will continue to encourage employees to conduct R&D work in order to generate excellent performance and contribute to business success.

5. Long-term and Short-term Business Development Plans:

- (1) Short-term business development plans:
 - A. Foster the foundation of deposit business and adequately adjust deposit business strategy according to the Bank's operating status to build up a deposit structure that has good balance between quality and quantity.
 - B. In first year of AO movement, win business opportunity in FinTech, enhance user experience in the Bank's digital channel, and increase influence over the market.
 - C. Adjust the corporate finance loan structure and increase the amount of SME loans with higher profitability.
 - D. Actively promote syndicated loan business where HNCB acts as a leading and managing bank. Improve the Bank's market share in the syndicated loan market and increase service charge incomes.
 - E. Reinforce the integration of financial product marketing services through the corporate finance marketing team to provide customers with well-rounded financial service planning and elevate high-end customers' contribution.
 - F. Continue to strengthen high quality elite customer group's mortgage loan and mortgage loan insurance business, increase interest income, service charge income, and commission income from personal finance, and at the same time maintain quality of the mortgage loan.
 - G. Keep track of customer attributes and preferences through credit card usage data, promote related personal finance products, increase the number of products possessed by customers, tighten the bonding with customers, and increase operating profit from the products.
 - H. Optimize career development of financial advisors through polymath and specialist development. Internally encourage employees to transfer to other financing related jobs. Externally search for suitable talent through human resource websites and arrange for interviews in order to continually replenish sales manpower.



- I. Make use of existing advantage of the Bank and develop corporate salary accounts, credit card, and mortgage loan business. Promote internet banking discounts and build up the corporate salary account marketing and co-marketing model in branches to save the cost of operating bank counters and increase scale of transactions.
 - J. Start SMART financing business. Take advantage of unlimited service capacity, 24-hours operation, and lower investment threshold and charges to develop young and low-income customer groups that traditionally financial advisors have no time to take care of and therefore create new business opportunity and service charge income source.
 - K. Strengthen customers' awareness of foreign bonds and use funds and insurance as part of the asset allocation plan for customers.
 - L. Promote marketable products, provide various insurance product services, and utilize HNCB's advantages of engaging in property insurance and life insurance agency business to improve the Bank's profit and customer service.
- (2) Long-term business development plans:
- A. Continue to push for the operating unit transformation plan. Elevate the channel effect and integrate the digital and physical branch service through the application of FinTech.
 - B. Build the Open API platform and strengthen the idea of diversified cross-industry service alliance. Incorporate financial service into all kinds of customers' life scenarios, and create the financial experience with customers for the Bank to promote Open Banking ecosystem.
 - C. Plan to build the "Smart Voice Dialogue and Navigation."
 - D. Continue to adjust the Bank's revenue structure. Actively explore corporate finance service charge sources and increase the proportion of risk-free service charge income.
 - E. Integrate personal financing and loan products, perform segmented marketing to make efforts on existing customers and develop new customers, tighten the bonding with customers, and create value for customer relationship.
 - F. Develop diversified personal finance products in three different groups of the young generation, the middle-age, and the aged. Satisfy diversified financing needs of different generations.
 - G. Optimize the customer coverage model of financial advisors. Improve the management mechanism of proactive management and customer activation, and stabilize customer relation to raise total business effectiveness.
 - H. Provide customer-oriented precision marketing campaign and improve member cohesiveness through optimizing exclusive APP for pilot membership and combining it with big data analysis.
 - I. In response to finance inclusion and the policy of winning the young generation, continue to manage internet activities, extend the reach of financing business, and win the financing business opportunity of internal and external young internet groups.
 - J. Establish the Bank's image as the trust business brand for the elderly.
 - K. In response to the New Southbound Policy, apart from continuing to apply for the upgrade of Hanoi representative office to a branch, the Bank assesses the possibility of establishing branches in the Southeast Asia to participate in local economic growth, serve local Taiwanese enterprises and enhance the Bank's performance in profitability.
 - L. Continue to further the management of all channels, strengthen customer relationship, introduce quality products to raise product profitability and customer cohesiveness, and provide customers with total solution on insurance service.



(III) Hua Nan Securities

1. Business Scope:

(1) Main business

- Consigned trading of securities in the stock exchange market.
- Consigned trading of securities at its business premises.
- Proprietary trading of securities in the stock exchange market.
- Proprietary trading of securities at its business premises.
- Underwrite securities.
- Act as an agency to handle stock affairs for securities firms.
- Securities trading, margin purchase, and short sales.
- Consigned trading of foreign securities.
- Engage in securities related auxiliary futures trading services.
- Concurrently engage in the securities related futures business.
- Engage in the wealth management business.
 - (1) Provide advisory services on asset allocation, financial planning, or sales services on financial products.
 - (2) Execute asset allocation for customers via trust.
- Other securities related businesses approved by the competent authorities.

(2) Revenue proportion of main business items over the past two years:

Unit: Thousand NT dollars

Business item	Year	2018		2017	
		Amount	Percentage	Amount	Percentage
Brokerage		2,772,852	90.73%	2,567,839	82.66%
Underwriting		95,335	3.12%	61,658	1.98%
Proprietary business		188,035	6.15%	477,078	15.36%
Total		3,056,222	100.00%	3,106,575	100.00%

Changes in revenue contribution of main business items are as follows:

- A. Brokerage business: The average daily volume for the overall stock market in 2018 was approximately NT\$162,720 million, a growth of 19.81% compared with NT\$135,828 million in 2017. The company's average market share for 2018 was 3.28%, representing 6.15% growth compared to 3.09% in 2017, and is ranked as top ten in the market. Achievement rate of net brokerage fee income was 108.84%. The overall brokerage revenue increased from NT\$2,276 million in 2017 to NT\$2,448 million in 2018. Brokerage business volume increased 27.59% compared to 2017. Operating profit is NT\$864 million and the forecast achievement rate is 106.22%.
- B. Underwriting business: The underwriting income for 2018 amounted to NT\$103,026 thousand, which is a 26.02% growth compared to NT\$81,754 thousand in 2017. It is mainly caused by the growth of consulting fee revenue including four IPO lead underwriting projects (listed in the stock exchange market, over-the-counter market, and emerging market), and two SPO lead projects (ordinary corporate bond). Net income in 2018 and 2017 were NT\$22,661 thousand and NT\$4,511 thousand, respectively, which is a significant growth with an achievement rate of 74.35%.
- C. Proprietary business: Net loss for proprietary business in 2018 is NT\$-31,609 thousand, which is lower than 2017. It is mainly caused by the shock from U.S. and China trade war in 2018. The market worried that the trade war between U.S. and China would drag global economy which in the end affect global stock market. TAIEX dropped 915 points with 8.6% in 2018. The overall environment was interfered by unexpected trade war. The FED interest rate raise also caused an adverse effect on capital market. All of the above caused unexpected profit decrease. Profit in proprietary bond trading earned net income of NT\$122,936 thousand, which is an increase of 79.61% compared to NT\$68,447 thousand in 2017 with an achievement rate of 190.4%.

(3) New financial products and services under planning

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 working on research and planning, and cultivating required talents. In 2018, HNSC 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. Aggressively develop a well-rounded investment banking business: Encouraged by the government to transform securities firms into investment banks, HNSC has developed its financial advisory business to include services such as corporate reorganizations, acquisitions, or mergers. Other broadly defined brokerage and underwriting businesses are also included to move toward establishing a well-rounded investment bank.
- B. Overseas Taiwanese enterprises return to Taiwan for IPO: In conjunction with the government's offer of preferential terms to encourage overseas Taiwanese corporations to list their stocks in Taiwan, the underwriting department intends to partner with competent authority and international business department of the company to promote international business through Hong Kong office, attorneys, and CPA firms. The company also creates an international brand image and actively contacts overseas Taiwanese entrepreneurs to help them list stocks in Taiwan.
- C. Promote trust type wealth management businesses: In response to the popularization of digital financial trends and mobile devices, a mobile device trading platform is built to provide customers with more convenient transaction and asset management services to attract more customers. Also, we take advantage of the trust platform to continuously increase the wealth management products, increase customers' investment allocation options, and create a source of income for the trust business.
- D. Promote security lending business in wealth management: Design the security lending function in mobile device to increase effectiveness and thus enhance market presence. Design the commissioning of security lending and inquiry functions in "Smart e-counter" APP.
- E. Overseas re-commissioned web trading platform design and planning: Build multiple country trading platform and increase overseas tradable market. The goal is to provide 18 overseas stock markets and broaden product and service provided to enterprise customers.
- F. New financial product business ETN: The competent authority plans to launch new product ETN (Exchange Traded Note) in 2019Q2. The company will take part in the business and complete launching of ETN product in 2019. ETN is planned to be listed in the market in 2019Q2. One to three ETNs are estimated to hit the market in 2019.
- G. Increase the types of fixed income instruments for bond business: In terms of spot market, consider the financing costs and sources of funds. Besides the existing US dollar bonds, an expansion to include Euro bonds is under consideration. In terms of futures market, the main focus is on the sovereign bond futures at North America and Western Europe. In addition to the US Treasury bond futures currently in operation, an expansion to include government bond futures of Germany, France, and U.K. is under consideration.
- H. Aggressively participate in market making activities covering futures, TAIEX, individual stock options, and ETF: The financial commodities department and futures trading department will continue to promote market making activities so as to activate Taiwan's future related commodity transactions.
- I. Design and promote financial derivatives such as call/put warrants, asset swaps and structured products.
- J. Study the feasibility of introducing the new-type offshore securities units (OSU) business to expand the space of business operations.

2. 2019 Business Plans

The economic expansion that last for many years started to reverse in this year. After more than nine years of bull market, the U.S. stock market started to tumble downwards since October of last year. This year the market is very likely to turn to bear market and affect the global market. Major organizations in the world also revised downward

on forecast of global economic and trade growth of this year. The latest outlook report published by World Bank on January 8 has warned that the dark night of global economy is coming. The economic growth of this year and next year will decrease to 2.9% and 2.8% respectively, which are respective 0.1% decrease compared to the estimate published in June of last year. 2017 global growth rate was 3.1%. In 2018 it has decreased to 3%. According to the report, the growth in almost all areas and countries decreased. The growth rate of this year for U.S. will decrease to 2.5%, which was 2.9% in last year. Last year China's growth rate was 6.5%. It will decrease to 6.2% in this year and next year. Last year Eurozone's growth was 1.9%. This year it might reduce to 1.6%. The emerging market growth is estimated to be 4.2% this year. Global trade growth is estimated to decrease to 3.6% compared to 3.8% in last year. The statistics is far less than those in 2017, which was 5.4%. Taiwan will also be affected, which will result in a slowdown of growth momentum. We have to be alerted that Taiwan's biggest export market and manufacturing base, China, is experiencing a vast slowdown and might be trapped deeply in the most serious crisis since the financial crisis in 2008. This will also become an enormous risk for Taiwan's economy. In addition, there will also be uncertainties in U.S. China trade policy disputes, monetary policies from major economies such as FED, and Brexit that caused political and economic challenge in Europe. An enormous fluctuation in global exchange and stock market is inevitable. The company shall prudently face the challenge and strictly control the risk to maintain the good position by restraint. HNSC's operating principles are as follows:

- (1) Adjust the operating models of branch offices in line with the Financial 3.0 Digital Era. Educate and transform existing salespersons into comprehensive wealth management specialists. Promote relevant wealth management products such as funds and insurance, and offer customers more product selections. Strengthen the channel marketing strategy in Taiwan and improve channel performance.
- (2) Establish a digitalized channel service center team to strengthen guidance and assistance in digital transformation of business units.
- (3) Expand the corporate service team, enhance the quality of service provided to key corporate clients and focus on in-depth operations to improve business performance.
- (4) Reduce operating costs through channel mergers and relocations, and seek acquisition opportunities to increase HNCB's market share.
- (5) Integrate related study resources, steadily conduct stock proprietary trading and strictly abide by the stop-loss mechanism.
- (6) In conjunction with the lifting of laws and regulations, continue to promote new types of businesses, such as "unrestricted-use capital loan" or "securities firm entrusted fixed time and amount securities trading", to increase relevant niches.
- (7) Promote key businesses, e.g. OSU and trust-type wealth management, at international securities branches.
- (8) Promote new financial product ETN business: Launch the new product ETN (Exchange Traded Note) in 2019Q2 in response to the competent authority's plan. The company will take part in the business and complete launching one to three ETN products in 2019.

3. Industry Overview

The status and development of the securities industry are briefly described as follows:

- (1) The 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 holding companies by professional brokers, as e-trading gradually matures, the proportion of corporate transactions continue to grow. Based on the consideration of enhancing single branch's competitiveness, some brokers begin to adjust the distribution of their business bases, and mergers among their branches are also taking place.

List of securities firms in recent years

Year	Item	Total number of securities firms		
		Headquarter	Branch	Total
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
2017		132	913	1,045
2018		129	902	1,031

Source: Website of Taiwan Securities Association

The local securities industry has encountered the problems of withering trading volumes, international competition, and the offshore relocation of industries. Therefore, the organizational development strategy of HNSC will head in the direction of financial holdings or strategic alliances. As for business development strategy, HNSC will move towards new businesses such as wealth management, cash deposit accounts, trusts, etc. Thus, HNSC will move towards new directions in terms of organization, business and products.

(2) Booming development of securities firms' network and mobile e-trading

The proportion of e-trading in HNSC has reached 60% of the total transaction volume by the end of 2018. In terms of mobile trading, it accounts for 56% of the overall e-trading by the end of 2018. The high-growth figure indicates that HNSC's e-trading system has been well-received and recognized by customers and the market.

With the emergence of FinTech, HNSC provides customers with more considerate services. The Company upgraded the official "Hua Nan Securities" Line@ account to "Hua Nan Smart Machine" in May 2018. Users can find stock prices after adding "Hua Nan Securities" Line@ account as a friend for free. Hua Nan Securities e-trading customers can bind the account by ID number and e-trading password and immediately enjoy information such as transaction confirmation, message subscription, stock draw result notice, receivables of the day, credit maintenance ratio reminder, stock portfolio selection, market price of stocks on hand, exclusive smart information summary, etc. The number of fans adding the account as friends has reached to 60 thousand accounts by year end, which demonstrates the love in Hua Nan Securities' innovated service from customers.

Establish Smart E-counter APP that provides customers with all kinds of services without physically going to the counter. The services include online account opening, regular fixed-time and -amount transactions in Taiwan stock market, e-passbook, etc. More services such as two-way securities lending and Hua Nan Easy Loan, are planned to be launched in the future.

4. Research and Development

- (1) Keep providing customers with sound online counter service: Offer regular fixed-time and -amount transactions, all-purpose loans, two-way securities lending, and online account opening through the e-counter platform. Offer customers with online-counter service through Straight Through Processing (STP).
- (2) Continuously optimize Line@ customer experience: Build social media Line@ customer service, combine the patented AI stock selection logic, stock selection strategies, and real-time news to provide prime information to Line@ customers. Enrich Line@ contents and provide more information such as ETF and soft information through cross-industry cooperation. Provide customers with account enquiries, wealth management information, stock selection notification, and other related services through binding customer e-trading accounts through Line@ services. Introduce the AI semantic robot service to provide automatic answering service and multiple customer service channels to enhance customer satisfaction.
- (3) Provide stock brokers with a good mobile service platform: Establish a mobile broker operating system (mobile APP) to provide brokers with a good customer service mobile platform, including customer account enquiries, interview records, promotion, sales statistics, study reports, and market status notification.

- (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) Continuously ensure the anti-money laundering system works effectively: To improve anti-money laundering and countering the financing of terrorism, the company implements the "Anti Money Laundering (AML)" system developed by SAS Institute Inc. to strengthen the monitoring of the company's accounts and transactions as well as detecting suspicious money laundering and terrorist financing transactions. To ensure that the system functions normally, the company engages external the professional consultant KPMG Consulting Company to inspect the system and test function after the SAS system went live.
- (6) Improve and strengthen information security: Procure Fortinet network equipment with VPN double factor certification to improve information security. Replace IT personnel VPN connection system. Designate budget for system upgrade and plan the replacement schedule.
- (7) Combine the professional knowledge of the Overseas Commodity Unit, Financial Commodity Unit, and Futures Self-Operation Unit and committed to the financial commodity arbitrage study and trading. IT department develops 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) Promote trust type wealth management businesses: Continuously increase the number of cooperating companies, launch new products, improve competitiveness to avoid losing customers. Negotiate with new partners and launch hot new products in order to improve variety of products offered and provide more investment allocation choices for customers. Plan marketing activities to maintain channel participation.
- (9) Promote the OSUs. The company will employ additional professionals to promote the relevant businesses and increase our niche.
- (10) The subsidiary, Hua Nan Securities Investment Management, has conducted in-depth research in the fundamental, technical, and financial aspects of global financial, domestic and international economy, industry, and individual company information to master the investment trends and avoid risky industries. In addition to bringing out relevant investment publications and organizing investment seminars regularly, we also provide financial holding group related unit investment information and credit references.
- (11) Plan the following relevant information system planning:
 - A. In conjunction with the blueprint of digital financial environment, Bank 3.0, of HNFHC and HNSC, we have built a complete digital finance environment and will gradually work toward the following goals:
 - a. Establish a digital trading environment.
 - b. Establish AI Interactive customer service center.
 - c. Make good use of the digital marketing system.
 - d. Deepen the social media management and marketing.
 - e. Master the FinTech development trends and plan for related technologies and services.
 - f. Make good use of the financial holding's big data project platform to provide digital marketing services.
 - g. Use business intelligence analysis platform for real-time performance management.
 - B. Overseas re-commissioned web trading platform design and planning: Build multiple country trading platforms and increase overseas tradable markets. The goal is to provide 18 overseas stock markets and broaden products and services provided to enterprise customers.
- (12) Study to establish a venture capital company: Aim at becoming a well-rounded investment bank to facilitate the underwriting business. Partner with underwriting business to act as an investment bank to complement financial holdings venture capital and create double investment engines. The investment strategy is to focus on late stage cases.



5. Long-term and Short-term Business Development Plans

- (1) Short-term strategies: Balance the development of respective businesses covering brokerage, underwriting, proprietary trading, 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 operating profit.
- (2) Mid- and long-term strategies:
 - A. Brokerage business: Complete merging of channels and expand new-type businesses.
 - B. Investment banking business: Strengthen underwriting business and expand capital size.
 - C. Asset management: Broaden capital management scale and enhance operation management efficiency.
 - D. Financial innovation: Strengthen financial engineering capability and introduce new financial products both at home and abroad.
 - E. Corporate e-operations: Establish various Bank 3.0 systems, integrate corporate resources, and elevate operation efficiency.
 - F. Risk management: Monitor risk-adjusted assets to reduce operational risks.

(IV) South China Insurance

1. Business Scope

(1) Main business:

- | | |
|---|--|
| <ul style="list-style-type: none"> • Fire Insurance: <ol style="list-style-type: none"> A. Commercial Fire Insurance B. Commercial Complex Fire Insurance C. Commercial Extended Coverage Fire Insurance D. Residential fire and earthquake basic Insurance E. Dwelling House Comprehensive Insurance • Marine Insurance: <ol style="list-style-type: none"> A. Marine Cargo Insurance B. Inland Cargo Insurance C. Marine Hull Insurance D. Fishing Vessel Insurance E. Aviation Insurance • Auto Insurance: <ol style="list-style-type: none"> A. Physical Damage B. Third-Party Liability Coverage C. Theft Loss Coverage D. Compulsory Automobile Liability Insurance | <ul style="list-style-type: none"> • Casualty Insurance: <ol style="list-style-type: none"> A. Engineering Insurance B. Credit & Bond Insurance C. Liability Insurance D. Other Property Insurance • Health & Accident Insurance: <ol style="list-style-type: none"> A. Health Insurance B. Personal Accident Insurance C. Comprehensive Travel Insurance D. Travel Agency's Liability Insurance E. Employer's Compensation Insurance |
|---|--|

(2) Business proportion

Proportions of main business items in the past three years:

Unit: Thousand NT dollars

Item	Year	2018		2017		2016	
		Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)
Written premium income		8,658,680	92.94	8,606,403	94.70	8,378,902	95.20
Fire insurance		1,439,198	15.45	1,415,064	15.57	1,391,949	15.82
Marine insurance		495,828	5.32	533,863	5.87	564,183	6.41
Auto insurance		5,290,801	56.79	5,329,534	58.64	5,195,081	59.02
Casualty insurance		724,565	7.78	711,174	7.83	679,300	7.72
Health & personal injury insurance		708,288	7.6	616,768	6.79	548,389	6.23
Reinsurance premium income		657,937	7.06	481,810	5.30	422,736	4.80
Total		9,316,617	100.00	9,088,213	100.00	8,801,638	100.00

(3) New products and services under planning

SCIC will continue to develop new products according to the requirements of varying markets in 2018 to satisfy consumers' varying requirements and offer them a wide selection of products. The newly-planned products are as follows:

SCIC will continue to develop new products according to the requirements of varying markets in 2019 to satisfy consumers' varying requirements and offer them a wide selection of products. The newly-planned products are as follows:

Product
South China Insurance Auto Pre safe system Extension Clause
South China Insurance Commercial Vehicle Comprehensive Insurance(for diversified taxis)
South China Insurance Solar Irradiation Index Insurance
South China Insurance Pet Comprehensive Insurance
South China Insurance Typhoon Wind Speed and Rainfall Index Based Lychee Insurance
South China Insurance Product Liability Insurance Contaminated Products Expense Clause
South China insurance Personal Accident and Abrupt Onset Insurance

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

2. 2019 Business Plans

- (1) Expand the market share: Develop regional insurance brokerage/agency businesses, further cultivate and expand the business with banks and life insurance channels and increase the proportion of channel sales. Increase the scale of B2B and B2B2C, expand online insurance purchase and e-commerce groups, continue to introduce innovative products, and follow the policy from the government to promote agricultural insurance products in order to boost revenue.
- (2) Increase percentage of high-quality business and adjust the business structure: Carefully select high quality customers and partnering channels to increase percentage of profitable business. Strengthen reinsurance skills, increase percentage of medium to large scale business, increase percentage of high-quality business, and control loss rate in order to increase insurance underwriting profit.
- (3) Optimize information system function and digital service: Keep on system upgrades and enhance digitalized functions to increase service quality and efficiency. Optimize the mobile quoting operating system, increase selling efficiency, and take preemptive opportunities. Promote online insurance purchase in order to simplify quotation offering from sales and increase sales.

- (4) Continue to hold employee training to foster excellent leaders and management: Organize all kinds of training programs. Continue to organize training for the entry-level to medium supervisors to prepare them for management positions.
 - (5) Enhance fund application performance and increase investment income: Prudently apply fund, create a stable profit, flexibly adjust asset allocation, control investment risk, and improve investment income.
 - (6) Implement legal compliance, risk control, and internal audit mechanisms to enhance corporate governance: Raise legal compliance awareness and implement internal control and internal audit to reduce risk in legal and all operations. Build anti-money laundering system and periodically hold legal compliance training to strengthen the risk management mechanism and risk quantifying technique to ensure that operating goals and strategies comply with risk management and achieve corporate governance goal.
 - (7) Continue to participate in public welfare activities and fulfill corporate social responsibility: Volunteer service team participates in social charity activities, provides resource and care to disadvantaged groups, contributes fund to charity groups and associations, and takes part in other charity events.
3. Industry Overview: Elaborate on the industry's current status and development:

The written premium income of the entire property insurance market was NT\$164,860 million in 2018, which is an increase of 5.69% compared TO 2017. For SCIC, the written premium income was NT\$8,660 million in 2018, which is an increase of 0.61% from 2017. The premium income increased NT\$52 million, and the market share was 5.25%.

4. Research and Development:

- (1) The R&D expenditures and results over the past two years

SCIC's new products have been developed by its product development team. The key products developed over the past two years are as follows:

Product
South China Insurance Heavyweight Motorcycle Comprehensive Insurance
South China Insurance Emergency Road Service Extension Clause
South China Insurance Residential Comprehensive Insurance Fire Legal Liability Clause
South China Insurance Specific Accident Housing Price Reduction Insurance Clause
South China Insurance Cyber Liability Insurance
South China Insurance Electronic & Computer Crime Insurance
South China insurance comprehensive travel insurance credit card fraud compensation Clause
South China insurance comprehensive travel Insurance Mobile Phone Theft Loss Coverage Clause
South China insurance Group PA Insurance (standard type) Care taker expense Clause
South China Insurance Auto Extended Warranty Insurance
South China Insurance Motorcycle Comprehensive Liability Insurance
South China Insurance Sedan For Rental Purpose Insurance
South China Insurance Sedan Licensed Driver's Liability Insurance
South China Insurance Commercial Fire Insurance Renewal Agreement Clause
South China Insurance Papaya Typhoon Wind Speed and Rainfall Index Insurance
South China Insurance Papaya Typhoon Wind Speed and Rainfall Index Insurance Screenhouse Clause
South China Insurance Employee Performance Bond Extended Reporting Period Clause for Resigning Employee
South China Insurance Childcare Workers Professional Indemnity Insurance
South China Insurance Public Liability Insurance Shuttle Bus Liability Clause
South China insurance comprehensive travel insurance Accommodation expenses for accidental extended stay Clause
South China insurance comprehensive travel insurance change airport compensation Clause

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

(2) Future R&D plan:

We plan to develop new products based on different market demands in order to satisfy consumers' varying requirements and choices. The newly planned products include: Automotive safety system clause, commercial vehicle comprehensive insurance (for diversified operation tax), daylight parametric insurance, comprehensive pet insurance, wind speed and rainfall parametric lychee insurance, product responsibility insurance product recall cost clause, and personal insurance covering sudden illness and injury. SCIC will also continue to strengthen information system integration and improve e-commerce marketing efficiency.

5. Long-term and Short-term Business Development Plans:

(1) Operating guidelines

- A. Expand business organization and scale, and increase market share.
- B. Adjust business structure and increase the proportion of quality business.
- C. Increase digital operation function and optimize effectiveness of information system integration.
- D. Continue to organize training for key personnel and enhance training for the entry-level to medium-level supervisors.
- E. Enhance capital utilization and improve investment returns.
- F. Strengthen risk management mechanism and carry out corporate governance.
- G. Continue to participate in public welfare activities and fulfill our corporate social responsibilities.

(2) Business objectives

The premium income of SCIC in 2018 was NT\$9,317 million, including NT\$8,659 million of written premium income and the re-insurance premium income of NT\$658 million. The average claim ratio of insurance was 54.72%. The 2018 operating income was NT\$7,012 million, covering the net premiums earned of NT\$6,158 million, the net investment profit of NT\$185 million, and other operating income of NT\$669 million. The 2018 operating cost was NT\$4,751 million, covering the net claims incurred of NT\$3,403 million, the net changes of liability reserve of NT\$-69 million, and the other operating cost of NT\$1,417 million. The operating expense was NT\$1,482 million; operating profit was NT\$779 million; net non-operating loss was NT\$-7 million, and pre-tax profit was NT\$772 million. After deducting income tax expense, the net after-tax income was NT\$635 million with which the after-tax net income per share was NT\$3.17; return on assets was 3.54%, and return on shareholders' equity was 12.97%. The budget achievement rate was 100%.

(3) Important operating policies

A. Business development:

- a. Expand the scale of business organization and teams, and enhance the professional knowledge and marketing capabilities of the operating personnel.
- b. Continue to develop new business channels and increase the proportion of quality channel business. Secure car dealership business and explore new dealers to improve the sales of regional insurance brokerage and agency businesses. Moreover, aggressively develop and expand the B2B and B2B2C online trading platforms to improve the proportion of online insurance businesses.^{2C}
- c. Continue to optimize the e-commerce network, strengthen membership liaisons, promote online insurance purchase through Line@, and keep increasing the percentage of e-commerce business.

B. Risk management:

- a. Deploy data science to enhance risk data analysis ability to strengthen risk prevention.
- b. Promote correction on effectiveness of operation control and create the basis of risk defense line.
- c. Promote review on the risk control mechanism and refine risk self-assessment and stress-testing scenarios to ensure liquidity.

C. Expense control:

- a. Use energy-saving lights, increase switch circuits and replace old air conditioning systems during office relocations and decorations to reduce electricity costs.
- b. The Headquarters would enquire about the prices of copying papers from numerous vendors and make purchases for the entire company to receive volume discount and save costs.
- c. Continue to strictly implement the annual cost budget management system, execute the cost allocation mechanism, require departments to strictly control cost expenditures, and regularly track the expenditure status so that each department have full knowledge on cost budget progress and execution status and thus achieve the control objectives.

D. Capital management:

The asset risk has been the primary reference for SCIC to determine its external capital utilization and investments. In addition, in conjunction with its parent company's risk control integration mechanism, SCIC inspects and adjusts the current risk asset position using indicators such as VaR. In so doing, change in risk can be concurrently handled while capital income is stably elevated, and financial assets' potential volatility risk can be literally controlled.

Property insurance industry's capital attribute is different from that of other financial institutions. Other than complying with statutory laws and regulations, SCIC must take priority in liquidity and safety in its establishment of capital utilization tactics. This is followed by considering its earnings yield so that its solvency can be strengthened and the rights and interests of the insured can be protected.

(V) Hua Nan Investment Trust

1. Business Scope:

(1) Main business:

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

(2) Business Proportion (2018)

Asset type		Percentage (%)
Mutual fund	Equity type	68.78
	Fixed income type	22.89
Private placement fund		2.01
Discretionary services		5.40
Service charge income		0.92
Total		100.00

(3) New financial products and services under planning:

Hua Nan Investment Trust will continue to enhance product research and development capability and develop new products that meet the market trend and customers' need to provide customers with diverse product selection and satisfy customers' different financing needs.

2. 2019 Business Plans:

- (1) Increase profit and asset scale to win market ranking.
- (2) Continue to strengthen and stabilize fund performance and increase momentum of fund sales to continually improve asset structure.
- (3) Plan and make up the image of products, and keep expanding external channels and cooperating with life insurance companies in investment linked insurance policy.

- (4) Promote regular fixed-time and -amount transactions and the big data investment plan (AI wealth management steward) to accumulate long term fund scale.
- (5) Keep developing digital finance business to expand online trading business.
- (6) Continuously strengthen customer service and relationship maintenance.

3. Industry Overview:

By the end of 2018, six out of the twenty-one fund types increased in size, and fifteen of them decreased in size. The types of funds displaying the largest increase were international ETF, international general bond fund, domestic ETF, multi-asset fund, international balanced fund of funds, and domestic general bond fund. 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 with public offering of funds exceeding NT\$100 billion and ranked the same as last year. Four of the top ten investment trust companies were foreign companies, including JPMorgan Asset Management (Taiwan) Ltd., Allianz Global investors Taiwan Ltd., PineBridge Investments Management Taiwan Ltd., and Nomura Asset Management Taiwan.

4. Research and Development:

The development of new financial products under securities investment trust business depends on the approvals from competent authorities. In addition to paying attention to the policies of competent authorities, HNIT also takes into account market trends in developing new financial products. The new products developed in the past two years are as below:

- (1) Issued the "HNIT Value Selected Umbrella Fund - Shiller US CAPE® ETF Fund of Funds and Shiller US REITs Fund" on July 24, 2016.
- (2) Issued the "HNIT Four-Year Maturity Emerging Market USD Bond Fund" on June 14, 2017.
- (3) Issued the "Hua Nan Global New Retail Fun" on May 28, 2018.
- (4) Issued the "Hua Nan Global Multi-Asset Fund" on October 19, 2018.

5. Long-term and Short-term Business Development Plans

- (1) Short- and mid-term business development plans
 - A. Set up the goal of increasing total scale and profit. Continue to develop and issue products that meet the market trend and satisfy customers' need to form a complete product line.
 - B. Strive to increase long term fund performance to increase customers' confidence in holding the fund and thus drive sales and secure fund balance.
 - C. Strengthen the development and service of external channels to boost sales ability.
 - D. Strengthen customer service and digital finance services to elevate customer satisfaction.
- (2) Long-term business development plans
 - A. Expand business scale and make HNIT one of the top fifteen investment trust firms.
 - B. Seek further opportunities to provide discretionary investment services for government funds and legal entities.

(VI) Hua Nan Venture Capital (HNVC)

1. Business Scope:

(1) Main business:

- Venture capital business
- Investment advisory business
- Management advisory business

(2) 2017 Business Proportion:

Item	Percentage
Investment income	93%
Management advisory income	7%

2. 2019 business plans:

- (1) Observe industry change and adjust portfolio: In addition to continuously increasing the percentage of investment in startup companies, the company will direct attention toward three major directions industry-wide: first, the AI industry that applies to customer service, intelligent manufacturing, intelligent medicine, and robots; second, industries such as clean energy and agricultural technology that target on perpetual management of earth and respond to the climate change; third, the digital economy industry that applies to e-commerce, FinTech, and cross-industry integration.
- (2) Utilize diversified channels to develop quality case sources: In addition to the case sources recommended by peers and the financial holding system, HNVC will also continue to strengthen its interaction with large corporate groups and internationally acknowledged venture capital institutions to strengthen the global deployment of investment portfolio. HNVC 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 potential.
- (3) Encourage Group employees to recommend investment target: Continue the cross connection and cooperation between affiliated companies in the Group to jointly develop high quality investment target.
- (4) Build up investment position that can generate stable income: To alleviate the possible impact on operating performance of venture capital caused by valuation after the implementation of IFRS 9, the company plans to appropriate part of the funds on investments that can generate long term stable income. The rest will be used in general investments to earn capital gain.
- (5) Strive for external fund management: Win the opportunity to manage external funds to demonstrate HNVC's ability to manage external funds as a basis to enlarge fund scale.

3. Industry Overview:

According to statistics from Taiwan Venture Capital Association, as of the end of 2017, there are 253 active venture capital companies in Taiwan, which manage a total capital of approximately NT\$146,739 million.

The analysis based on the investment amount in Taiwan's venture capital industry over past ten years indicates that major invested industries are IT, manufacturing, and biological technology. Most of the venture capitals are invested in expansion stage, followed by maturity stage and startup stage.

4. Research and Development:

Strengthen the assessment of investment cases, elevate professional quality of post-investment management, offer reinvestment advisory services when necessary, and assist investees in smoothly going public to benefit from the associated profits. 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 close transactions in a timely manner to boost the investment returns.
- (2) Observe industry fluctuations, seize investment opportunities, and timely correct investment strategies. Increase the level of contribution to the Group's profits every year and generate maximum return for shareholders.
- (3) Establish cross-field professional teams, strengthen assessment depth and enhance the odds of investment portfolios so as to gradually expand the fund size with excellent investment performance.

(VII) Hua Nan Assets Management Co. (HNAMEC)

1. Business Scope:

(1) Main business:

A. Management and disposal of non-performing loans

- Purchase non-performing loans from financial institutions.
- Manage and dispose non-performing loans acquired 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 the commission from financial institution or enterprise to dispose of non-performing loans and assets.

- Accept the commission to dispose of non-performing loans of financial institutions and overdue receivables of enterprises.
- Accept the commission to dispose the assets already undertaken by financial institutions.

C. Direct investment of court-auction real estate or public bid opening by government authority.

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 laws.

(2) 2018 Business proportion

Item	Percentage
Non-performing loan investment and disposal business	21.52%
Direct real estate investment business	75.61%
Consigned management business	2.87%

(3) New financial products and services under planning:

A. Study and formulate the advance payment service for urban renewal in accordance with the amendments to the "Operating Principles for Financial Holding Companies to Trans-invest in Asset Management Companies" released by FSC on December 29, 2017 to accelerate the financial services for urban renewal.

B. Increase the percentage of digital marketing, and optimize the business activity webpage through the establishment of social media Line@ and SEO optimization, in order to increase communication channels and interaction with customers to attain the effect of business marketing.

2. 2019 Business Plan

(1) Non-performing loan investment and disposal business

A. Investment strategies

- a. Continue to monitor the domestic non-performing loans released by the market and the changes in overdue loans and the land and building financing of financial institution.
- b. Keep interacting with local and foreign peer groups, understand their operating status and seek any cooperation opportunities for existing or new businesses approved by the FSC.

B. Disposal strategy

- a. Accelerate the elimination of non-performing loans.

(2) Direct real estate investment business

A. Investment strategies

- a. It is expected that house prices will remain flat and under correction next year. Therefore the investment strategy will be focusing on selling short-term investments directly, and then leasing mid-term investments before sale and making value-added investments. The company plans to control the risk of house price fluctuation and create the optimized investment combination through the arrangement of fund appropriation.
- b. The investment target of court-auction is set at metropolitan region with heavy commercial demand, or commercial buildings, industrial real estate in the form of commercial offices, factory offices and factory buildings, real estate with higher capital turnover and potential for capital gain.
- c. Proactively participate in public bid opening by government authority to obtain real estates located in areas with development potential and ready for immediate development or integration. The value of assets can be created through joint development or self-construction.

B. Disposal strategy

To group real estate target markets and product types and consider increasing rents to secure profits and activating assets to increase capital gains, direct investments are classified into the following three types:

- a. Direct sale: Increase investment evaluation frequency through lowering the bidding price. After winning the bid at a reasonable price (lower than the market price) in the legal auction market, the investments will be repaired, cleaned up, and sold.
- b. Lease before sale: Take return on rent as first consideration. Obtain appropriate targets with good marketability and rent out after repairing and clean up.
- c. Investment with added value: Aggressively activate assets by adding value through joint construction, dangerous and old building renewal, participating in urban renewal (including acting as the implementer) or changing the application to create asset value, earn rent income and rooms for future capital gain.

(3) Consigned business

A. Consigned collection business

- a. Provide financial institutions and Group's corporate customers with collection services to cultivate HNAMC's collection talents in hope to strengthen the integrity of the Group's financial products at the same time.

B. Consigned legal auction bidding business

- a. Offer professional consigned legal auction bidding services. Make good use of existing professional talents to demonstrate our capabilities in legal auction, real estate investment and property management.
- b. Provide one-stop financial services to Group's corporate customers and enhance their trust and loyalty to the Hua Nan Financial Holding Group, which in turn increases the Group's overall revenue.

3. Industry Overview:

The FSC's statistics indicate that the local financial institutions' overdue loan ratio had been maintained at under 0.3% since 2015. On top of this, the competent authorities amended the terms concerning financial institutions' sale of non-performing loans, leading to a shortage of market supply. As a result, the total released amount of domestic financial institutions' non-performing loan (NPL) in 2015 and 2016 was approximately NT\$2,137 million. There is no release of non-performing loan in the market as of the end of September 2018.

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. The statistics show that the foreclosure in three major urban regions of Taipei, Taichung, and Kaohsiung quickly declined since 2009 by 52%, 83%, and 79% respectively. The number of legal auctions in each district court continues to fall at the end of September 2018. Under such circumstances, the competition in the real estate foreclosure market is becoming intense and direct investment selection items decrease accordingly.

In order to solve the problems of diminishing cases faced by asset management companies under domestic financial holding companies and banks, and to make good use of the debt consolidation experience accumulated by asset management companies to promote the government's urban renewal policy, the Financial Supervisory Commission made amendments to the "Operation Principles of Asset Management Companies Reinvested by Financial Holding Companies (Banks)" on August 12, 2015 and December 29, 2017. The asset management companies are allowed to invest in public bid openings by government authority, and the scope of asset management companies' role as urban renewal implementers was expanded to increase the scope of asset management companies' business operation. Thus the direction of future business development is clearly identified.

4. Research and Development

- (1) In response to the government's urban renewal policy, the self-build urban renewal project "Hua Nan Dingpu Technology Building in Tucheng Industrial Zone" managed by Hua Nan Asset Management Company, has started the construction in November 2018 and is planned to complete in 2021. This makes the company the first domestic government-owned financial holding group asset management company that engages in a self-owned asset urban renewal project. It is also the first approval from Industrial Development Bureau of the Ministry of Economic Affairs in urban renewal inside the industrial park.
- (2) Cooperate with National Taipei University of Technology to develop Neihu scientific park as a business incubator. It turns a new leaf in activating company assets. The company also expects to contribute efforts in talent cultivation and economic development for Taiwan.
- (3) Create the "Auction Companion" brand, build exclusive activity webpage, use responsive web design (RWD) and app-friendly webpage for customers' easy browsing. Display transparent contents such as business information, legal auction service flow, and service charge to manage the legal auction knowledge blog and win trust on the brand from customers.

5. Long-term and Short-term Business Development Plans:

- (1) Short-term plans
 - A. Adjust asset structure to create value for assets and gain more profits.
 - B. Align with the government policy to accelerate the urban renewal of self-owned assets and reconstruction on dangerous and old buildings.
 - C. Step up publicity efforts on the "consigned legal auction bidding business" to expand HNAMC's revenue sources.
 - D. Study and formulate the initiation of "advance payment service" and await opportunities to participate in order to look for transformation opportunities.
- (2) Long-term plans
 - A. Expand asset scale through direct real estate investment business and pursue earnings growth.
 - B. Actively align with government policies and integrate sister companies' channels and expertise to fully promote the financial business for urban renewal.
 - C. Collaborate with peers to jointly fight for the release of new business types in order to attain the goal of transformation.

II. The Benefit of Cross-Industry and Cross-Selling in the Group.

(I) Hua Nan Financial Holdings

The Group started the cross-selling since 2002 and set up cross-selling area in suitable operating locations of Hua Nan Bank, Hua Nan Securities, South China Insurance, and Hua Nan Futures. Under the cooperation and efforts across the Group, the most complete cross-selling and customer service net in the industry was established, which enabled the stable growth in cross-selling operating volume year on year within the Group and demonstrated the extraordinary energy of cross-selling.

(II) Hua Nan Commercial Bank

The achievements-over-the-years in cross-selling between Hua Nan Bank and the financial holding parent company:

Item (Unit: NT\$ million)		Year		
		2016	2017	2018
The broker business of Hua Nan Securities	Business volume	237,962	396,583	506,336
The business of South China Insurance	Business volume	792	802	822
The mutual fund business of Hua Nan Investment Trust	Fixed income type	12,851	10,857	8,104
	Non-fixed income type	4,572	2,834	2,534

(III) Hua Nan Securities

The Company closely cooperates with affiliate companies pursuant to the policy of financial holding parent company. The achievements-over-the-years of cross-selling is as below:

Item	Property insurance (NT\$ thousand)			New credit card issuance (Number of cards)			Transfer of client deposit balance (NT\$100 million) (Note)		
	2018	2017	2016	2018	2017	2016	2018	2017	2016
Result	43,045	40,355	39,879	6,346	6,355	6,409	262	251	209

Note: The client deposit balance is the amount by the end of December.

Item	Fixed income type (NT\$10 thousand)			Non-fixed income type (NT\$10 thousand)			Regular fixed time and amount transactions (Number of clients)		
	2018	2017	2016	2018	2017	2016	2018	2017	2016
Result	235,577	364,850	260,698	66,595	55,580	71,444	1,974	1,678	1,187

Note: One debit transaction is counted as one transaction. 12 transactions are counted as one client. The performance is calculated based on number of clients.

(IV) South China Insurance

1. Total property insurance premium income from cross-selling in 2018 is NT\$866,318 thousand, among which the property insurance sold through Hua Nan Bank is NT\$822,093 thousand, which is around 94.89% of the total revenue through cross-selling. The major amount came from commercial insurance. In 2018 the renewal of commercial insurance will be made through the help of branches. Development of corporate finance clients will also be continued. In addition, Hua Nan Bank set up targets for each branch to promote homeowners policy and obtained good results. The promotion of personal insurance such as car insurance and travel insurance is done through compound product marketing campaign. The Company worked with marketing department of financial holding parent company to hold annual Group large-scale compound product marketing campaign to promote products of the Group. Aside from business from cross-selling, the channel owned by South China Insurance also contributed a great portion of the business. Total property insurance revenue from cross-selling is about 10.01% of total annual premium revenue of South China Insurance, which is a growth of 0.21% comparing to 9.8% in 2017. The Company will keep enhancing various cross-selling activities, developing business through the resources of integrated marketing team in the Group, designing cross-selling incentives and cross-selling information platform to promote the property insurance product referral sales. Enabling the co-development of commercial insurance and personal insurance business to promote cross-selling performance.

Below is the summary of benefit on premium revenue for reference:

Unit: NT\$ thousand

Item	Premium revenue from cross-selling	Premium revenue from South China Insurance	Percentage to 2018 revenue	Percentage to 2017 revenue
Fire insurance	476,556	962,642	33.11%	32.92%
Water damage insurance	58,084	437,743	11.71%	10.30%
Car Insurance	215,523	5,075,278	4.07%	3.99%
Accident insurance	64,618	659,948	8.92%	7.53%
A&H	51,537	656,751	7.28%	9.15%
Total	866,318	7,792,362	10.01%	9.80%

2. Total premium revenue from cross-selling of all affiliates

Unit: NT\$ thousand

Sales of policy		Accumulated until end of December 2018
Hua Nan Commercial Bank	Fire insurance	473,602
	Water damage insurance	55,797
	Car insurance	185,906
	Accident insurance	60,061
	A&H	46,671
	Total	822,037
Hua NaN Securities	Fire insurance	2,913
	Water damage insurance	2,287
	Car insurance	28,570
	Accident insurance	4,517
	A&H	4,759
	Total	43,046
Hua NaN Futures	Fire insurance	41
	Water damage insurance	0
	Car insurance	1,047
	Accident insurance	40
	A&H	107
	Total	1,235

(V) Hua Nan Investment Trust

Developing potential customer through cross-selling, co-visiting, or cross-referral of customers by channels and sales persons in the financial holding and all subsidiaries. Planing effective selling strategy to stabilize cross-selling volume.

(VI) Hua Nan Venture Capital

Referring investment case between affiliate companies to create synergies of the Group.

(VII) Hua Nan Assets Management Co. (HNAMEC)

Create the professional "Auction Companion" brand through the integration of cross-selling resource in the Group, which provides a one-stop legal auction service to fulfill the one-stop shopping demand from the Group's customers and increase the trust and loyalty of customers toward Hua Nan Financial Holdings.

I. Market and Business Conditions of the Group

(I) Hua Nan Commercial Bank

1. Major area of sales and services:

- (1) By the end of December 2018, the Bank has 186 branches nationwide. Among them 53 branches are in Taipei City(28.5%), followed by 35 branches in New Taipei City(18.8%) and 22 branches in Kaohsiung City(11.8%).
- (2) Currently the Bank has 12 overseas branches in Los Angeles, New York, London, Hong Kong, Singapore, Shenzhen, Shanghai, Fuzhou, Ho Chi Minh City, Macau, Sydney, and Manila, one sub-branch in Shenzhen Bao An, two representative offices in Hanoi and Yangon. In 2019 the Bank will keep evaluating the possibility to set up other offices in ASEAN countries in response to the New Southbound Policy.

2. Business objectives

- (1) Continuing to improve financial operating performance and service charge income. Using net interest income and the former two to form a triple revenue pillar.
- (2) Adjusting deposit and loan structure, and increase the interest spread between deposit and loan to increase net interest income.
- (3) Enhancing legal compliance and internal control system, improving risk management, optimizing asset quality, and improving ability in global operation.
- (4) Deepening financial technology, simplifying process flow, improving service quality and operating efficiency, and expanding customer base across generations and groups.
- (5) Implementing corporate governance, strengthening information security, cultivating talents, and achieving sustainable operation.

3. Future Demand and Supply Status of the Market

(1) Supply side:

In corporate finance perspective, the difference between domestic bank deposit and loan has reached over NT\$10 trillion according to statistics by FSC, which means there is idle money in Taiwan. The Central Bank has frozen the interest rate for consecutive ten times. The slowness in economic recovery and little incentive for investment, and the keen competition in the banking industry caused the idle money in short-term domestic corporate finance New Taiwan Dollar loan market. In foreign currency perspective, the FED interest rate increase caused the continual USD interest rate hike. However, the increase in the Bank's USD deposit is limited due to industry competition. In addition, customers transferred USD loan into NTD loan or issue debt by themselves in response to the increasing cost in USD loan, which increased difficulty in foreign currency loan business. In personal finance perspective, the Bank will continue to promote digital online loan application in response to the popularization of digital financial environment. The Bank will provide customers with fast and convenient financial service and develop diversified personal finance products according to customer demand. The Bank will strive to fulfill the needs of different customer groups and different stages of customer's life. In credit card perspective, in response to government policy and trend, the Bank will promote mobile payment, establish more sound infrastructure, hold marketing activities, greatly expand the popularization rate of mobile payment in Taiwan, grasp the trend of mobile payment and combine it with induction mobile pay, increase credit card QR code contract stores and reward point redemption stores, enhance market competitiveness, increase acquiring business volume and ratio of card issued by bank. In wealth management perspective, the hedging cost of insurance industry increased due to the increase of interest spread between USD and NTD that caused by the continuous USD interest rate hike. The Company ceased the sale of NTD single premium payment insurance product, increased the declared interest rate of USD interest-sensitive life insurance products and therefore increased the sales momentum of USD insurance policy. The product sales allocation will be mainly focused on interest-sensitive life insurance products and high protection products and accompanied by fund sales to increase total service charge income from wealth management business. It is estimated that the chances for competent authority to adjust policy reserve in 2019 is low and thus there

should be no big change in overall product conditions. As a result, short-term interest-sensitive life insurance will still be the major product for traditional products. Besides, in the trend of population aging, the Company will introduce long-term care insurance, dread disease policy, and disability support insurance in response to government policy. In financial market perspective, in response to the strict regulations on banks selling derivatives imposed by competent authority, the Bank will satisfy corporate customer's demand in hedging, put emphasis on customer's demands in exchange rate hedge and fund appropriation, and provide diversified low risk investment tools which are mainly principal guaranteed in transaction currency products. In digital finance perspective, the Bank will provide exclusive fund management service by different industry and its character for corporate clients. The bank will continue to expand the service scope of mobile banking, guide customers to use digital channels, optimize user interface to reduce hindrance of usage through intuitive user interface, and enhance customer loyalty in order to expand digital customer group and increase percentage of digital transactions which in the end reduce operating cost of over-the-counter service.

(2) Demand side:

In corporate financing business perspective: In response to government policy in promoting Taiwanese business backflow, 5+2 key startup industry, urban regeneration and reconstruction of dangerous and old buildings, and loan to small and medium business, the Bank will grasp the business opportunity from all policies to provide customized financing products and customer-oriented loan products to enlarge the scale of the Bank's corporate finance business. In foreign exchange perspective, the Bank will increase income from foreign exchange loan in response to market interest rate trend, increase commission income, and profit from trading overseas marketable securities. In personal finance perspective, according to statistics from Central Bank and Ministry of the Interior, total number of house transfer, issuance of construction license, and new mortgage loan granted by five major banks in Taiwan presented a growing trend, which meant the recovery of real estate market. Numerous constructions are being launched or under acceptance procedure. House buyers for own use increased after the implementation of House and Land Transactions Income Tax in 2017, which implies demand in future mortgage loan market. In credit card perspective, according to statistics from SFC, the amount of credit card transactions increased continually. The plastic money has become an important part of consumer payment habit in Taiwan. With the increase of smart phone penetration rate, the mobile payment market in Taiwan is estimated to greatly grow in the future. In wealth management perspective, the U.S-China trade war continued and resulted huge fluctuation in the investment market and affected investor expectation. The target of investment for investment-linked product designed by insurance companies tend to be stable and conservative such as target maturity bond, guaranteed minimum payment, and principal guaranteed fund, in order to fulfill the demand in investment and protection from customers. In response to different financing demand in different stages of life, the Bank launched "Pursuit of dream" platform to assist customers to achieve important financing goals in all stages of life. In digital finance perspective, statistics show that the transaction volume of mobile banking has exceeded transaction volume of internet banking and the gold cross has appeared. This means mobile banking is the important and best channel for the bank to reach customers. The Bank will combine AI and mobile bank and thus introduce AI technology into life, create a new generation mobile bank that you can "talk with", and create more quality experience and service for customers.

4. The favorable and unfavorable factors for future development

(1) Favorable factors

- A. Owns a complete set of marketing channels which is beneficial to business promotion and cost reduction.
- B. The Bank has a long history in Taiwan with good credits and our image is deeply-rooted in the mind of the public.
- C. The customer base is huge and loyal, which is beneficial to develop wealth management business, retirement fund market, and cross-selling of group business.
- D. Leading corporate finance and foreign exchange business.
- E. The high demand deposits ratio enables the Bank to enjoy a lower cost of capital, which is beneficial to promoting all kinds of business.



- F. The Bank acted as the executor of "Integration platform of R&D in financial technology from national financial institutions", launched various services such as QR code mobile payment, and in the end became the leading player in digital financing and innovative service.
 - G. The Bank has a credit card customer base of one million and holds the number one position in national financial institutions, which is beneficial to big data analysis and precision marketing. The Bank continues to issue co-branded credit card in famous icons and LED credit card, and proactively promotes mobile payment, which is beneficial to developing young customers, increasing popularity of the Bank, and promoting corporate image.
 - H. The Bank has expanded legal compliance team and continued to devote huge resources and human resource to execute legal compliance, anti-money laundering, and counter terrorist financing tasks through teamwork and shared job duties. In the end, the legal compliance system has become more complete.
- (2) Unfavorable factors
- A. The Company is owned by the government with a history of conservative operation. Therefore, the Company is more conservative towards the ever-changing financial environment.
 - B. There is shortage of financial advisor in wealth management business. This had restricted the growth momentum and led to lower percentage of risk-free commission to total profit comparing with private banks.
 - C. Insufficient creativity in financial products innovation comparing with non-government-owned banks.
 - D. The Bank has fewer overseas branches comparing to local large-scale banks. Great resources need to be devoted to fulfill the monitoring demand of overseas legal compliance, anti-money laundering, counter terrorist financing, and information security, which in the end affect the overall profit of overseas branches.
 - E. The percentage of young customers to total number of customers are lower than local large-scale non-government-owned banks, which is unfavorable to the long-term development of banking business.
 - F. The source of profit mainly comes from traditional interest earning assets. The performance in trading financial products is not good enough.
 - G. Although the Bank is earning a record high profit, the return on assets and return on equity that reflect operating performance are lower than international standard.
 - H. The Company has insufficient key talents in IT, big data, and digital finance. Part of the IT system development is outsourced, which affects self-development ability.
 - I. In respond to the fast-changing environment of the digital time and to fulfill customer demand, it is inevitable to upgrade the Bank's IT system.
 - J. The Bank's branches are full-function branches that provide deposit, corporate and personal loan, and foreign exchange services. Due to the broad range of services, it is not easy to focus limited resources to suit regional customers' needs and provide differentiated products and services.

(II) Hua Nan Securities

1. Major Area of Sales and Services:

Hua Nan Securities provides all services that a securities company can have, including broker, dealer, underwriter, bond, new financial products, credit trading, etc. The Company's offices are located in Hong Kong and all major cities and counties in Taiwan. The Company provides services to domestic corporate investors, natural persons, and foreign professional investment companies approved by competent authorities.

2. Future Demand and Supply Status of the Market

(1) In supply side perspective:

- A. The 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 holding companies by professional brokers, as e-trading gradually matures, the proportion of corporate transactions continue to grow. Based on the consideration of enhancing single branch's competitiveness, some brokers begin to adjust the distribution of their business bases, establish centralized order processing center, and mergers among their branches are also taking place.

List of increased and decreased of securities firms in recent years

Year	Item	Total number of securities firms		
		Headquarter	Branch	Total
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
2017		132	913	1,045
2018		129	902	1,031

Source: Website of Taiwan Securities Association

The local securities industry has encountered the problems of withering trading volumes, international competition, and the offshore relocation of many securities firms. Therefore, the organizational development strategy of HNSC will head in the direction of financial holdings or strategic alliances. As for business development strategy, HNSC will move towards new businesses such as wealth management, cash deposit accounts, trusts, etc. Thus, HNSC will move towards new directions in terms of organization, business and products.

B. Booming development of securities firms' network and mobile e-trading

The proportion of e-trading in HNSC has reached 60% of the total transaction volume by the end of 2018. In terms of mobile trading, it accounts for 56% of the overall e-trading by the end of 2018. The high-growth figure indicates that HNSC's e-trading system has been well-received and recognized by customers and the market.

With the emergence of FinTech, HNSC provides customers with more considerate services. The Company upgraded the official "Hua Nan Securities" Line@ account to "Hua Nan Smart Machine" in May 2018. Users can find stock prices after adding "Hua Nan Securities" Line@ account as a friend for free. Hua Nan Securities e-trading customers can bind the account by ID number and e-trading password and immediately enjoy information such as transaction confirmation, message subscription, stock draw result notice, receivables of the day, credit maintenance ratio reminder, stock portfolio selection, market price of stocks on hand, exclusive smart information summary, etc. The number of fans adding the account as friends has reached to 60 thousand accounts by year end, which demonstrates the love in Hua Nan Securities' innovated service from customers.

Establish Smart E-counter APP that provides customers with all kinds of services without physically going to the counter. The services include online account opening, regular fixed-time and -amount transactions in Taiwan stock market, e-passbook, etc. More services such as two-way securities lending and Hua Nan Easy Loan, are planned to be launched in the future.

(2) In demand side perspective:

- A. With the diversification of financial products, investors' expectation in comprehensive securities companies has raised. The types of investment in Taiwan have emerged from stock and bond in the past to various financial derivatives products such as ETF fund, index futures, and warrants, which demonstrates the market development potential of new investment tools.
- B. Using stock market as a tool of raising fund has been a trend for corporates and institutions. Percentage of foreign investors transaction volume to overall Taiwan stock market transaction volume has increased year on year. Securities companies have played more important roles in the market.

- C. The fast speed of information spreading, increase of people's level of education, and the diversification of investment tools has increased investors' demand in securities related information. The demand in securities companies' service will also continue to increase.
 - D. The demand in investing Hong Kong H shares, New York stock market, China A shares through sub-brokerage service has increased and provided business opportunities for securities companies.
 - E. The financial products that link ETF products with indexes or commodities in China or foreign markets were introduced one after another and offered investors with more investment choices. The transaction volume also continued to grow.
 - F. With the loosening of related regulations and proactive expansion of domestic securities companies in wealth management business, domestic and overseas fund started to flow in, and investors' demand toward wealth management services provided by securities companies has become more intense.
3. Favorable and unfavorable factors for future development
- (1) Favorable factors:
- A. The competent authorities for financial market proactively promoted financial innovations, implemented financial monitoring sandbox, accelerated the upgrade of financial services, and overturned traditional service model.
 - B. In recent years, Hua Nan Securities has been proactively developing new digital services to provide customers with better service experience. Currently the percentage of transaction volume derived from digital trading platform to total transaction volume has been stably growing.
 - C. This year the government announced to extend the tax cut of day trading transaction tax for at least three years. Dividend income tax cut, regular fixed-time and -amount transactions in Taiwan stock market, and adjustment of different tax burden between domestic and foreign investors are also expected to encourage the inflow of investors and bring up the volume and momentum of Taiwan stock market.
 - D. Restrictions on investment from China QDII investors will also be loosened gradually and add momentum to Taiwan stock market.
 - E. The interest rate increase due to U.S. QE exit has come to the end. Fund backflow to U.S. ceased. Emerging stock markets might regain capital momentum and become strong. The global stock market is expected to perform well.
 - F. New business exchange traded note (ETN) and other financial products have been allowed gradually which strengthened the niche of the securities companies and helped to increase source of profit.
 - G. Through the establishment of the Company's risk management system, all asset and liability positions will be in good control, operating risk will be minimized, balanced operation will be reached, and result in a stable profit.
 - H. The popularization of digital devices has led to the expansion of investor groups and continual growth of the market. The Group's integrated cross-selling platform enables cost reduce and cross-selling synergies.
- (2) Unfavorable factors
- A. Keen competition in service charge fee between competitors and fast speed in developing digital finance innovation and technology threaten securities companies' competitiveness. Providing digital finance service requires high cost in system optimization and implementation and high employee training cost, which will eventually deteriorate securities companies' operating profit.
 - B. Comparing to foreign securities companies, local securities companies in Taiwan are simpler with more legal constraints. This has always been the biggest hindrance in the development for Taiwanese securities companies.
 - C. Trump became the president of the United States and took protectionist policy which is unfavorable to the economic development of Asian emerging market.
 - D. The never-ending political and economic risk, U.S. China trade war, and Brexit will impact global stock market.

- E. The increase of quota for foreign investments and loosening of foreign exchange control deepen the connection of Taiwan stock market with global capital market.
- F. The growth of global economic growth seems to come to an end. The population aging, insufficient investment, slow-down of productivity increase, and tightening of monetary policy in China and other emerging developing countries might restrain the economic expansion and is unfavorable to global economic recovery.
- G. The rise of global inflation, tight monetary policy, and risk of bubble economy might incur large scale adjustments. Indications show that the nine-year bull market in stock market and risk assets has come to an end.

4. Business objectives

In response to market competition, the Company will balance the development of all businesses, strive to increase profit, and closely cooperate with affiliate companies in the financial holding group to pursue cost reduction and cross-selling synergy. The Company will also respond to competent authority's open policy to expand business and become a large-scale, professional, global, full-dimension securities company. The major business objectives for next year are summarized as below:

- A. 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.
- B. Promote key businesses: Promote key businesses such as OSU and trust type wealth management businesses, overseas sub-brokerage, issue diversified financial products, and actively develop related corporate clients.
- C. Continue the merge of branch offices: In response to the trend of digital financial environment 3.0, the Company established transaction processing center, discussed the merge of channels across Taiwan in order to improve performance and reduce cost.
- D. Implement risk management mechanism: In dealer business, the Company will combine related research resources and abide by stop-loss and lock-gain mechanism to stably deal, make profit, and reduce risk of loss.
- E. Enhance key internal control: Improve employee professional knowledge to enhance risk control, raise legal compliance awareness, and professional training as three major controls.

(III) South China Insurance

Analyze favorable and unfavorable factors in major area of sales and services, future market demand and supply, operation objectives, and vision of development.

1. Analysis of the insurance market

According to statistics of insurance company premium revenue from January to December, 2018, by the Non-Life Insurance Association of the Republic of China, the average growth rate of property insurance in Taiwan is 5.69%. The growth rate of South China Insurance Company's premium revenue is 0.61%. Market share is 5.25%.

2. Major area of sales and services in 2018:

Unit: Thousand NT dollars

Area	Amount	%
Headquarter	3,381,091	39.05%
Taipei Branch	810,737	9.36%
Taoyuan Branch	475,212	5.49%
Hsinchu Branch	276,071	3.19%
Taichung Branch	1,279,609	14.78%
Yuanlin Branch	559,409	6.46%
Tainan Branch	778,590	8.99%
Kaohsiung Branch	1,097,961	12.68%
Total	8,658,680	100.00%

Note: Re-insurance revenue is not included.

3. Future demand and supply of the market:

The future demand and supply for the property insurance market is as below:

- (1) The development of property insurance is heavily related with economic development. According to the news release from Directorate-General of Budget, Accounting and Statistics, Executive Yuan, IHS Markit estimated that global economic growth in 2019 is 2.9%. Developed and emerging markets are 1.9% and 4.6%, respectively. The U.S. and Euro market growth rates are estimated to be 2.5% and 1.5%, respectively. The growth rate for China market is estimated to be 6.3% in 2019, but due to U.S. China trade disputes, the estimation depends on the result of negotiation between U.S. and China. Looking at domestic economic situation. Directorate-General of Budget, Accounting and Statistics, Executive Yuan estimated that Taiwan economic growth rate is 2.27% in 2019. Looking at the future outlook, the IC manufacturing ability is in the leading position. The emerging applications such as high-speed arithmetic, smart technology, IoN, automobile electronics, and new generation mobile telecommunication(5G) are fast developing. Nevertheless, the effect from U.S. China trade war, global slowness in economic expansion on domestic economic growth rate will still depend on future changes. According to the property insurance industry growth trend in past years, the future property insurance market growth momentum is still strong.
- (2) Due to uncertain factors such as abnormal global weather, never-ending natural disasters, and significant public incidents, individuals and corporations became more risk conscious and were more willing to purchase insurance. Moreover, the continuous development of digital finance, expanded internet insurance purchase and e-commerce, agricultural insurance in response to government policy can all add new business opportunities and scale.

4. Operating objectives:

South China Insurance is the property insurance company that provides all kinds of property insurance and health injury insurance. The Company actively follows government economic policy and insurance regulations, provides sound risk evaluation and insurance planning service to the general public and businesses, protects the safety of houses and corporate operation, enhances operating efficiency through application of funds and risk diversification and in the end protects the right of shareholders and policyholders.

5. The favorable and unfavorable factors for further development:

- (1) The favorable factors for the competition of South China Insurance:
 - A. Jointly develop potential customers, cross-sell different products, and provide customers with diversified product services through financial holding group's cross-selling platform and various product promotion series in the group.
 - B. The product development team is well-equipped with talents and continuously develop customized compound product projects to win different channels and customer groups, stabilize channel business and enlarge business scale.
 - C. Enhance internet insurance purchase information system, improve efficacy of internet insurance purchase and e-commerce to provide faster and more convenient internet insurance purchase environment. In addition, optimize mobile device service items and digital functions to win more business from the netizens.
 - D. The operating team with professions, harmony, and service innovation sets up operating strategy in response to business development need, adjusts and establishes internal control system in response to government regulation change. The team is excellent in overall operation efficacy.
 - E. Damage prevention exhibition center is equipped with a professional damage prevention team to provide professional service to conduct site examination operation and provide concrete and feasible damage prevention advice to increase customer satisfaction and loyalty, accumulate long-term stable customer group and win customer's recognition.
 - F. The risk management mechanism is solid and mature. The Company continues to improve all risk control items and enhances overall risk control capability in response to parent company's risk control mechanism operation to ensure the achievement of company operating objectives.
 - G. The Company won "Information Security Quality Elite Award" in "2018 BSI International Information Security Standard Management Annual Convention" from "British Standards Institution(BSI)". The Company is one of the few insurance companies that won this award. In addition, the Company passed the certification of BS10012 Personal Information Management System(PIMS) 2017 version. The protection in information security is in line with international standards and more rigorous.

H. A.M.Best credit rating company and Taiwan Ratings Corp. gave the company a rating outlook as stable. The Company possesses solid capital level, sound sales channel and control capability, excellent capital liquidity, and appropriate risk management and risk control.

(2) The unfavorable factors for the property insurance market:

- A. The finance supervision policy and regulation is ever-changing. The policy puts more emphasis on legal compliance and risk management, and imposes more strict requirements on customer personal data protection and controls in internal and external information flow. The supervision of competent authority has become wider and more detail, which caused the greater burden in operation and human cost.
- B. The domestic property insurance industry is mature and saturated. The vicious industry competition became intense and caused enormous impact on business flow. The market business opportunity transfer emerged and directly or indirectly affected premium income, capital appropriation and underwriting income.
- C. Enormous natural disasters became more frequent globally. Taiwan is located in a geological area that is vulnerable to risk of enormous disaster, which increased difficulty in risk evaluation, management, and controlling operation risk volatility for the insurance industry.
- D. The property insurance industry highly relies on reinsurance market to spread risk. However, the insurance market economic cycle is often affected by reinsurance capacity in APAC region and the world. Adding up the high competition of premium rate liberalization and high reinsurance cost, the revenue and profit growth are affected in the property insurance industry.

(IV) Hua Nan Investment Trust

1. Major area of sales(services):

The major products and services for the securities investment trust business in the financial market are investment fund and discretionary investment service, which are mainly provided in Taiwan, and the invested markets are all over the globe.

2. Future Demand and Supply Status of the Market

The trend of big investment fund companies become bigger is getting more obvious. The market competition becomes more intense. Therefore studying to enhance fund performance and maintaining the performance, and providing niche characteristic products will be the key to attract customer focus. The Company will devote itself in it to win customer focus.

3. Business objectives

- (1) Keep a balance between scale and profit growth. Strive for better market ranking and increase source of income.
- (2) Continue to maintain stable growth in fund net worth and performance ranking to strengthen customer's confidence in holding the fund in the long term.
- (3) Enhance the operation through external channel and digital financial service to drive sales.
- (4) Enhance the effective execution of internal audit and internal control to implement information security and monitoring in anti-money laundering.

4. The favorable and unfavorable factors for future development

(1). Favorable factors

- A. The Hua Nan Financial Holding Group has sound reputation and brand image, which is beneficial for the Company to promote and sell investment fund.
- B. The Hua Nan Long Win Balanced Fund has won the 19th and 20th Bloomberg Best Fund Award in five-year and ten-year domestic balanced fund-value stocks, 21th Bloomberg Best Fund Award in three-year domestic balanced fund-value stock, and 2018 Thomson Reuters Lipper Taiwan Fund Award for three-year balanced NTD fund. The Hua Nan Multi-Assets Balanced Income Fund TWD Inc has won the 21th Bloomberg Best Fund Award in three-year balanced and multi-assets global balanced fund.

(2) Unfavorable factors

- A. The asset structure of the Company needs improvement.
- B. Foreign investment trust companies entered the Taiwan market with overseas resources and increased marketing and sales expenditure in sales channels. Top five investment trust companies raised level of competition with ETF products. The overall fund market competition has become more intense.



- C. Fund selling institutions tend to sell newly raised fund and overseas fund, which caused the scale of fund to quickly shrink after the lock-up period and difficulty in maintaining the scale, which in the end affect the sales momentum of existing domestic funds.
- D. The sales commission paid to fund selling institutions has become higher and increased the cost of fund sales for investment trust companies.

(V) Hua Nan Venture Capital

1. Major invested areas and future demand and supply in the market.

The investment area is mainly in domestic market. However, quota for investment in overseas is reserved for flexibility considering industry relation, integration, and marketability.

2. Operating objectives:

Take risk spreading as investment strategy, continuously look for investment target with long-term growth and profit potential, and build an investment portfolio with long-term and short-term profit objectives through appropriate industry and region allocation.

3. The favorable and unfavorable factors for further development:

- (1) Favorable factors:

- A. Customers are deeply fond of Hua Nan Financial Holdings' brand image of solid operation.
- B. Jointly search, filter, and develop high quality customers through financial holding's cross-selling platform.
- C. Most fund managers have over ten years of experience in investment target development and investment evaluation. External fund management opportunity will bring a breakthrough to the Company's operation.

- (2) Unfavorable factors

- A. It is not easy to enlarge fund scale before investment performance emerges.
- B. Under the trend of industry vertical integration, large technology groups control the investment based on their own strategy. It is difficult for ordinary financial investment trust companies to get involved.

(VI) Hua Nan Assets Management Co. (HNAMEC)

1. Major investment area: Taiwan.
2. Future demand and supply status of the market.

After the market scale of non-performing loan reached the record high NT\$236.8 billion in 2007, the non-performing loan released by financial institutions started to decrease during 2008 to 2016. There were no non-performing loan sales by the end of September 2018. Due to the decrease in non-performing loan ratio of financial institutions and the policy of "collect by its own in principle and sell in special case" for the sale of non-performing loan by financial institutions through the amendment of "Notices for Financial Institutions in Selling Non-Performing Loan" by SFC in Marh 2013, non-performing loan became rare in the market. It is estimated that no non-performing loan will be released in the market in the short term.

3. Business objectives

Continue to prudently evaluate investment opportunities, expand operating scale, strive to clear assets and get pay back to increase return on assets, extend customer base for the service, create new profit source, actively respond to government policy, and promote urban regeneration financing service in full speed.

4. The favorable and unfavorable factors for future development

- (1) Favorable factors

- A. Enjoy abundant operation resources and support from the Group.
- B. Diversified operation and flexible operating strategy.
- C. Professional operating team with skillful and practical experience.

- (2) Unfavorable factors

- A. Because the asset scale is smaller, the revenue created is less than competitors.
- B. The Company is restricted by the operating framework of "Operating Principles for Financial Holding Companies to Trans-invest in Asset Management Companies" by Banking Bureau, SFC and therefore it is difficult to increase types of business and scale.



IV. Employee data of the Group

(I) Employee data in recent two years

Year			As of March 31, 2019	2018	2017
No. of employees		Hua Nan Financial Holdings	79	80	73
		Hua Nan Commercial Bank	7624	7601	7342
		Hua Nan Securities	1391	1410	1409
		South China Insurance	993	976	986
		Hua Nan Investment Trust	65	69	62
		Hua Nan Venture Capital	10	10	10
		Hua Nan Assets Management Co. (HNAMC)	38	38	36
Average Age		Hua Nan Financial Holdings	42.68	42.43	42.01
		Hua Nan Commercial Bank	43.04	43.04	43.17
		Hua Nan Securities	46.08	45.86	45.55
		South China Insurance	38.7	38.7	38.2
		Hua Nan Investment Trust	44.67	44.36	43.88
		Hua Nan Venture Capital	44.35	44.10	43.10
		Hua Nan Assets Management Co. (HNAMC)	38.95	38.95	38.79
Average year of services		Hua Nan Financial Holdings	6.01	5.93	5.61
		Hua Nan Commercial Bank	16.63	16.69	17.15
		Hua Nan Securities	10.67	10.48	10.41
		South China Insurance	10.3	10.3	9.8
		Hua Nan Investment Trust	7.39	6.98	7.30
		Hua Nan Venture Capital	10.16	9.91	8.91
		Hua Nan Assets Management Co. (HNAMC)	8.76	8.76	8.56
Educational distribution ratio (%)	Ph.D.	Hua Nan Financial Holdings	1.27	1.25	1.37
		Hua Nan Commercial Bank	0.05	0.07	0.05
		Hua Nan Securities	0.36	0.42	0.5
		South China Insurance	0	0	0
		Hua Nan Investment Trust	0	0	0
		Hua Nan Venture Capital	0	0	0
		Hua Nan Assets Management Co. (HNAMC)	0	0	0
	Master	Hua Nan Financial Holdings	51.90	52.50	53.42
		Hua Nan Commercial Bank	13.9	13.96	12.88
		Hua Nan Securities	10.07	9.82	9.72
		South China Insurance	6.6	6.6	6.4
		Hua Nan Investment Trust	24.62	23.19	29.03
		Hua Nan Venture Capital	60	60	60
		Hua Nan Assets Management Co. (HNAMC)	31.58	31.58	30.56
	Bachelor	Hua Nan Financial Holdings	46.83	46.25	45.21
		Hua Nan Commercial Bank	80.04	79.73	80.17
		Hua Nan Securities	72.29	72.50	71.61
		South China Insurance	84.2	83.9	83.6
		Hua Nan Investment Trust	72.31	73.91	67.74
		Hua Nan Venture Capital	40	40	40
		Hua Nan Assets Management Co. (HNAMC)	65.79	65.79	66.67
	Senior High School	Hua Nan Financial Holdings	0	0	0
		Hua Nan Commercial Bank	5.65	5.88	6.48
		Hua Nan Securities	17.29	17.24	18.17
		South China Insurance	9	9.3	9.8

Year			As of March 31, 2019	2018	2017
Educational distribution ratio (%)	Senior High School	Hua Nan Investment Trust	3.07	2.9	3.23
		Hua Nan Venture Capital	0	0	0
		Hua Nan Assets Management Co. (HNAMC)	0	0	0
	Below Senior High School	Hua Nan Financial Holdings	0	0	0
		Hua Nan Commercial Bank	0.35	0.37	0.41
		Hua Nan Securities	0	0	0
		South China Insurance	0.2	0.2	0.2
		Hua Nan Investment Trust	0	0	0
		Hua Nan Venture Capital	0	0	0
		Hua Nan Assets Management Co. (HNAMC)	2.63	2.63	2.77
Financial Certificates Held	Hua Nan Financial Holdings	Certified Anti-Money Laundering Specialist(CAMS): 50 persons, CAMS-Audit: 1 person, Certified Public Accountant: 5 persons, FRM: 2 persons, Certified Securities Investment Analyst: 1 person, Certified Internal Auditor(CIA): 2 persons, Property Insurance Broker: 1 person, Personal Insurance Broker: 1 person, High Level Sales Representative in Securities Firms: 18 persons, Sales Representative in Securities Firms: 12 persons, Sales Representative in Futures Commission Merchants: 17 persons, Financial Planner: 17 persons, Investment Trust and Consulting Representative: 19 persons, Property Insurance Representative: 30 persons, Personal Insurance Representative: 39 persons, Personal Insurance Representative Selling Non-Investment-Linked Insurance in Foreign Currency: 12 persons, Investment-Linked Insurance Product Representative: 23 persons, Trust Representative: 37 persons, Bank Internal Controls: 51 persons, Stock Affairs Personnel Professions Test: 4 persons, Sales Representative in Bills Houses: 1 person, Basic Bank Lending Personnel :19 persons, Basic Foreign Exchange Personnel: 13 persons, Asset Securitization: 3 persons, Debenture Personnel: 5 persons, Project Management Professional: 1 person, Property Insurance Representative: 7 persons, Digital Finance Knowledge Test: 10 persons, Level B Technician for Accounting: 1 person, Level C Technician for Accounting: 1 person, Structured Products Sales Representative: 10 persons, Proficiency Test for Foreign Exchange Transaction: 2 persons, Chartered Business Valuator: 2 persons, Futures Trading Analyst: 1 person, JAVA Certificate: 1 person, Futures Trust Fund Sales Institution Sales Representative Test: 4 persons, Certified Ethical Hacker (CEH): 1 person, Anti-Money Laundering and Counter Terrorist Professional Test: 7 persons, Certified Hacking Forensic Investigator (CHFI): 1 person, BSI Training Academy: 1 person.			
	Hua Nan Commercial Bank	Bank Internal Control: 6,810 persons, Trust Representative: 6,113 persons, Personal insurance Representative: 6,457 persons, Financial Planner: 2,156 persons, Property insurance Representative: 6,160 persons.			
	Hua Nan Securities	Sales Representative in Securities Firms: 422 persons, Senior Sales Representative in Securities Firms: 809 persons			
	South China Insurance	Underwriter Certificate: 125 persons, Claim Settlement Certificate: 85 persons, Property Insurance Representative: 961 persons, Assistant Actuary Certificate: 1 persons, Actuary Certificate: 2 persons, Senior Sales Representative in Securities Firms: 44 persons, Sales Representative in Securities Firms: 304 persons, Trust Representative: 176 persons, Personal Insurance Representative: 741 persons, Investment-Linked Insurance Product Representative: 340 persons, Financial Planner: 10 persons, Level B Technician for Fire Extinguisher Fire Safety Equipment: 1 persons, Level B Technician for Escape System & Fire Safety Equipment: 1 persons, Level B Technician for Chemical System & Fire Safety Equipment: 1 persons, Level B Technician for Water System & Fire Safety Equipment: 1 persons, Level B Technician for Alarm System & Fire Safety Equipment: 1 persons, Thermal/Infrared Testing Level I: 1 persons, Personal Risk Management Professional: 22 persons, Corporate Risk Management Professional: 1 persons, Property Insurance Agent: 4 persons, Property Insurance Broker: 2 persons, (China) Insurance Assessment Practitioner [Surveyor] Certificate: 3 persons, (China) Insurance Agent Certificate: 1 persons, (China) Insurance Broker Certificate: 3 persons, Personal Insurance Representative Selling Non-Investment-Linked Insurance in Foreign Currency: 50 persons, Administration Personnel for Life Insurance: 2 persons, Investment Trust and Consulting Representative: 78 persons, Stock Affairs Personnel: 2 persons, Sales Representative in Futures Commission Merchants: 52 persons, Certificate of Insurance Customer Service: 53 persons, ISO27001 Information Security Management Systems Lead Auditor: 2 persons, (CISA) Certified Information Systems Auditor: 2 persons, JAVA Certificate: 16 persons.			
	Hua Nan Investment Trust	Investment Trust and Consulting Representative: 31 persons, Senior Sales Representative in Securities Firms: 31 persons, Trust Representative: 29 persons, Financial Planner: 5 persons, Sales Representative in Futures Commission Merchants: 22 persons.			
	Hua Nan Venture Capital	Senior Sales Representative in Securities Firms: 1 persons , Financial Planner: 2 persons , Trust Representative: 2 persons , Bank Internal Control: 2 persons , Chartered Business Valuator: 1 persons , Intellectual Property Valuator: 1 persons , Intellectual Property Valuation Seed Teachers: 1 persons , Fifth Training for Patent Analyst Profession Certificate held by Industrial Technology Research Institute: 1 persons .			
	Hua Nan Assets Management Co. (HNAMC)	Bank Internal Control: 6 persons, Bank Internal Control and Internal Audit: 3 persons, Trust Representative: 11 persons, Financial Planner: 1 persons, Outsourced Debt Collection Personnel: 18 persons, Common Knowledge and Code of Ethics for Financial Market: 2 persons, Investment-Linked Insurance Product Representative: 2 persons, Basic Bank Lending Personnel: 4 persons, Basic Foreign Exchange Personnel: 2 persons, Personal Insurance Representative: 7 persons, Property Insurance Representative: 4 persons, Senior Sales Representative in Securities Firms: 1 persons, Sales Representative in Securities Firms: 2 persons, Investment Trust and Consulting Representative: 1 persons, Real Estate Valuator: 1 persons, Land Registration Agent: 2 persons, Certified Public Bookkeeper: 1 persons, Architect: 1 persons, Real Estate Broker: 2 persons, Real Estate Broker Operator: 20 persons, Certified Anti-Money Laundering Specialist (CAMS): 3 persons.			



(II) Certification of Employees Whose Jobs are Related to the Release of the Company's Financial Information

Department	Name of the Certificate
Finance and Accounting Department	Certified Anti-Money Laundering Specialist (CAMS): 7 persons, Certified Public Accountant: 3 persons, Certified Securities Investment Analyst: 1 person, Certified Internal Auditor (CIA): 1 person, Sales Representative in Securities Firms: 3 persons, Sales Representative in Futures Commission Merchants: 2 persons, Financial Planner: 2 persons, Investment Trust and Consulting Representative: 2 persons, Property Insurance Representative: 2 persons, Personal Insurance Representative: 2 persons, Personal Insurance Representative Selling Non-Investment-Linked Insurance in Foreign Currency: 1 person, Investment-Linked Insurance Product Representative: 2 persons, Trust Representative: 3 persons, Bank Internal Controls: 5 persons, Stock Affairs Personnel Professions Test: 1 person, Basic Bank Lending Personnel: 3 persons, Basic Foreign Exchange Personnel: 2 persons, Asset Securitization: 1 person, Debenture Personnel: 2 persons, Digital Finance Knowledge Test: 1 person, Level B Technician for Accounting: 1 person, Level C Technician for Accounting: 1 person, Structured Products Sales Representative: 1 person, Certified Business Valuator: 1 person, Futures Trading Analyst: 1 person, Futures Trust Fund Sales Institution Sales Representative Test: 1 person, Anti-Money Laundering and Counter Terrorist Professional Test: 1 person.
Audit Department	Certified Anti-Money Laundering Specialist (CAMS): 9 persons, Certified Public Accountant: 1 person, Certified Internal Auditor (CIA): 1 person, Property Insurance Broker: 1 person, Personal Insurance Broker: 1 person, Senior Sales Representative in Securities Firms: 2 persons, Sales Representative in Securities Firms: 3 persons, Sales Representative in Futures Commission Merchants: 3 persons, Financial Planner: 2 persons, Investment Trust and Consulting Representative: 2 persons, Property Insurance Representative: 4 persons, Personal Insurance Representative: 5 persons, Personal Insurance Representative Selling Non-Investment-Linked Insurance Product in Foreign Currency: 2 persons, Investment-Linked Insurance Product Representative: 2 persons, Trust Representative: 4 persons, Bank Internal Controls: 8 persons, Basic Bank Lending Personnel: 4 persons, Debenture Personnel: 1 person, Property Insurance Representative: 2 persons, Structured Products Sales Representative: 1 person, JAVA Certificate: 1 person, Anti-Money Laundering and Counter Terrorist Professional Test: 3 persons.

(III) Employee education and training

The Company actively encourages employees to attend training held by external financial institutions during spare time to enhance professional knowledge and improve working efficiency. Employee studying and training status in 2018 is as below:

1. 273 employees attended external professional training in 2018.
2. Aside from general and professional training held by Taiwan Academy of Banking and Finance, the Company also encourages employees to attend training courses held by Securities and Futures Institute, Accounting Research and Development Foundation, and other professional training institutions.
3. The Company is actively planning e-learning website and knowledge management system to enhance employees' learning through the web.

(IV) Employee behavior and code of conducts

1. The Company stipulates rules for employees' services in "Employee Work Rule" as a guidance for all levels of employees to follow. Employees shall be punished for violation according to seriousness:
 - (1) Employees shall be loyal to their duty and execute the duty according to company rule, management's instruction and regulation.
 - (2) Employees shall keep confidentiality for secrets obtained during operation or in his position.
 - (3) Employees may not use his position to benefit himself or impose damage on others.
 - (4) Employees may not receive treats, gifts, rebates, or other unjust benefits due to conduct of business on the position or against position.
 - (5) Employees may not engage in business, speculative business, or any other profit-seeking behaviors that will affect his duty.
 - (6) Employees shall not take other positions or jobs outside of the Company during office hour.
 - (7) Employees of the Company or subsidiaries may not borrow or lend money from each other. Normal usage or rotating savings and credit association that have been reported to the line manager beforehand is not included.
 - (8) Employees may not bring reports, document, emails or letters out of the Company or provide them to outsiders.
 - (9) Employees may not read reports, document, emails or letters that are not related to their own job duties.
 - (10) Employees may not bring guns, ammunition, knives, dangerous or forbidden items, or items not related to job into any work place in the Company.

- (11) Employees shall wear uniforms, keep clothing tidy and demeanor upright to present sound manners and elegance.
 - (12) Employees shall wear badge during work hours. The badge shall be returned to the Company upon resignation.
 - (13) Employees shall not sexually harass others.
 - (14) Employees are not allowed to evade responsibility for urgent major accidents in an attempt to evade responsibility.
 - (15) Employees shall not use their duties to inform the company or their subsidiaries or relatives about the improper interests of the company, family or individual.
 - (16) Employees must not neglect their duties, perform their duties or violate the internal control system of the company.
2. In order to enhance code of ethics concept of employees and clearly define employees' right, obligations and behaviors, the Company stipulated "Employee Work Rule" and other related rules and guidances as below:
 - (1) Level of Authority: To clearly define level of authority and job duties of all departments in the Company.
 - (2) Directions of Employee Promotion: Establishing a reasonable promotion system to promote talents.
 - (3) Directions of Employee Attendance Management: To clearly define rules for employees' attendance.
 - (4) Directions of Training and Educations: Enhancing the cultivation of professionals and enriching employees' knowledge.
 - (5) Directions of preventing employee sexual harassment: Communicating and maintaining gender equality and dignity.
 3. In order for the Company's employees to understand all rules for employee conduct and code of ethics, the Company has established data system for all important rules and directions in company intranet for employees to check at any time.

(V) Work environment and protective measures for employees' personal safety

1. Fire safety groups: The Company announced fire safety groups to clearly define the duty and tasks of all levels of employees when there is significant incidence such as fire, earthquake, or robbery in order to minimize the harm and ensure the personal safety and work safety of the Company's employees.
2. Equipment safety:
 - (1) The safety of lifts: For the safety of all personnel that use lifts, the Company engages suppliers to conduct periodic and annual maintenance on all passenger lifts or cargo lifts.
 - (2) Access control: For the safety of all employees, the Company engages external security service companies to protect the access safety. The Company also adopted electronic access control system at all floors to strictly control the access safety and protect the physical safety of all levels of employees.
3. Environmental health and safety:

In order to provide employees with good environmental health and safety, the Company engages external cleaning companies to clean the environment twice a day and conduct disinfection irregularly to ensure the health and safety of environment.
4. Fire safety:

The Company is fully-equipped with fire safety system including alarm system, fire sprinkler system, and emergency exit system. The Company also periodically conduct examination of fire safety equipment
5. The employee work environment and safety protective measures are disclosed in corporate social responsibility section of the official website: <http://www.hnfhc.com.tw>

V. The Group's corporate responsibility and ethical behavior

The Group engages in all kinds of financial businesses in response to government economic and financial policy, provides refined financial services to corporations and the public, facilitates business, economic development, and the welfare of the public. The Company will work through the core value of HEART (Honesty/Efficiency/Activeness/Responsibility/Teamwork) and devote itself to improving operating performance, protecting customer rights, optimizing shareholders' value, and establishing a healthy, solid, and perpetual financial group.



VI. Number of employees not in management position, average employee benefit expenses of the year and the difference with prior year.

Average salary and employee benefit expenses for employees not in management position

unit: NTD

	Number of Employees Not in Management Position in 2018	Number of Employees Not in Management Position in 2017	2018 Average Expense	2017 Average Expense	Growth Rate %
Hua Nan Financial Holdings					
Hua Nan Commercial Bank					
Hua Nan Securities					
South China Insurance					
Hua Nan Investment Trust					
Hua Nan Venture Capital					
Hua Nan Assets Management Co. (HNAMEC)					
Total	8,274	8,065	1,252,009	1,176,153	6.45%

Note: Average salary and employee benefit expenses for employees not in managerial position includes employee salary, overtime fee, lunch fee, annual bonus, performance bonus, and sales bonus.

VII. The information equipment of the Group

(I) Hua Nan Financial Holdings

The allocation and maintenance of major information system hardware and software, future development or purchase plan, emergency backup and safety protection.

1. The allocation and maintenance of major information system hardware and software

The major hardwares of the Group's information system are IBM host, Tandem host, UNIX server, and PC server. The operating systems are IBM OS/390, IBM AIX, Unix, and Windows Server. The database systems are IMS DB, DB2, Oracle, Informix, and MS-SQL. They are mainly used in core business system, e-commerce platform, management information system, and data warehouse that support business analysis. All hardware and software systems are maintained by dedicated personnel. Maintenance contracts are signed with vendors to ensure normal system operation.

2. Future development and purchase plan

In response to Group business development strategy and information technology trend, the Group planned four major mid-to-long-term information strategies to provide stable, high potency, and safe information service. Through the combination of finance and technology, the Group develops and creates the niche for business development and enhances overall competitiveness and advantage of the Group.

(1) Providing stable and fast information system service:

The Group actively invested and built open cross-platform service in recent years. With the enormous increase in demand from FinTech business, the system became more complex. Companies evolved to virtualized infrastructure and established an infrastructure that can be quickly launched with flexibility in order to quickly optimize business flow or launch new technology that creates digital income. It can also integrate new information system with the existing one to ensure the safety and stability of information system. The Company also actively establishes a system structure that can flexibly adjust resources with sound backup environment to provide customers with high-quality and reliable financial service without any interruption.

(2) Establishing flexible structure to enable real time support for operation need:

Technology is changing the looks of financial services. With the ever-updating demand from digital finance, it is an urgent task for the IT department to speed up system development to assist the time to market for business.

In recent years, the Group's IT department made all-out efforts in app development such as order placement, payment, or insurance purchase. The app applications kept evolving for all companies. In order to strengthen the internal and external system integration, the Company also devoted to develop application program interface(API) to interface systems and services. All services were component-based. Different devices and channels are interfaced together through API to build multi-channel consistent digital service for the Group.

The Group will continue to develop big data analysis. The application level of data analysis shall be extended besides using it on digital marketing in order to build new financial service models and create new value for the Group. However, big data analysis is not enough for data to create its value. Machine learning(ML) and artificial intelligence are also trends that cannot be ignored. The three items are linked together. Big data provides data. Machine learning learns the calculation. Artificial intelligence is used to predict, judge, categorize, and make decisions. According to the trend report, big data analysis combined with artificial intelligence will impose revolutionary change on the operating model of banks, insurance companies, and securities companies. They can be used in areas such as financial consulting, risk control, safety protection, smart customer service, financial monitoring technology, and precision marketing. They can also enhance finance service efficiency. The mid-to-long-term development of the Group shall extend the energy of big data analysis and implement better financial service through artificial intelligence.

(3) Enhancement of information security protection mechanism:

Gartner proposed an information security risk strategy "Continuous Adaptive Risk and Trust Assessment (CARTA)" in "Ten strategical technology trends in 2018". It emphasizes the continuous and adaptive risk and trust assessment. "Risk" is from the standpoint of external protection. "Trust" is from the standpoint of internal and identity. The process of the analysis is similar to balance of the scale. Zero risk and 100% trust is not able to be pursued when making a balanced assessment, because a strict requirement will hinder the development of new business and vice versa. Therefore, a better practice will be continuously adapting to find the best point.

The mid-to-long-term strategy of the Group's information security protection will refer to the adaptive security architecture of Gartner, including predict, prevent, detect, and respond. Continuously improve and keep the adaptive operation through a cycle inspection.

(4) Grasping technology and cultivating talents:

In addition to recruiting IT talents, the Group also devoted resources to organize campus FinTech innovation competition in the hope of providing more opportunities to cultivate talents in the campus. Moreover, digital finance not only overturned the service model in finance industry but also changed the demand in human resources, especially in the diversified applications in IoN, AR/VR, and artificial intelligence. The Group needs to develop a diversified cross field talent strategy to cultivate FinTech professionals that have both financial knowledge and know the trend of IT development (see appendix) to establish a digitally competitive information service for the Group.

3. Information operation safety protection and backup plan

- (1) The subsidiaries of the Company implemented ISO27001 information security system and BS10012 personal data protection standard to enhance the Group's mechanism in information security protection and personal data protection. Emergency backup system, backups, and remote backup for all important data and programs are implemented to maintain the continuous business operation, ensure the safety of computer data, and keep information service operating with high efficiency.
- (2) Install firewall and invasion detection system at the web portal of subsidiaries to strengthen the shield between the Company's internal network and the internet, and strengthen the internet control of all subsidiaries.

- (3) Install full-dimension anti-virus system with automatic updates and central detection to provide capability in protecting the internet from back door programs and virus.
- (4) Install detection system for various systems and internet to prevent internet crime and internet attack, and protect the safety of internet transaction.
- (5) All subsidiaries launched the equipment to collect audit trail and undeniable evidences. The server journal in log server records and keeps a complete operation system journal to ensure the completeness and undeniableness of the journal to avoid the destruction or malicious change of audit trail.
- (6) In order to implement informatin security and react to Personal Data Protection Act, the access of USB device and receiving and sending of employee emails have been monitored by data leak protection system(DLP) and computer terminal equipment management system. Suspicious actions will be detected real-time and audit trail will be kept to avoid the risk of data leaking and protect customers' right.
- (7) To cope with DDoS attack, all subsidiaries have signed DDoS protection contract with ISP suppliers since the end of 2016 and arranged DDoS protection exercise every year.
- (8) All companies in the Group have participated as members of "Financial Information Sharing and Analysis Center(F-ISAC)" in order to utilize the information security analysis, information security information exchange provided by the platform, and reach the goal of information security alert and joint protection.

4. Risk Management System

- (1) The Group's market value at risk (VaR) system

The purpose to establish the system is to evaluate the market risk of all subsidiaries in the Group with consistent standard. The system can calculate risk value, produce market risk analysis report, and control the market risk limit for daily trading positions.

- (2) The Group's operation risk loss database

The purpose to establish the system is to collect the Group's internal operation risk loss data. Through the continuous reporting by all members in the Group, all operation risk incidents already happend in the Group can be grasped as a reference for reviewing existing control and improvement, and preparing for advanced evaluation of economic capital in the future.

- (3) Stakeholder/substantive related party information system required by Financial Holding Company Act

The purpose to establish the system is to provide personnel of the Company and subsidiaries with fast and easy web interface to maintain, query, and print out stakeholders/substantive related party information required by the Financial Holding Company Act and export the data into subsidiaries' transaction system to control transactions with stakeholders and substantive related parties.

(II) Hua Nan Commercial Bank

1. The allocation and maintenance of major information system hardware and software

- (1) Operating system: Utilizing IBM mainframes that mainly processes the connection operation of deposit, loan, foreign exchange, import and export, overseas wire transfer, and trust fund.
- (2) Trust system: Utilize AS400 host that mainly processes custodian bank, employee welfare savings trust, and personal trust.
- (3) E-commerce platform system: Utilize IBM Power System host that mainly processes internet banking, financial EDI, and mobile bank.
- (4) Overseas banking system: Utilize Cisco Blade server that mainly processes overseas branches core transactions and anti-money laundering.
- (5) Analysis management system: Utilizing Dell and HP host that contains data warehouse, customer relationship management, Basel II calculation, Group Value at Risk, and risk management systems.
- (6) Other important open systems: Utilizing IBM Power System, Cisco and HP host. They include branch terminal centralize system, SWIFT, notes and bills clearing and settlement system, anti-money laundering system, etc.

2. Future development and purchase plan

(1) Deepen FinTech

- A. Establishing cross channel AI conversational platform that utilizes multi-channel smart semantic analysis technique to provide realistic voice and text conversation interface to simplify service flow and fulfill the diversified demand from different consumer groups.
- B. Establishing smart financing service system to automate service flow and make it as an automated financing system through web information technology and big data analysis. Conduct detail analysis on different customer behaviors, markets, and products to recommend the optimal investment product portfolio and create a low-cost-high-quality smart financing platform.

(2) Implement legal compliance

- A. Optimization of anti-money laundering (AML) system to enhance the AML system in domestic and overseas branches in order to strengthen the Bank's mechanism in anti-money laundering and counter terrorist financing.
- B. Improving central reporting system of overseas branches, upgrade software and hardware equipment in response to the new regulation requirement from local competent authority.

(3) Expanding efficacy of information system

- A. To cope with system demand from new business, expand data center of the two locations, plan to purchase Storage Area Network storage equipment, server virtualization equipment to integrate system calculation ability and effectively utilize software and hardware resources to quickly install information system.
- B. Purchasing and planning network equipment for the establishment of new business or new units in order to quickly launch network connection environment for every unit, increase availability rate of network equipment, and ensure the overall network environment.
- C. Continue to purchase NBU backup software authorization and storage equipment for data keeping to fulfill the demand in new annual project and existing system backup.

(4) Strengthening information security

- A. Currently IT personnel is granted access to various IT systems according to his job responsibility. Therefore IT personnel's computer is often the target of hacker attack. In order to seal up invasion channel and strengthen the Bank's information security control, the Bank established Virtual Desktop Infrastructure (VDI) for IT personnel to work under a completely isolated structure to prevent IT personnel's computer from direct attack.
- B. Improving IP management system, retire equipment that suppliers have ceased maintenance in order to reduce the risk of inability to control IP due to equipment malfunction, prevent unauthorized connection to the Bank's intranet which resulted in theft or conflict of IP address and affect the normal operation of all businesses.
- C. The Bankers Association of the Republic of China required all banks to set up monitoring and response mechanism for DDoS attack and conduct DDoS protection exercise every year. The Bank conducts DDoS protection exercise in every October. The exercise is done through actual external attack to go through the DDoS attack monitoring mechanism, personnel response and inform procedure. The capability to defend DDoS attack is reviewed after the exercise in order to strengthen the Bank's information security.
- D. In order to fulfill the demand in account management caused by greatly increased open system server and solve the issue that supplier ceased technical support for current version of open server identity management (IDM) system, the Company upgraded IDM system to fulfill the demand in system maintenance and information security.
- E. The Company strengthened legal compliance and passed related international information security standard certification to fulfill information security legal requirement. The Company passed the certification of ISO27001 International Information Security Standard in August 2012, passed ISO27001:2013 certification in June, 2015, and passed the three-year re-certification during July 4th to 6th in 2018. The Company will continue to take the re-certification of ISO27001:2013 to demonstrate the efforts in managing information security.

- F. The Company continues to conduct computer system information security evaluation, engage external professional institutions to conduct information security examination and find out potential information security threats and weaknesses. The examination items include information structure inspection, network activity inspection, test of network equipment, servers and terminals, website security inspection, safety configuration inspection, compliance inspection, penetration test, and social engineering practice in order to review the Bank's network safety protection ability and potential issues. The result of examination will be used to conduct related control procedures on technical side and management side, improve and upgrade the Bank's ability in network and information system security protection.
- G. Continue to execute SWIFT system customer security program. The scope includes restriction on internet access, key system protection, reduce attack and weakness, physical security, prevention from hack of log-in information, management of credentials and segregation of duty, detect system abnormal behavior and abnormal transaction, and incident response and information sharing plan in order to enhance the Bank's transaction security in SWIFT system.

3. Emergency backup and security protection measures

- (1) Onsite and offsite backup mechanisms and recovery procedures are established for the information operating system servers to facilitate recovery of normal operations in the event of system or hardware failure.
- (2) Onsite and offsite backup mechanisms and recovery procedures are established for the open system servers in accordance with the importance of the businesses to facilitate recovery of normal operations in the event of software or hardware failure.
- (3) A multitier architecture is adopted for information operation network security to separate external services for customers and internal operations, strengthen the reliability of the Bank's online banking and business system, and ensure the security of connections and online transactions.
- (4) Enhance the Bank's defenses against online attacks and adopt new information security protection equipment with signature-less technology to detect and block malicious software or hacking activities on the Internet which cannot be detected with computer anti-virus software in order to prevent the threats of new forms of online attacks.
- (5) Use the information security for monitoring real-time network usage and communication status and analyze the information security equipment logs to locate suspicious activities and generate automatic alerts to quickly process and prevent information security incidents.

(III) Hua Nan Securities

- 1. The allocation and maintenance of major information system hardware and software
 - (1) Major IT system hardware in North Taiwan, Taoyuan, Hsinchu, and Miaoli area is HP NonStop NS2000 series. HP NonStop NS2400 series are used in Central and South Taiwan.
 - (2) Major software for securities are jointly developed by the Company and approved software companies. Major hardware periodic maintenance is done by original suppliers.
- 2. Future development and purchase plan
 - (1) Continue to enhance securities mobile transaction system service, establish stage two remote backup network implementation for electronic transactions so that customers can obtain industry and market information of their focus through internet transaction and more quality internet digital services.
 - (2) Optimization of anti-money laundering system. Enhance anti-money laundering and counter terrorist financing and comply with the anti-money laundering requirement from competent authority through the risk assessment methodology implemented by professional consultants and thus reach the goal of overall company legal compliance.
 - (3) Evaluating the implementation of SOC information security monitoring center with the assistance from the Group or by its own. Establishing the trace, feedback, and alert mechanism and continue to strengthen the Company's information security effectively.

- (4) In response to preceding operation of continuous trading proposed by competent authority, in addition to current limit orders, TWSE will add the choice of continuous trading for order placement. The order effective note includes: Rest of Day(ROD), Immediate or Cancel(IOC), and Fill or Kill(FOK). The Company is developing related programs, testing the programs to get ready for system launch.
3. Emergency backup and security protection measures
 - (1) Central and South area NonStop host is launched in Chunghwa Telecom Hsinyi colocation center. North area host is launched in Chunghwa Telecom Banqiao IDC colocation center. They act as the transaction system in Taipei area and Central and South area respectively in daily operation and act as the emergency backup host for each other. The emergency backup exercise is conducted periodically.
 - (2) The IDC supplier is engaged to provide flow cleaning service against DDoS attack and block attacker's IP address for network security.
 - (3) The headquarter server room is launched in a location with fire protection equipment, access control, temperature and humidity control, electric-power generating equipment and designated management personnel to prevent from destroy. Multiple lines are used for important network connection as a backup. High specification standard and high stability router is adopted in regional center.
 - (4) IP control equipment has been launched to enhance network security protection. Periodically conduct weakness scanning and engage external professional institutions to conduct social engineering exercise. Using firewall and dual core switch to segment different networks and clearly reroute data. The above two present network stability and fault tolerance to enhance network operation efficiency.

(IV) South China Insurance

1.

Equipment use	Operating host	Operating host	Operating host
Label	IBM	IBM	IBM
model	P730	P730	P730
working system	AIX 7.1	AIX 7.1	AIX 7.1
CPU specification	4228MHz *16core	4312 MHz * 8core	4312 MHz * 8core
Memory	128GB	128GB	128GB
database	informix 11.7	informix 11.7	informix 11.7
Storage device	EMC VNX5300 3,470GB	EMC VNX5300 1,543GB	IBM V3700 4,030GB

2. South China Insurance currently uses the following software:

- (1) Operating system: Vehicle insurance system, fire insurance system, water insurance system, accident insurance system, health and injury insurance system, financial system, operation digitalization system, fund management system, accounting system, decision-making support system, financial actuarial system, and digitalized claim system.
- (2) E-commerce system: eCover website (B2C), vehicle insurance B2B system, and customer service system.
- (3) Office automation system: Employee portal website, exchange email system, Vitals-KM knowledge management system, E-learning system, and general affairs management system.
- (4) Information security system: Special access account management system, terminal personal information leak prevention system, terminal application elevation of privilege system, program source code detection equipment, server virtual patch system, mobile device protection, online behavior management equipment, and file server trace system.
- (5) Legal compliance: Anti-money laundering system.
3. Future development or procurement plans
 - (1) Establish an insurance brokerage and agency Internet insurance purchase system
 - (2) Establish a line@API system
 - (3) Establish a travel insurance rapid claim settlement system
 - (4) Expand functions of the anti-money laundering system



(V) Hua Nan Investment Trust

1. The hardware and software allocation of major information system
 - (1) HP professional servers and HP professional storage array storage equipment are adopted for major hardware equipments. ASUS professional servers and general PC servers are used for other hardware equipments.
 - (2) Major software platform is VMware virtual host platform that contains all system hosts. Windows operating system is used for the OS of all systems. MS SQL server is used for database. The scope includes core operating system and electronic transaction platform.
 - (3) All software and hardware systems are maintained by designated personnel. Maintenance contracts are signed with original supplier to ensure the normal operation of all system platforms.
2. Future development and purchase plan
 - (1) Continue to conduct the improvement and adjustment of IT system with respective business type.
 - (2) Improving IT infrastructure construction and replace existing hardware equipment with new one.
 - (3) Implementing information security control through ISO27001.
 - (4) Purchasing information security hardware and software with the enhancement of information security.
3. Information operation safety protection and backup plan
 - (1) Enhancing virtual host backup mechanism to ensure the safeguard of the Company's important data.
 - (2) Adopt Chunghwa Telecom's HiBox service for email which provides mail spam and anti-virus service.
 - (3) Periodically conducting system upgrade and system weakness inspection and penetration scanning to strengthen system security.
 - (4) Enforcing the periodical change of password, require complex password, and restrict password repeat. Set up access control and environment control system (fire protection, temperature and humidity monitoring and control) for server room to protect information security.
 - (5) Planning to establish information security monitoring center and continue to conduct information security training to raise employees' information security awareness.

(VI) Hua Nan Venture Capital

1. System hardware allocation for major IT system:

IBM xSeries 3500M4 host, Palo Alto PA-220 firewall, Cisco ethernet exchange, Juniper EX2200 48Port uplink.
2. Major IT system software allocation and maintenance

Operating system: Windows 2012 Server Standard 2 Proc

Firewall: Palo Alto Networks PA-220

Anti-virus: Kaspersky

Application system: Attention Accounting System

Application software: OFFICE 2003 、 OFFICE 2007 、 Acrobat Pro X, and Exchange 2013
3. Future development and purchase plan

At this moment the hardware implementation meets the demand from the Company's operation. With future operation development, the Company will evaluate the purchase of related equipment according to actual need.
4. Emergency backup and security protection measures
 - (1) Because the organization of the Company is small, there is not too much demand in data backup. The system backup is done on weekly basis. IT personnel also burns backup data in CD-ROMs or USBs and place them in a different location as a remote backup.
 - (2) Using firewall to segment network connection and periodically conduct safety scanning to achieve security control.
 - (3) Important equipments are located in a place with access control and management personnel to prevent damage.

(VII) Hua Nan Assets Management Co.

1. Major IT system and maintenance

- (1) Hardware equipment: System servers are mainly IBM X3650 series, quad-core desktop PC, Cisco network equipment(router and switch), Palo Alto next generation firewall, and HP Arcsight Logserver journal and audit trail storage equipment.
- (2) IT system and software allocation:
 - A. Operating system: MS Windows 10, MS Windows 8.1, MS Windows 2008, and MS Windows 2012
 - B. Office: MS Office 2016
 - C. Email system: MS Exchange Server 2010
(the Company will adopt Chunghwa Telecom Hibox email service since 2019.)
 - D. Database: MS SQL 2008, MS SQL 2012
 - E. Anti-virus tool: Trend Office Scan and Kaspersky
 - F. Weakness scanning software: Nessus
 - G. Endpoint monitoring software: IP-GUARD
 - H. Major operating systems: Asset management system, Ching Hang Accounting System, vault document management system, email system, web server, and human resource system.

All software and hardware systems are maintained by designated personnel. Maintenance contracts are signed with original supplier to ensure the normal operation of all system platforms.

2. Future development and implementation plan of software and hardware

In order to enhance work efficiency, the Company will continue to review all functions of the operating systems and enhance, modify, and expand them to facilitate the improvement of operating process. The upgrade from MS Windows 2008 and MS SQL 2008 to Windows 2012 and SQL2012 is under evaluation to improve the adaptability and safety at the client side.

3. Emergency backup and safety protective measures

- (1) Periodically upgrading system patch and virus code of the anti-virus system to ensure normal system functionality.
- (2) Adopting next generation firewall to block external internet attack and periodically execute system weakness detection to enhance the Company's internet safety.
- (3) Periodically backing up system data, establish remote backup mechanism, and periodically conduct data recovery exercise to ensure the usability of backup data.
- (4) IP-GUARD centrally controls information security, the read and write access of movable storage equipment, external communication software usage, and network communication to prevent the leakage of confidential information.
- (5) Using Arcsight Logserver to store necessary usage record, audit trail and evidence to effectively safeguard track of data.
- (6) In order to fulfill the responsibility for personal data protection and strengthen corporate information security protection, implement BS10012 personal information management system and ISO27001 information security management system certification and periodically re-certify to confirm the effective operation of the system.

VIII. Labor management relations of the Group

(I) Employee Benefits

1. The Company underwrites labor insurance and National Health Insurance for employees in compliance with laws and regulations.
2. The Company has set up employee benefit welfare committee to provide employees all kinds of subsidies, allowances, and activities(festival bonus, congratulatory payment for marriage and birth, condolence payment for bereavement, training subsidy, subsidy for clubs, etc).
3. The Company offers employees health checks and group insurance.

4. The Company provides complete employee development plan, on the job training, and subsidy for external training or education.
5. Better employee leave policy than the Labor Standards Act. (No salary deduction for application of personal leave and sick leave up to four days and 30 days respectively within a year).
6. The Company provides employee uniforms.

(II) Employee–employer agreements and measures taken to protect employee interests

1. To clarify the right and obligations of the employer and employees, the Company and subsidiary companies have established Work Rules based on the characteristics of their respective industries in accordance with the Labor Standards Act.
2. The Company and subsidiary companies have established employee-employer meetings to promote employee-employer relations and foster cooperation.
3. The subsidiary company Hua Nan Commercial Bank and the enterprise union signed a collective bargaining agreement to protect the labor conditions of the employees.

(III) Retirement plan and the implementation.

The Company stipulated a sound retirement plan in compliance with laws and regulations such as Labor Standards Act and Labor Pension Act. In compliance with Labor Standards Act, the Company has established Supervisory Committee of Labor Retirement Fund and makes monthly contributions to Retirement Fund at the Bank of Taiwan according to the old retirement system. The Company contributes 6% of monthly salary to employees' respective personal retirement fund in Labor Bureau on monthly basis for employees that apply to the new retirement system.

(IV) Two labor disputes incurred in last year and up to the date of annual report are listed.

1. Hua Nan Securities

1. Case for Feng XX

Feng XX, the former project vice president of operation management department declared that the Company did not make full retirement payment in the amount of NT\$2,394 thousand and demanded 5% annual rate for the outstanding amount from April 3, 2012 until the settlement date. On October 13, 2017, the Taiwan Taipei District Court decided in favor of the Company and Mr. Feng appealed to Taiwan High Court. On October 9, 2018, the Taiwan High Court decided the Company shall pay the counterparty NT\$690,960 plus 5% annual rate for the outstanding amount from November 28, 2015 until the settlement date. The Company may not appeal for the third instance because Mr. Feng did not appeal and the concerned amount was less than NT\$1.5 million. Therefore the conviction was affirmed by the second instance.

2. Case for Peng XX

The plaintiff Peng XX declared that the Company did not make full retirement payment in the amount of NT\$2,029 thousand. On December 17, 2013, the Taiwan Taipei District Court decided the Company shall pay NT\$868 thousand plus 5% annual rate for the outstanding amount from November 2, 2012 until the settlement date. On October 13, 2015, the Taiwan High Court decided the Company shall pay additional NT\$1,161 thousand plus 5% annual rate for the amount from November 2, 2012 until the settlement date. The Company appealed, and the appeal was rejected by the Supreme Court. On June 28, 2017, the Taiwan High Court decided the Company shall pay NT\$1,141 thousand in addition to the amount of NT\$868 thousand decided by the first instance plus 5% annual rate for the outstanding amount from November 2, 2012 until the settlement date. The Company has made a second appeal to the Supreme Court.

3. Case for Tung XX

Tung XX, former sales representative of Minchuan Branch was laid off by the Company on January 19, 2018. The plaintiff filed a lawsuit on salary payment against Minchuan Branch. The plaintiff declared that the employment contract between the two parties still exists and the Company shall pay salary during February 2018 to May 2020 in the amount of NT\$772,800 plus the basic salary and annual bonus deducted by the Company on a pro rata basis due to the sales performance that did not reach the basic requirement in the amount of NT\$112,500. The Kaohsiung District Court called a mediation at 3pm October 30, 2018. The mediation was unsuccessful. The case is currently under the jurisdiction of Taiwan Kaohsiung District Court.

IX. Material Contracts of the Group

Describe the parties, major content, restrictive clauses, and duration of the existing contracts or contracts expired in past year that have material impact on shareholders' equity.

(I) Hua Nan Commercial Bank

Nature of the Contracts	Parties	Duration of the Contracts	Major Content	Restrictive Clauses
Construction contract	BES Engineering Corporation/Hua Nan Commercial Bank, Ltd.	1080 calendar days from November 1, 2018	Tucheng New IT Center Building Construction Project Total amount of the construction contract is NT\$640 million(inclusive of VAT) Electrical and mechanical subcontracting project under contract awarding process by Hua Nan Commercial Bank	The counterparty act as the prime contractor which shall manage and coordinate the electrical and mechanical subcontracting project in addition to the construction project.

(II) South China Insurance

Nature of the Contracts	Parties	Duration of the contracts	Major content	Restrictive Clauses
Reinsurance contract	(Aspen Insurance UK Limited Singapore Branch)	January 1, 2018 ~ December 31, 2018	The counterparty is insured by South China Insurance with fire insurance and fire additional insurance ratio and surplus reinsurance contract, fire insurance ordinary excess of loss cover reinsurance contract, accident insurance excess of loss cover reinsurance contract.	None
Reinsurance contract	(Central Reinsurance Corporation)	January 1, 2018 ~ December 31, 2018	The counterparty is insured by South China Insurance with fire insurance and fire additional insurance ratio and surplus reinsurance contract, marine cargo surplus reinsurance contract, hull ratio reinsurance contract, car ratio reinsurance percentage reinsurance contract, car insurance percentage reinsurance contract (Hoan Insurance Agency project), voluntary automobile reinsurance contract (luxury car and other excess of loss), construction insurance ratio reinsurance contract, fire insurance ordinary excess of loss cover reinsurance contract, fire insurance and construction insurance excess of loss cover for catastrophe reinsurance contract, marine insurance excess of loss reinsurance contract, accident insurance excess of loss reinsurance contract, injury insurance excess of loss cover for catastrophe reinsurance contract.	None
Reinsurance contract	(Everest Reinsurance Company)	January 1, 2018 ~ December 31, 2018	The counterparty is insured by South China Insurance with fire insurance and fire additional insurance ratio and surplus reinsurance contract, marine cargo insurance excess of loss reinsurance contract, hull insurance percentage reinsurance contract, fire insurance and construction insurance excess cover for catastrophe reinsurance contract.	None
Reinsurance contract	(Hannover Reinsurance Company)	January 1, 2018 ~ December 31, 2018	The counterparty is insured by South China Insurance with fire insurance and fire additional insurance ratio and surplus reinsurance contract, construction insurance ratio reinsurance contract, fire insurance ordinary excess of loss cover reinsurance contract, fire insurance and construction insurance excess of loss cover for catastrophe reinsurance contract, accident insurance excess of loss reinsurance contract.	None
Reinsurance contract	(Korean Reinsurance Company)	January 1, 2018 ~ December 31, 2018	The counterparty is insured by South China Insurance with fire insurance and fire additional insurance ratio and surplus reinsurance contract, marine cargo insurance excess of loss reinsurance contract, hull insurance percentage reinsurance contract, fire insurance ordinary excess of loss cover reinsurance contract, fire insurance and construction insurance excess cover for catastrophe reinsurance contract, accident insurance excess of loss reinsurance contract.	None
Reinsurance contract	(Munich Reinsurance Company Hong Kong Branch)	January 1, 2018 ~ December 31, 2018	The counterparty is insured by South China Insurance in marine cargo insurance excess of loss reinsurance contract, car insurance percentage reinsurance contract, construction insurance percentage reinsurance contract.	None
Reinsurance contract	(SCOR Reinsurance Company (Asia) Ltd.)	January 1, 2018 ~ December 31, 2018	The counterparty is insured by South China Insurance in fire insurance and construction insurance excess cover for catastrophe reinsurance contract.	None
Reinsurance contract	(The Toa Reinsurance Company, Limited Hong Kong Branch)	January 1, 2018 ~ December 31, 2018	The counterparty is insured by South China Insurance with fire insurance and fire additional insurance ratio and surplus reinsurance contract, marine cargo insurance excess of loss reinsurance contract, hull insurance percentage reinsurance contract, car insurance percentage reinsurance contract, fire insurance and construction insurance excess cover for catastrophe reinsurance contract.	None

Note: The above mentioned material contracts are all reinsurance contracts. The purpose of signing the contracts is to protect the Company against liability in insurance contracts. Contracts are signed by calendar year.



X. Key indicators of the Group

	2018	2017	2016	2015	2014
Return on Assets					
Hua Nan Financial Holdings	0.56%	0.47%	0.58%	0.61%	0.59%
Hua Nan Commercial Bank	0.56%	0.46%	0.57%	0.59%	0.57%
Hua Nan Securities	1.13%	1.89%	0.81%	1.24%	2.06%
South China Insurance	3.54%	3.80%	3.57%	3.87%	3.90%
Hua Nan Investment Trust	1.54%	1.38%	3.31%	4.02%	3.14%
Hua Nan Venture Capital	0.82%	0.35%	0.58%	0.34%	-0.95%
HNAMC	0.30%	6.25%	2.09%	0.51%	3.42%
Return on Equity					
Hua Nan Financial Holdings	8.59%	7.43%	9.03%	9.48%	9.39%
Hua Nan Commercial Bank	7.92%	6.73%	8.61%	9.01%	9.19%
Hua Nan Securities	3.67%	6.20%	2.16%	2.97%	4.98%
South China Insurance	12.98%	14.48%	13.99%	15.18%	15.44%
Hua Nan Investment Trust	2.85%	2.59%	6.10%	7.48%	6.07%
Hua Nan Venture Capital	0.83%	0.36%	0.59%	0.35%	-0.95%
HNAMC	0.78%	13.56%	4.63%	1.12%	7.31%
Capital Adequacy Ratio					
Hua Nan Financial Holdings	120.19%	127.69%	125.63%	141.78%	139.55%
Hua Nan Commercial Bank	13.75%	14.25%	12.83%	13.28%	12.84%
Hua Nan Securities	453.49%	350.79%	339.51%	513.66%	487.08%
South China Insurance	Above 300%	Above 300%	Above 300%	Above 300%	Above 300%
Non Performing Loan Ratio					
Hua Nan Commercial Bank	0.15%	0.34%	0.27%	0.21%	0.19%
NPL Coverage Ratio					
Hua Nan Commercial Bank	853.48%	354.81%	431.55%	537.90%	585.79%

Teamwork





VI The Company's Business

(I) balance sheets and statements of comprehensive income for the past five years

(I) Hua Nan Financial Holdings Co., Ltd. and Subsidiary

1. Condensed consolidated balance sheet- IFRS

Unit: NT\$1,000

Item	Year	March 31, 2019	2018	2017	2016	2015	2014 (Restated)
CASH AND CASH EQUIVALENTS AND DUE FROM THE CENTRAL BANK AND OTHER BANKS		224,906,614	205,231,095	244,175,122	222,755,140	296,726,322	191,979,270
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS		82,623,001	86,705,474	76,061,991	63,108,328	63,497,701	53,560,052
AVAILABLE-FOR-SALE FINANCIAL ASSETS, NET		-	-	149,474,678	121,586,378	94,537,729	94,466,936
FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME		181,180,376	191,447,673	-	-	-	-
INVESTMENTS IN DEBT INSTRUMENTS MEASURED AT AMORTIZED COST, NET		450,458,225	450,489,822	-	-	-	-
DERIVATIVE FINANCIAL ASSETS FOR HEDGING		-	-	-	876	1,679	4,191
SECURITIES PURCHASED UNDER AGREEMENTS TO RESELL		1,219,041	489,059	601,507	349,015	478,215	458,591
RECEIVABLES, NET		42,198,672	41,257,457	45,198,320	39,320,895	34,978,290	45,646,598
CURRENT TAX ASSETS		295,614	418,349	480,222	330,891	858,262	1,710,467
ASSETS HELD FOR SALE, NET		-	-	-	52,653	-	-
DISCOUNTS AND LOANS, NET		1,592,409,948	1,623,317,849	1,582,344,101	1,578,533,168	1,479,452,609	1,478,084,933
REINSURANCE CONTRACTS ASSETS, NET		4,351,018	4,030,604	4,005,896	4,107,957	3,239,368	2,822,021
HELD-TO-MATURITY FINANCIAL ASSETS, NET		-	-	380,815,899	400,946,073	269,363,346	267,054,720
INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD, NET		157,192	110,724	57,128	57,665	63,224	70,641
OTHER FINANCIAL ASSETS, NET		29,124,165	30,363,702	41,634,967	65,862,973	59,583,095	74,834,104
INVESTMENT PROPERTIES, NET		11,043,378	10,922,997	9,837,544	9,633,097	9,591,967	8,239,124
PROPERTY AND EQUIPMENT, NET		32,218,146	32,264,055	32,518,581	32,369,672	32,481,139	33,263,607
RIGHT-OF-USE ASSETS, NET		2,206,815	-	-	-	-	-
INTANGIBLE ASSETS, NET		776,953	762,044	565,232	536,897	496,292	372,480
DEFERRED TAX ASSETS		3,449,675	3,496,800	2,646,268	2,410,889	2,270,567	2,143,252
OTHER ASSETS, NET		2,802,319	2,899,159	3,002,294	3,979,395	2,668,769	5,240,659
TOTAL ASSETS		2,661,421,152	2,684,206,863	2,573,419,750	2,545,941,962	2,350,288,574	2,259,951,646
DEPOSITS FROM THE CENTRAL BANK AND BANKS		139,613,277	132,267,041	84,127,060	122,944,916	85,215,804	100,435,752
DUE TO THE CENTRAL BANK AND BANKS		-	-	-	-	-	-
FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS		4,856,779	4,803,071	7,975,720	13,713,879	18,565,366	22,934,698
DERIVATIVE FINANCIAL LIABILITIES FOR HEDGING		-	-	4,082	15,162	35,281	41,968
SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE		37,588,563	46,323,247	40,797,559	41,941,561	27,460,217	32,648,320
COMMERCIAL PAPER PAYABLE, NET		18,639,413	15,950,469	27,524,893	15,706,047	12,541,697	7,058,369
PAYABLES		39,991,761	43,481,315	43,808,589	38,697,024	30,454,649	34,973,240

Item		Year	March 31, 2019	2018	2017	2016	2015	2014 (Restated)
CURRENT TAX LIABILITIES			2,085,276	1,677,066	1,080,850	1,271,789	1,968,250	1,369,891
LIABILITIES HELD FOR SALE, NET			-	-	-	-	-	-
DEPOSITS AND REMITTANCES			2,130,900,056	2,155,650,451	2,110,962,220	2,062,911,746	1,917,853,865	1,828,517,934
BONDS PAYABLE			58,589,660	58,589,023	53,448,450	50,646,716	48,845,006	47,343,318
PREFERRED STOCK LIABILITY			-	-	-	-	-	-
PROVISIONS			20,362,072	19,967,657	18,447,562	18,060,519	17,808,362	16,488,351
OTHER FINANCIAL LIABILITIES			11,256,119	15,752,338	9,575,718	11,053,510	25,285,651	15,352,307
LEASE LIABILITIES			2,109,332	-	-	-	-	-
DEFERRED TAX LIABILITIES			6,109,325	6,119,745	6,103,727	6,109,882	6,125,912	6,118,592
OTHER LIABILITIES			7,420,929	9,467,857	5,329,157	3,885,941	5,059,187	2,728,859
TOTAL LIABILITIES	BEFORE DISTRIBUTION		2,479,522,562	2,510,049,280	2,409,185,587	2,386,958,692	2,197,219,247	2,116,011,599
	AFTER DISTRIBUTION		Note 2	Note 2	2,414,708,847	2,394,323,039	2,203,460,219	2,121,794,941
EQUITY ATTRIBUTABLE TO OWNER OF THE PARENT								
SHARE CAPITAL	BEFORE DISTRIBUTION		115,436,133	115,436,133	110,465,199	105,204,951	99,063,042	93,279,700
	AFTER DISTRIBUTION		Note 2	Note 2	115,436,133	110,465,199	105,204,951	99,063,042
CAPITAL SURPLUS			17,758,986	17,758,986	17,758,986	17,758,986	17,758,986	17,758,986
RETAINED EARNINGS	BEFORE DISTRIBUTION		41,382,509	37,181,499	35,513,962	36,464,135	35,132,791	33,057,366
	AFTER DISTRIBUTION		Note 2	Note 2	25,019,768	23,839,540	22,749,910	21,490,682
OTHER EQUITY			7,318,833	3,778,863	494,436	(446,342)	1,112,980	(157,508)
TREASURY STOCK			-	-	-	-	-	-
NON-CONTROLLING INTERESTS			2,129	2,102	1,580	1,540	1,528	1,503
TOTAL EQUITY	BEFORE DISTRIBUTION		181,898,590	174,157,583	164,234,163	158,983,270	153,069,327	143,940,047
	AFTER DISTRIBUTION		Note 2	Note 2	158,710,903	151,618,923	146,828,355	138,156,705

Note: 1. The financial statements for the year ended December 31, 2014, have been audited by CPAs Yi-Chun Wu and Kuan-Chung Lai from Deloitte & Touche Taiwan with an unqualified opinion.

The financial statements for the year ended December 31, 2015, have been audited by CPAs Yi-Chun Wu and Kuan-Chung Lai from Deloitte & Touche Taiwan with an unqualified opinion.

The financial statements for the year ended December 31, 2016, have been audited by CPAs Yi-Chun Wu and Kuan-Chung Lai from Deloitte & Touche Taiwan with an unqualified opinion.

The financial statements for the year ended December 31, 2017, have been audited by CPAs Yi-Chun Wu and Kuan-Chung Lai from Deloitte & Touche Taiwan with an unqualified opinion.

The financial statements for the year ended December 31, 2018, have been audited by CPAs Yi-Chun Wu and Kuan-Chung Lai from Deloitte & Touche Taiwan with an unqualified opinion.

The financial statements for the first quarter of the year ended December 31, 2019, have been reviewed by CPAs Ting-Sheng Chang and Kuan-Chung Lai from Deloitte & Touche Taiwan with an unqualified opinion.

2. The 2018 earnings distribution is yet to be determined in the 2019 shareholders' meeting.

3. The financial statements for the year ended December 31, 2014, have been restated in response to the adoption of 2013 IFRSs recognized by the FSC starting from 2015.

2. Condensed consolidated statement of comprehensive income - IFRS

Unit: NT\$1,000

Item	Year	For the three Months Ended March 31, 2019	2018	2017	2016	2015	2014
INTEREST REVENUE		11,514,139	44,713,719	41,374,024	39,639,636	39,826,460	39,285,697
INTEREST EXPENSE	(	5,225,497)	(18,153,500)	(14,435,282)	(12,799,996)	(13,506,383)	(13,762,267)
NET INTEREST		6,288,642	26,560,219	26,938,742	26,839,640	26,320,077	25,523,430
TOTAL NET REVENUES OTHER THAN INTEREST		5,879,529	19,442,265	15,281,806	15,392,782	13,245,337	13,293,608
ALLOWANCE FOR DOUBTFUL ACCOUNTS, COMMITMENT, AND GUARANTEES	(	437,610)	(3,533,260)	(4,950,360)	(3,445,877)	(1,186,835)	(1,639,955)
CHANGE IN PROVISIONS FOR INSURANCE LIABILITIES, NET	(	340,072)	(23,475)	(237,716)	(226,072)	(388,444)	(307,088)
TOTAL OPERATING EXPENSES	(	6,398,647)	(25,774,540)	(23,223,104)	(22,516,044)	(21,795,828)	(21,321,230)
NET PROFIT BEFORE INCOME TAX		4,991,842	16,671,209	13,809,368	16,044,429	16,194,307	15,548,765
INCOME TAX EXPENSE	(	783,577)	(2,049,774)	(1,793,800)	(1,957,629)	(2,113,646)	(2,417,578)
INCOME FROM CONTINUING OPERATION AFTER INCOME TAX		4,208,265	14,621,435	12,015,568	14,086,800	14,080,661	13,131,187
INCOME (LOSS) FROM DISCONTINUED OPERATION		-	-	-	-	-	-
NET PROFIT FOR THE YEAR		4,208,265	14,621,435	12,015,568	14,086,800	14,080,661	13,131,187
OTHER COMPREHENSIVE INCOME		3,532,742	(1,398,581)	599,718	(1,931,831)	832,014	1,491,746
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		7,741,007	13,222,854	12,615,286	12,154,969	14,912,675	14,622,933
NET PROFIT ATTRIBUTABLE TO OWNER OF THE PARENT		4,208,255	14,621,319	12,015,482	14,086,734	14,080,583	13,131,111
NET PROFIT ATTRIBUTABLE TO NON-CONTROLLING INTERESTS		10	116	86	66	78	76
COMPREHENSIVE INCOME ATTRIBUTABLE TO OWNER OF THE PARENT		7,740,980	13,222,708	12,615,200	12,154,903	14,912,597	14,622,857
COMPREHENSIVE INCOME ATTRIBUTABLE TO NON-CONTROLLING INTERESTS		27	146	86	66	78	76
EARNINGS PER SHARE		0.36	1.27	1.09	1.28	1.34	1.33

Note: 1. The financial statements for the year ended December 31, 2014, have been audited by CPAs Yi-Chun Wu and Kuan-Chung Lai from Deloitte & Touche Taiwan with an unqualified opinion.

The financial statements for the year ended December 31, 2015, have been audited by CPAs Yi-Chun Wu and Kuan-Chung Lai from Deloitte & Touche Taiwan with an unqualified opinion.

The financial statements for the year ended December 31, 2016, have been audited by CPAs Yi-Chun Wu and Kuan-Chung Lai from Deloitte & Touche Taiwan with an unqualified opinion.

The financial statements for the year ended December 31, 2017, have been audited by CPAs Yi-Chun Wu and Kuan-Chung Lai from Deloitte & Touche Taiwan with an unqualified opinion.

The financial statements for the year ended December 31, 2018, have been audited by CPAs Yi-Chun Wu and Kuan-Chung Lai from Deloitte & Touche Taiwan with an unqualified opinion.

The financial statements for the first quarter of the year ended December 31, 2019, have been reviewed by CPAs Ting-Sheng Chang and Kuan-Chung Lai from Deloitte & Touche Taiwan with an unqualified opinion.

2. The financial statements for the year ended December 31, 2014, have been restated in response to the adoption of 2013 IFRSs recognized by the FSC starting from 2015.

(II) Hua Nan Financial Holdings Co., Ltd.
1. Condensed balance sheet- IFRS

Unit: NT\$1,000

Year		March 31, 2019	2018	2017	2016	2015	2014 (Restated)
Item							
CASH AND CASH EQUIVALENTS		287,233	422,127	275,722	333,796	193,364	324,666
FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME		870,953	874,254	-	-	-	-
RECEIVABLES, NET		321,993	329,475	329,453	575,094	500,288	37,459
CURRENT TAX ASSETS		1,617,756	1,086,735	425,151	294,578	806,452	375,781
INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD, NET		212,702,734	204,742,800	194,972,401	182,158,135	173,368,647	158,936,300
OTHER FINANCIAL ASSETS, NET		-	-	681,431	681,431	681,431	312,314
PROPERTY AND EQUIPMENT, NET		44,270	47,224	58,867	4,623	5,551	3,357
RIGHT-OF-USE ASSETS		109,522	-	-	-	-	-
INTANGIBLE ASSETS, NET		1,104	1,277	1,673	2,378	2,953	2,808
DEFERRED TAX ASSETS		2,808	2,808	2,808	2,808	2,808	2,808
OTHER ASSETS, NET		264	-	-	1,386	153	-
TOTAL		215,958,637	207,506,700	196,747,506	184,054,229	175,561,647	159,995,493
COMMERCIAL PAPER PAYABLE, NET		14,086,084	13,885,360	20,987,156	13,690,562	10,690,588	4,893,846
PAYABLES		1,486,771	1,613,780	1,329,938	1,236,459	1,166,501	1,023,569
CURRENT TAX LIABILITIES		1,455,104	922,734	263,838	210,621	698,896	186,464
BONDS PAYABLE		16,889,660	16,889,023	9,898,450	9,896,716	9,895,006	9,893,318
OTHER BORROWINGS		-	-	-	-	-	-
LEASE LIABILITIES		34,569	40,042	35,261	37,861	42,577	59,472
PROVISIONS		109,708	-	-	-	-	-
OTHER LIABILITIES		280	280	280	280	280	280
TOTAL LIABILITIES	BEFORE DISTRIBUTION	34,062,176	33,351,219	32,514,923	25,072,499	22,493,848	16,056,949
	AFTER DISTRIBUTION	Note 2	Note 2	38,038,183	32,436,846	28,734,820	21,840,291
SHARE CAPITAL	BEFORE DISTRIBUTION	115,436,133	115,436,133	110,465,199	105,204,951	99,063,042	93,279,700
	AFTER DISTRIBUTION	Note 2	Note 2	115,436,133	110,465,199	105,204,951	99,063,042
CAPITAL SURPLUS		17,758,986	17,758,986	17,758,986	17,758,986	17,758,986	17,758,986
RETAINED EARNINGS	BEFORE DISTRIBUTION	41,382,509	37,181,499	35,513,962	36,464,135	35,132,791	33,057,366
	AFTER DISTRIBUTION	Note 2	Note 2	25,019,768	23,839,540	22,749,910	21,490,682
OTHER EQUITY		7,318,833	3,778,863	494,436	(446,342)	1,112,980	(157,508)
TOTAL EQUITY	BEFORE DISTRIBUTION	181,896,461	174,155,481	164,232,583	158,981,730	153,067,799	143,938,544
	AFTER DISTRIBUTION	Note 2	Note 2	158,709,323	151,617,383	146,826,827	138,155,202

Note: 1. The financial statements for the year ended December 31, 2014, have been audited by CPAs Yi-Chun Wu and Kuan-Chung Lai from Deloitte & Touche Taiwan with an unqualified opinion.

The financial statements for the year ended December 31, 2015, have been audited by CPAs Yi-Chun Wu and Kuan-Chung Lai from Deloitte & Touche Taiwan with an unqualified opinion.

The financial statements for the year ended December 31, 2016, have been audited by CPAs Yi-Chun Wu and Kuan-Chung Lai from Deloitte & Touche Taiwan with an unqualified opinion.

The financial statements for the year ended December 31, 2017, have been audited by CPAs Yi-Chun Wu and Kuan-Chung Lai from Deloitte & Touche Taiwan with an unqualified opinion.

The financial statements for the year ended December 31, 2018, have been audited by CPAs Yi-Chun Wu and Kuan-Chung Lai from Deloitte & Touche Taiwan with an unqualified opinion.

The financial statements for the first quarter of the year ended December 31, 2019, have been reviewed by CPAs Ting-Sheng Chang and Kuan-Chung Lai from Deloitte & Touche Taiwan with an unqualified opinion.

2. The 2018 earnings distribution is yet to be determined in the 2019 shareholders' meeting.

3. The financial statements for the year ended December 31, 2014, have been restated in response to the adoption of 2013 IFRSs recognized by the FSC starting from 2015.

2. Condensed statement of comprehensive income - IFRS

Unit: NT\$1,000

Item	Year	For the three Months Ended March 31, 2019	2018	2017	2016	2015	2014 (Restated)
REVENUES							
INTEREST REVENUE		110	6,408	7,247	7,272	12,925	2,432
INTEREST EXPENSE	(	79,173)	(307,912)	(213,184)	(188,483)	(188,838)	(163,402)
SHARE OF PROFIT OF SUBSIDIARIES AND ASSOCIATES		4,423,908	15,433,564	12,662,017	14,591,924	14,250,348	13,672,565
OTHER NONINTEREST NET REVENUES	(	1,843)	51,827	47,164	48,403	24,384	23,467
OPERATING EXPENSES							
EMPLOYEE BENEFITS	(	92,216)	(337,058)	(274,490)	(303,405)	(308,821)	(283,751)
DEPRECIATION AND AMORTIZATION	(	18,392)	(13,401)	(3,163)	(2,527)	(2,225)	(2,481)
OTHERS	(	24,139)	(212,109)	(210,109)	(220,362)	(170,408)	(108,909)
NET PROFIT BEFORE INCOME TAX		4,208,255	14,621,319	12,015,482	13,932,822	13,617,365	13,139,921
INCOME TAX EXPENSE		-	-	-	153,912	463,218	(8,810)
NET PROFIT FOR THE YEAR		4,208,255	14,621,319	12,015,482	14,086,734	14,080,583	13,131,111
OTHER COMPREHENSIVE INCOME		3,532,725	(1,398,611)	599,718	(1,931,831)	832,014	1,491,746
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		7,740,980	13,222,708	12,615,200	12,154,903	14,912,597	14,622,857
EARNINGS PER SHARE		0.36	1.27	1.09	1.28	1.34	1.33

Note: 1. The financial statements for the year ended December 31, 2014, have been audited by CPAs Yi-Chun Wu and Kuan-Chung Lai from Deloitte & Touche Taiwan with an unqualified opinion.

The financial statements for the year ended December 31, 2015, have been audited by CPAs Yi-Chun Wu and Kuan-Chung Lai from Deloitte & Touche Taiwan with an unqualified opinion.

The financial statements for the year ended December 31, 2016, have been audited by CPAs Yi-Chun Wu and Kuan-Chung Lai from Deloitte & Touche Taiwan with an unqualified opinion.

The financial statements for the year ended December 31, 2017, have been audited by CPAs Yi-Chun Wu and Kuan-Chung Lai from Deloitte & Touche Taiwan with an unqualified opinion.

The financial statements for the year ended December 31, 2018, have been audited by CPAs Yi-Chun Wu and Kuan-Chung Lai from Deloitte & Touche Taiwan with an unqualified opinion.

The financial statements for the first quarter of the year ended December 31, 2019, have been reviewed by CPAs Ting-Sheng Chang and Kuan-Chung Lai from Deloitte & Touche Taiwan with an unqualified opinion.

2. The financial statements for the year ended December 31, 2014, have been restated in response to the adoption of 2013 IFRSs recognized by the FSC starting from 2015.

(II) Financial analysis for the past five years

(I) Financial analysis

Item		Year	Up to March 31, 2019 (Note 2)	2018	2017	2016	2015	2014
Operating efficiency	Total asset turnover ratio (times)		0.02	0.02	0.02	0.02	0.02	0.02
	Loan-to-deposit ratio of HNCB (%)		75.64	76.18	75.80	77.33	77.86	81.66
	Non-performing loan ratio of HNCB (%)		0.16	0.15	0.34	0.27	0.21	0.19
	Average employee income (in NT\$ thousand)		4,711	4,437	4,183	4,263	4,064	4,029
	Average employee profit (in NT\$ thousand)		1,629	1,410	1,190	1,422	1,446	1,363
Profitability	Return on assets (%)		0.63	0.56	0.47	0.55	0.61	0.59
	Return on equity (%)		9.46	8.59	7.43	9.03	9.48	9.39
	Profit margin (%)		34.58	31.78	28.46	33.36	35.59	33.83
	Earnings (loss) per share (NT\$)		0.36	1.27	1.09	1.34	1.42	1.41
Financial structure (%)	Debt-to-assets ratio		93.17	93.51	93.62	93.76	93.49	93.63
	Debt-to-equity ratio		1,363.13	1,441.25	1,466.92	1,501.39	1,435.44	1,470.06
	Double leverage ratio of HNFHC		117.41	118.07	119.13	115.01	113.71	110.64
Leverage	Operating leverage		90.38	92.96	92.37	93.79	94.58	94.39
	Financial leverage of HNFHC		215.32	208.89	204.53	179.78	183.40	188.51
Growth rate	Growth rate of assets	(	0.85)	4.31	1.08	8.32	4.00	4.40
	Growth rate of profit		19.77	20.72	(13.93)	(0.93)	4.15	30.83
Cash flow (%)	Cash flow ratio		40.21	(7.07)	9.64	(32.10)	42.45	15.13
	Cash flow adequacy ratio		509.43	549.69	193.12	162.75	431.10	231.11
	Cash flow reinvestment ratio		2,084.54	(725.24)	4,289.24	(3,222.60)	7,344.49	707.17
Operating scale (%)	Market share of assets		Note 4	5.34	5.45	5.93	5.81	6.11
	Market share of equity		Note 4	5.15	4.79	5.15	5.32	5.32
	Market share of deposits of HNCB		5.75	5.91	5.95	6.04	5.83	5.89
	Market Share of loans of HNCB		5.80	5.95	6.09	6.36	6.16	6.37
Capital adequacy	Capital adequacy of subsidiaries based on the industry regulations:							
	HNCB	-	13.75	14.25	12.83	13.28	12.84	
	HNSC	-	453.49	350.79	339.51	513.66	487.08	
	South China Insurance	-	Over 300%	Over 300%	Over 300%	Over 300%	Over 300%	
	Qualifying capital of subsidiaries							
	HNCB	-	213,507,676	209,321,593	198,529,754	192,160,416	180,450,394	
	HNSC	-	8,499,094	9,084,201	8,282,554	8,566,573	8,630,643	
	South China Insurance	-	5,051,923	5,025,353	4,712,965	4,691,993	4,448,937	
	HNVC	-	1,542,482	1,811,060	1,790,559	1,776,880	1,781,504	
	Other subsidiaries	-	1,602,054	1,671,471	1,571,749	1,532,434	1,560,409	
	Net qualifying capital of Hua Nan Group	-	195,097,803	185,369,889	179,206,367	175,316,634	166,585,632	
	Authorized capital of subsidiaries							
	HNCB	-	153,365,357	135,846,850	133,430,568	115,795,425	112,423,022	
	HNSC	-	2,811,258	3,884,495	3,659,394	2,501,633	2,657,897	
	South China Insurance	-	1,874,670	1,850,842	1,801,672	1,614,606	1,450,652	
	HNVC	-	775,920	909,865	899,679	893,179	894,648	
	Other subsidiaries	-	2,243,033	1,605,676	1,593,536	1,666,063	1,589,988	
	Total authorized capital of Hua Nan Group	-	162,317,233	145,167,479	142,647,383	123,658,329	278,309,366	
Capital adequacy ratio of Hua Nan Group	-	120.19	127.69	125.63	141.78	139.55		
If all subsidiaries of HNFHC engage in lending, endorsements/guarantees, or other transactions with the same individual, related party, or affiliated company, the amount or percentage shall be disclosed in accordance with Article 46 of the Financial Holding Company Act			Refer to Attachments 1~5.					
Reasons for changes in financial ratios for the most recent two years: (Analysis is not required if changes are within 20%.)								
1. The decrease in the non-performing loan ratio of HNCB was mainly due to the decrease in non-performing loans as a result of the improved quality of assets in 2018.								
2. The increase in profit growth rate was mainly due to the increase in income before tax in 2018.								
3. The negative cash flow ratio was mainly due to the net cash flow used in operating activities.								
4. The increase in the cash flow adequacy ratio was mainly due to the net cash flow generated from operating activities for the most recent five years.								
5. The negative cash flow reinvestment ratio was mainly due to the net cash flow used in operating activities.								



Note 1: The Company was founded on December 19, 2001. The financial information above has been audited or reviewed by the CPAs.

Note 2: The total asset turnover ratio, return on assets, return on equity, and growth rate of profit for the first quarter of the year ended December 31, 2019, shall be calculated based on the annualized earnings. In addition, the capital adequacy ratio of Hua Nan Group and information required to be disclosed in accordance with Article 46 of the Financial Holding Company Act shall be disclosed every six months according to the law.

Note 3: The calculation formulas are described as follows:

1. Operating efficiency

- (1) Total asset turnover ratio = Net income / Total assets.
- (2) Loan-to-deposit ratio of HNCB = Total loans / Total deposits of HNCB.
- (3) Non-performing loan ratio of HNCB = Total non-performing loans / Total loans of HNCB.
- (4) Average employee income = Net income / Total number of employees.
- (5) Average employee profit = Net profit after tax / Total number of employees.

2. Profitability

- (1) Return on assets = Income after tax / Average total assets.
- (2) Return on equity = Income after tax / Average net equity.
- (3) Profit margin = Income after tax / net income.
- (4) Earnings per share = (Net income after tax - Dividends on preferred shares) / Weighted average of shares issued.

3. Financial structure

- (1) Debt-to-assets ratio = Total liabilities / Total assets.
- (2) Debt-to-equity ratio = Total liabilities / net shareholders' equity.
- (3) Double leverage ratio of HNFHC = Equity investment made according to Paragraph 2, Article 36 and Article 37 of the Financial Holding Company Act / Equity.

4. Leverage

- (1) Operating leverage = (Net revenue - Variable costs and expenses) / Income before tax.
- (2) Financial leverage of HNFHC = (Income before tax + Interest expenses) / Income before tax.

5. Growth rate

- (1) Growth rate of assets = (Current total assets - Last year's total assets) / Last year's total assets.
- (2) Growth rate of profit = (Current income before tax - Last year's income before tax) / Last year's income before tax.

6. Cash flow

- (1) Cash flow ratio = Net cash flow from operating activities / (Bank and inter-bank borrowings and overdrafts + Commercial papers payable + Financial liabilities with changes in fair value recognized in profit or loss + Note and bond liabilities with repurchase agreement + Payables due within one year).
- (2) Net cash flow adequacy ratio = Net cash flow from operating activities / (Capital expenditures + Cash dividends) for the most recent five years.
- (3) Cash flow reinvestment ratio = Net cash flow from operating activities / Net cash flow from investing activities.

7. Operating scale

- (1) Market share of assets = Total assets of HNFHC / Total assets of all listed financial holding companies.
- (2) Market share of equity = Equity of HNFHC / Total equity of all listed financial holding companies.
- (3) Market share of deposits of HNCB = Total deposits of HNCB / Total deposits of all financial institutions engaging in deposits and loans business.
- (4) Market share of loans of HNCB = Total loans of HNCB / Total loans of all financial institutions engaging in deposits and loans business.

8. Capital adequacy

- (1) Net qualifying capital of Hua Nan Group = Qualifying capital of HNFHC + (Shareholding percentage of HNFHC x Qualifying capital of each subsidiary) - Deductions according to regulations.
- (2) Total authorized capital of Hua Nan Group = Authorized capital of HNFHC + (Shareholding percentage of HNFHC x Authorized capital of each subsidiary).
- (3) Capital adequacy ratio of Hua Nan Group = Net qualifying capital of Hua Nan Group / Total authorized capital of Hua Nan Group.

Note 4: Up to the date of printing of the Annual Report, not all of the financial holding companies have disclosed their financial statements for the first quarter of the year ended December 31, 2019.

Attachment 1

HUA NAN FINANCIAL HOLDINGS CO., LTD.

DISCLOSURE REQUIRED UNDER ARTICLE 46 OF THE FINANCIAL HOLDING COMPANY ACT

DECEMBER 31, 2018

(In Millions of New Taiwan Dollars, %)

Name	Total Amounts of Credits, Endorsement or Other Transactions	Percentage of HNFH's Equity (%)	Name	Total Amounts of Credits, Endorsement or Other Transactions	Percentage of HNFH's Equity (%)
1. With the same person			3. With the same affiliate		
Central Bank of the Republic of China (Taiwan)	\$ 307,970	194.05	Grand Industrial Limited Company of Baofeng with same affiliate	14,525	9.15
National Treasury Agency	74,807	47.13	Yulon General Motors Ltd. with same affiliate	13,802	8.70
Taiwan Power Company	43,596	27.47	Far Eastern New Century Corp. with same affiliate	13,160	8.29
Taiwan High Speed Rail Corp.	20,803	13.11	China Steel Corp. with same affiliate	13,091	8.25
USA	16,726	10.54	First Financial Holding Co., Ltd. with same affiliate	12,422	7.83
Grand Industrial Limited Company of Baofeng	14,525	9.15	Eva Airways Corp. with same affiliate	11,709	7.38
CPC Corporation, Taiwan	12,175	7.67	Lin Yuan Investment Co., Ltd. with same affiliate	11,366	7.16
New Taipei City Government	10,000	6.30	Evergreen Marine Corp. (Taiwan) Ltd.	11,277	7.11
Far Eastern Department Stores Co., Ltd.	8,200	5.17	Kingston Technology Corporation with same affiliate	10,684	6.73
EVA Airways Corporation	8,022	5.05	Yuanta Financial Holding Co., Limited with same affiliate	10,339	6.51
China Airlines Corp.	7,861	4.95	Far Eastern Department Stores Co., Ltd. with same affiliate	9,623	6.06
Evergreen Marine Corp. (Taiwan) Ltd.	7,396	4.66	Nankang Rubber Tire Corp., Ltd. with same affiliate	8,984	5.66
Kingston Technology International	7,069	4.45	Asia Cement Corp. with same affiliate	8,441	5.32
First Financial Holding Co., Ltd.	6,981	4.40	Zhong Shing Development Co., Ltd. with same affiliate	8,214	5.18
Taiwan Railways Administration, MOTC	6,864	4.32	Walsin Lihwa Corporation with same affiliate	7,912	4.99
China Steel Corporation	6,349	4.00	China Airlines Corp. with same affiliate	7,861	4.95
Formosa Plastics Corporation	6,317	3.98	Mega Financial Holding Co., Ltd. with same affiliate	6,756	4.26
Wan Pao Development Co., Ltd.	6,244	3.93	Formosa Plastics Corp. with same affiliate	6,493	4.09
CTBC Bank Co., Ltd.	6,016	3.79	YFY Inc. with same affiliate	6,485	4.09
Pintung County Government	5,195	3.27	HSBC Holding PLC with same affiliate	6,440	4.06
Mega financial Holding Co., Ltd.	5,178	3.26	Cathy Financial Holding Co., Ltd. with same affiliate	6,163	3.88
Walsin Lihwa Corporation	5,152	3.25	CTBC Financial Holding Co., Ltd. with same affiliate	6,033	3.80
First Commercial Bank Co., Ltd.	5,016	3.16	Taiwan Cement Corp. with same affiliate	5,961	3.76
Cathy Financial Holding Co., Ltd.	4,958	3.12	Formosa Chemicals & Fibre Corp. with same affiliate	5,900	3.72
Formosa Ha Tinh (Cayman) Limited	4,918	3.10	Continental Engineering Corporation with same affiliate	5,444	3.43
Inventec Corp.	4,643	2.93	Chailase Finance with same affiliate	5,388	3.39
Lin Yuan Investment Co., Ltd.	4,466	2.81	Taiwan Glass Ind. Corp. with same affiliate	5,188	3.27
Far Eastern New Century Corp.	4,430	2.79	Inventec Corp.	5,177	3.26
Nanya Plastics Corporation	4,377	2.76	Nanya Plastics Corp. with same affiliate	5,089	3.21
Credit Agricole Corporate & Investment Bank	4,351	2.74	ASE Technology Holding Co., Ltd. with same affiliate	4,805	3.03
Changhua County Government	4,333	2.73	Kuotu Motor Co., Ltd. with same affiliate	4,792	3.02
Fubon Financial Holding Co., Ltd.	4,313	2.72	Fubon Financial Holding Co., Ltd. with same affiliate	4,739	2.99
Cheng Shin Rubber Industry Co.	4,218	2.66	Cheng Shin Rubber Company with same affiliate	4,519	2.85
HSBC Bank (Taiwan) Co., Ltd.	4,061	2.56	Taiwan Cooperative Financial Holding Co., Ltd. with same affiliate	4,338	2.73
Taiwan Semiconductor Manufacturing Co., Ltd.	4,051	2.55	Hui Hang Investment with same affiliate	4,198	2.65
Mayfull Corp.	3,960	2.49	Quanta Computer Inc. with same affiliate	4,108	2.59
Quanta Computer Inc.	3,831	2.41	Tatung Co., Ltd. with same affiliate	4,043	2.55
Compal Electronics, Inc.	3,819	2.41	YangMing Marine Transport Corp. with same affiliate	4,011	2.53
Cathy Real Estate Development Co., Ltd.	3,800	2.39	China Development Financial Holding Co., Ltd. with same affiliate	4,002	2.52
Huaku Development Co., Ltd.	3,780	2.38	Mayfull Corp. with same affiliate	3,960	2.49
Formosa Group (Cayman) Limited	3,688	2.32	Compal Electronics with same affiliate	3,937	2.48
Nankang Rubber Tire Corp., Ltd.	3,645	2.30	Huaku Development with same affiliate	3,790	2.39
Asia Cement Corp.	3,616	2.28	Farglory Construction Corp. with same affiliate	3,754	2.37
Kingston Technology Corporation	3,615	2.28	Industrial And Commercial Bank of China with same affiliate	3,633	2.29
Yunlin County Government	3,578	2.25	Wisdom Marine Lines with same affiliate	3,533	2.23
Yuanta Commercial Bank	3,500	2.21	Wistron Corp. with same affiliate	3,528	2.22
Digitimes Inc.	3,455	2.18	Everwiner Enterprise Co., Ltd. with same affiliate	3,419	2.15
Yuanta Securities Corp.	3,415	2.15	Chang Chun Petrochemical Co., Ltd. with same affiliate	3,412	2.15
Taiwan Glass Ind. Corp.	3,400	2.14	China Times Inc. with same affiliate	3,357	2.11
Hon Hai Precision Industry Co., Ltd.	3,392	2.14	Federal Corp. with same affiliate	3,352	2.11
Federal Corporation	3,346	2.11	Capital Securities Corp. with same affiliate	3,327	2.10
Yang Ming Marine Transport Corporation	3,271	2.06	JP Morgan Chase & Co with same affiliate	3,220	2.03
Formosa Chemicals & Fibre Corp.	3,265	2.06	Ocean Plastics Co., Ltd. with same affiliate	3,119	1.97
Government National Mortgage Association	3,163	1.99	Citigroup Inc. with same affiliate	3,060	1.93
Industrial And Commercial Bank Of China	3,057	1.93	Reliance Industries Limited with same affiliate	3,019	1.90
Wistron Corp.	3,037	1.91	Yieh Phui Enterprise Co., Ltd. with same affiliate	3,009	1.90
JPMorgan Chase Bank, N.A.	3,018	1.90			
2. With the same related person					
Mr. Lee with same related parties	14,525	9.15			
Mr. Lin with same related parties	11,247	7.09			
Mr. Wang with same related parties	9,149	5.76			
Mr. Tsai with same related parties	8,099	5.10			
Mr. Chen with same related parties	7,074	4.46			
Mr. Lee with same related parties	6,620	4.17			
Mr. Miao with same related parties	6,356	4.00			
Mr. Lin with same related parties	6,322	3.98			
Mr. Tsai with same related parties	5,218	3.29			
Mr. Zhuo with same related parties	4,661	2.94			
Mr. Tang with same related parties	4,324	2.72			
Mr. Lin with same related parties	4,043	2.55			
Mr. Lan with same related parties	4,017	2.53			
Mr. Pan with same related parties	3,807	2.40			
Mr. Xu with same related parties	3,785	2.38			
Mr. Zhan with same related parties	3,707	2.34			
Mr. Yang with same related parties	3,019	1.90			



Attachment 2

HUA NAN FINANCIAL HOLDINGS CO., LTD.

DISCLOSURE REQUIRED UNDER ARTICLE 46 OF THE FINANCIAL HOLDING COMPANY ACT

DECEMBER 31, 2017

(In Millions of New Taiwan Dollars, %)

Name	Total Amounts of Credits, Endorsement or Other Transactions	Percentage of HNFH's Equity (%)
1. With the same person		
Central Bank of the Republic of China (Taiwan)	\$ 272,744	166.07
National Treasury Agency	76,327	46.47
Taiwan Power Company	29,733	18.10
Taiwan High Speed Rail Corp.	21,120	12.86
Grand industrial Limited Company of Baofeng	14,774	9.00
EVA Airways Corporation	14,535	8.85
USA	12,088	7.36
EVA Airways Corporation	11,304	6.88
New Taipei City Government	10,000	6.09
China Airlines Corp.	8,568	5.22
Far Eastern Department Stores Co., Ltd.	7,206	4.39
Evergreen Marine Corp. (Taiwan) Ltd.	7,032	4.28
Taichung City Government	6,850	4.17
First Financial Holdings Co., Ltd.	6,756	4.11
Cathy Real Estate Development Co., Ltd.	5,689	3.46
Wan Pao Development Co., Ltd.	5,528	3.37
Changhua County Government	5,417	3.30
CTBC Bank Co., Ltd.	5,134	3.13
Micron Technology, Inc.	5,000	3.04
China Steel Corporation	4,895	2.98
Formosa Ha Tinh (Cayman) Limited	4,749	2.89
Lin Yuan Investment Co., Ltd.	4,595	2.80
Pintung County Government	4,535	2.76
Formosa Chemicals & Fibre Corp.	4,533	2.76
Taiwan Railways Administration, MOTC	4,479	2.73
Cheng Shin Rubber Industry Co.	4,255	2.59
Capital Securities Corp.	4,200	2.56
Nanya Plastics Corporation	4,026	2.45
Taiwan Glass Ind. Corp.	4,003	2.44
Mayfull Corp.	3,933	2.39
Compal Electronics	3,918	2.39
Far Eastern New Century Corp.	3,893	2.37
Yunlin County Government	3,888	2.37
Nankang Rubber Tire Corp., Ltd.	3,737	2.28
Momo.com Inc.	3,674	2.24
Formosa Plastics Corporation	3,650	2.22
Quanta Computer Inc.	3,620	2.20
Formosa Group (Cayman) Limited	3,562	2.17
Federal Corporation	3,483	2.12
TCC International Holdings Limited	3,143	1.91
Yang Ming Marine Transport Corporation	3,093	1.88
2. With the same related person		
Mr. Wang with same related parties	7,355	4.48
Mr. Chen with same related parties	6,852	4.17
Mr. Pan with same related parties	5,697	3.47
Mr. Chi with same related parties	5,643	3.44
Mr. Zhan with same related parties	3,799	2.31
Mr. Jiao with same related parties	3,590	2.19
Mr. Lin with same related parties	3,509	2.14
Mr. Shao with same related parties	3,327	2.03
Mr. Lee with same related parties	3,217	1.96
3. With the same affiliate		
Eva Airways Corp. with same affiliate	22,838	13.91
Grand industrial Limited Company of Baofeng with same affiliate	15,598	9.50
Far Eastern New Century Corp. with same affiliate	12,639	7.70
China Steel Corp. with same affiliate	12,293	7.49
Lin Yuan Investment Co., Ltd. with same affiliate	10,297	6.27
Yulon General Motors Ltd. with same affiliate	10,190	6.20
China Airlines Corp. with same affiliate	8,568	5.22
First Financial Holding Co., Ltd. with same affiliate	8,172	4.98
Formosa Chemicals & Fibre Corp. with same affiliate	7,769	4.73
Asia Cement Corp. with same affiliate	7,711	4.70
Far Eastern Department Stores Co., Ltd. with same affiliate	7,357	4.48
Nankang Rubber Tire Corp., Ltd. with same affiliate	6,758	4.11
Taiwan Glass Ind. Corp. with same affiliate	5,678	3.46
KGI Securities Co., Ltd. with same affiliate	4,809	2.93
Momo.com Inc. with same affiliate	4,631	2.82
Cheng Shin Rubber Company with same affiliate	4,546	2.77
Nanya Plastics Corp. with same affiliate	4,497	2.74
Continental Engineering Corporation with same affiliate	4,308	2.62
Compal Electronics with same affiliate	4,078	2.48
Formosa Plastics Corp. with same affiliate	4,012	2.44
Farglory Construction Corp. with same affiliate	3,826	2.33
YangMing Marine Transport Corp. with same affiliate	3,757	2.29
China Times Inc. with same affiliate	3,672	2.24
Tatung Co., Ltd. with same affiliate	3,628	2.21
Taiwan Cement Corp. with same affiliate	3,622	2.21
Quanta Computer Inc. with same affiliate	3,621	2.20
Taiwan Cooperative Financial Holding Co Ltd with same affiliate	3,588	2.18
Synnex Technology Intl with same affiliate	3,309	2.01
Walsin Lihwa Corp. with same affiliate	3,296	2.01
Lee Chang Yung Chemical Industry Corp with same affiliate	3,217	1.96
Chang Chun Petrochemical Co., Ltd. with same affiliate	3,063	1.87
Zhong Shing Development Co., Ltd. with same affiliate	3,035	1.85
Inventec Corp.	3,015	1.84
Yuanta Financial Holding Co., Limited with same affiliate	3,001	1.83



Attachment 3

HUA NAN FINANCIAL HOLDINGS CO., LTD.

DISCLOSURE REQUIRED UNDER ARTICLE 46 OF THE FINANCIAL HOLDING COMPANY ACT

DECEMBER 31, 2016

(In Millions of New Taiwan Dollars, %)

Name	Total Amounts of Credits, Endorsement or Other Transactions	Percentage of HNFH's Equity (%)
1. With same person		
Central Bank of the Republic of China (Taiwan)	\$ 308,675	194.16
National Treasury Agency	104,268	65.58
Taiwan High Speed Rail Corp.	23,705	14.91
Taiwan Power Company	17,379	10.93
Grand Industrial Limited Company of Baofeng	14,914	9.38
EVA Airways Corporation	13,599	8.55
CPC Corporation Taiwan	12,940	8.14
Changhua County Government	12,200	7.67
New Taipei City Government	10,000	6.29
Finance Bureau Kaohsiung City Government	8,500	5.35
Lin Yuan Investment Co., Ltd.	7,406	4.66
Taichung City Government	6,850	4.31
Formosa Plastic Corp.	6,637	4.17
Wan Pao Development Co., Ltd.	6,389	4.02
USA	6,092	3.83
Far Eastern Department Stores Co., Ltd.	6,008	3.78
First Financial Holding Co., Ltd.	5,618	3.53
Cathay Real Estate Development Co., Ltd.	5,190	3.26
CTBC Financial Holding Co., Ltd.	5,019	3.16
Micron Memory Taiwan Co., Ltd.	5,000	3.14
Yunlin County Government	4,376	2.75
Formosa Petrochemical Corp.	4,299	2.70
China Steel Corporation	4,285	2.70
Taiwan Glass Ind. Corp.	4,004	2.52
Mayfull Corp.	3,923	2.47
Evergreen Marine Corp. (Taiwan) Ltd.	3,907	2.46
Quanta Computer Inc.	3,886	2.44
Momo.com Inc.	3,875	2.44
Formosa Group (Cayman) Ltd.	3,866	2.43
China Airlines Corp.	3,863	2.43
Walsin Lihwa Corp.	3,861	2.43
Kaohsiung City Government	3,787	2.38
Formosa Ha Tinh (Cayman) Limited	3,776	2.38
Far Eastern Construction Co., Ltd.	3,340	2.10
Cathay Financial & Holdings Co., Ltd.	3,266	2.05
Nan Ya Plastic Corp.	3,224	2.03
Apple Inc.	3,222	2.03
Taiwan Railways Administration, MOTC.	3,195	2.01
Tcc International Holdings Limited.	3,173	2.00
Formosa Chemicals & Fibre Corp.	3,112	1.96
Evergreen Marine (UK) Limited	3,108	1.95
Far Eastern New Century Corp.	3,087	1.94
Hon Hai Precision Ind. Co., Ltd.	3,016	1.90
Taipei Fubon Commercial Bank	3,000	1.89
Compal Electronics, Inc.	3,000	1.89
Pintung County Government	3,000	1.89
2. With same related party		
Mr. Wang with same related parties	13,590	8.55
Mr. Chiao with same related parties	5,623	3.54
Mr. Chang same related parties	4,265	2.68
Mr. Chi with same related parties	3,812	2.40
Evergreen Marine Corp. (Taiwan) Ltd.	3,640	2.29
Mr. Lin with same related parties	3,318	2.09
3. With same affiliate		
Grand Industrial Limited Company of Baofeng with same affiliate	15,762	9.91
Eva Airways Corp. with same affiliate	13,939	8.77
Lin Yuan Investment Co., Ltd. with same affiliate	13,900	8.74
China Steel Corp. with same affiliate	10,590	6.66
Far Eastern New Century Corp. with same affiliate	10,314	6.49
Yulon General Motors Ltd. with same affiliate	8,105	5.10
Formosa Plastic Corp. with same affiliate	7,476	4.70
Taiwan Cement Corp. with same affiliate	7,085	4.46
Evergreen Marine Corp. (Taiwan) Ltd. with same affiliate	7,014	4.41
Asia Cement Corp. with same affiliate	6,643	4.18
Far Eastern Department Stores Co., Ltd. with same affiliate	6,541	4.11
First Financial Holdings Co., Ltd. with same affiliate	6,428	4.04
Formosa Chemicals & Fibre Corp. with same affiliate	6,205	3.90
Taiwan Glass Ind. Corp. with same affiliate	5,960	3.75
Nankang Rubber Tire Corp., Ltd. with same affiliate	5,766	3.63
Walsin Lihwa Corp. with same affiliate	5,170	3.25
CTBC Financial Holding Co., Ltd. with same affiliate	5,019	3.16
Momo.com Inc. with same affiliate	4,882	3.07
Formosa Petrochemical Corp.	4,299	2.70
Continental Engineering Corp. with same affiliate	4,058	2.55
Quanta Computer Inc. with same affiliate	3,887	2.44
China Airlines Corp.	3,863	2.43
Nanya Plastics Corp. with same affiliate	3,674	2.31
Cathay Financial Holdings Co., Ltd. with same affiliate	3,574	2.25
Jung Shing International Development Co., Ltd. with same affiliate	3,474	2.19
YangMing Marine Transport Corp. with same affiliate	3,336	2.10
Tatung Co., Ltd. with same affiliate	3,224	2.03
China Times Inc. with same affiliate	3,207	2.02
Farglory Construction Corp. with same affiliate	3,103	1.95
Compal Electronics, Inc. with same affiliate	3,087	1.94
TransAsia Airways Corp.	3,040	1.91



Attachment 4

HUA NAN FINANCIAL HOLDINGS CO., LTD.

DISCLOSURE REQUIRED UNDER ARTICLE 46 OF THE FINANCIAL HOLDING COMPANY ACT

DECEMBER 31, 2015

(In Millions of New Taiwan Dollars, %)

Name	Total Amounts of Credits, Endorsement or Other Transactions	Percentage of HNFH's Equity (%)
1. With same person		
Central Bank of the Republic of China (Taiwan)	\$ 237,223	154.98
National Treasury Agency	49,819	32.55
Taiwan High Speed Rail Corp.	25,484	16.65
Taiwan Power Company	15,976	10.44
Grand Industrial Limited Company of Baofeng	15,535	10.15
New Taipei City Government	14,116	9.22
EVA Airways Corporation	10,211	6.67
CPC Corporation Taiwan	10,000	6.53
Formosa Petrochemical Corp.	8,832	5.77
Wan Pao Development Co., Ltd.	8,205	5.36
Lin Yuan Investment Co., Ltd.	8,130	5.31
Taichung City Government	6,750	4.41
China Steel Corporation	6,498	4.25
Far Eastern Department Stores Co., Ltd.	6,100	3.99
Kaohsiung City Government	5,517	3.60
Taiwan Semiconductor Manufacturing Company	5,416	3.54
Momo.com Inc.	4,971	3.25
China Airlines Corp.	4,966	3.24
First Financial Holding Co., Ltd.	4,908	3.21
NanYa Plastics Corp.	4,853	3.17
Cathay Financial & Holdings Co., Ltd.	4,788	3.13
Evergreen Marine Corp. (Taiwan) Ltd.	4,350	2.84
SinoPac Holding Co., Ltd.	4,199	2.74
Taiwan Glass Ind. Corp.	4,100	2.68
Mayfull Corp.	4,032	2.63
Walsin Lihwa Corp.	3,892	2.54
Wistron Corp.	3,824	2.50
Far Eastern Construction Co., Ltd.	3,700	2.42
Evergreen Marine (UK) Limited	3,604	2.35
Formosa Chemicals & Fibre Corporation	3,470	2.27
Societe Generale	3,280	2.14
Citi Bank	3,273	2.14
Formosa Group (Cayman) Ltd.	3,235	2.11
Chiayi County Government	3,180	2.08
Dragon Steel Corp.	3,035	1.98
Quanta Computer Inc.	3,029	1.98
Compal Electronics, Inc.	3,000	1.96
Pintung County Government	3,000	1.96
2. With same related party		
Mr. Chi with same related parties	6,022	3.93
Mr. Chiao with same related parties	4,928	3.22
Mr. Lin with same related parties	4,159	2.72
Mr. Chang same related parties	3,701	2.42
Mr. Shao with same related parties	3,339	2.18
Mr. Chan with same related parties	3,064	2.00
3. With same affiliate		
Lin Yuan Investment Co., Ltd. with same affiliate	16,493	10.77
Grand Industrial Limited Company of Baofeng with same affiliate	16,407	10.72
Eva Airways Corp. with same affiliate	14,646	9.57
China Steel Corp. with same affiliate	14,464	9.45
Far Eastern New Century Corp with same affiliate	11,572	7.56
Yulon General Motors Ltd. with same affiliate	8,887	5.81
Formosa Petrochemical Corp. with same affiliate	8,832	5.77
Evergreen Marine Corp. (Taiwan) Ltd. with same affiliate	7,955	5.20
Formosa Chemicals & Fibre Corp. with same affiliate	6,818	4.45
Far Eastern Department Stores Co., Ltd. with same affiliate	6,675	4.36
Momo.com Inc. with same affiliate	6,315	4.13
Taiwan Cement Corp. with same affiliate	5,862	3.83
SinoPac Holdings Co., Ltd. with same affiliate	5,771	3.77
Nanya Plastics Corp. with same affiliate	5,713	3.73
Taiwan Glass Ind. Corp. with same affiliate	5,602	3.66
Cathay Financial Holdings Co., Ltd. with same affiliate	5,548	3.62
Asia Cement Corp. with same affiliate	5,545	3.62
First Financial Holding Co., Ltd. with same affiliate	5,518	3.60
Nankang Rubber Tire Corp., Ltd. with same affiliate	5,507	3.60
Taiwan Semiconductor Manufacturing Company with same affiliate	5,416	3.54
Hung Sheng Construction Co., Ltd. with same affiliate	5,080	3.32
China Airlines Corp. with same affiliate	4,966	3.24
Walsin Lihwa Corp. with same affiliate	4,501	2.94
Tatung Co., Ltd. with same affiliate	4,442	2.90
Quanta Computer Inc. with same affiliate	4,391	2.87
Farglory Construction Corp. with same affiliate	4,311	2.82
Continental Engineering Corp. with same affiliate	4,084	2.67
Wistron Corp. with same affiliate	3,840	2.51
China Times Inc. with same affiliate	3,541	2.31
YangMing Marine Transport Corp. with same affiliate	3,350	2.19
Cheng Shin Rubber, Ind. Co., Ltd. with same affiliate	3,330	2.18
Foshing Transport Corp. with same affiliate	3,190	2.08
Fubon Asset Management Corp. with same affiliate	3,143	2.05
Compal Electronics, Inc. with same affiliate	3,087	2.02
FPMC Ideal Marine Corp. with same affiliate	3,039	1.99

Attachment 5

HUA NAN FINANCIAL HOLDINGS CO., LTD.

DISCLOSURE REQUIRED UNDER ARTICLE 46 OF THE FINANCIAL HOLDING COMPANY ACT

DECEMBER 31, 2014

(In Millions of New Taiwan Dollars, %)

Name	Total Amounts of Credits, Endorsement or Other Transactions	Percentage of HNFH's Equity (%)
1. With same person		
Central Bank of the Republic of China (Taiwan)	\$ 231,369	160.74
National Treasury Agency	77,448	53.81
Taiwan High Speed Rail Corp.	27,323	18.98
Taiwan Power Company	18,755	13.03
Kaoshiung City Government	18,467	12.83
CPC Corporation Taiwan	15,930	11.07
Grand industrial Limited Company of Baofeng	15,595	10.83
New Taipei City Government	15,000	10.42
EVA Airways Corporation	11,954	8.30
Formosa Petrochemical Corp.	10,618	7.38
Apple Inc.	9,501	6.60
Taichung City Government	8,500	5.91
Wan Pao Development Co., Ltd.	7,618	5.29
Far Eastern Department Stores Co., Ltd.	7,350	5.11
Tainan City Government	6,661	4.63
Lin Yuan Investment Co., Ltd.	6,532	4.54
Innolux Corp.	6,490	4.51
First Financial Holding Co., Ltd.	5,003	3.48
China Steel Corporation	4,920	3.42
China Airlines Corp.	4,469	3.10
NanYa Plastics Corp.	4,464	3.10
Veterans Affairs Council, R.O.C	4,352	3.02
Pintung County Government	4,290	2.98
Wistron Corp	3,996	2.78
Evergreen Marine Corp. (Taiwan) Ltd.	3,936	2.73
Evergreen Marine (UK) Limited	3,880	2.70
Formosa Chemicals & Fibre Corporation	3,792	2.63
Dragon Steel Corp.	3,739	2.60
Chayi City Government	3,535	2.46
Far Eastern Construction. Co., Ltd.	3,490	2.42
Nankang Rubber Tire Corp., Ltd.	3,281	2.28
Formosa Plastics Corp.	3,178	2.21
Compal Electronics, Inc.	3,062	2.13
Far Eastern New Century Corp.	3,008	2.09
Tauyuan City Government	3,000	2.08
2. With same related party		
Mr.chi with same related parties	6,758	4.69
Mr. Chiao with same related parties	5,898	4.10
Mr. Lin with same related parties	4,428	3.08
Mr. Wang same related parties	4,139	2.88
Mr. Li with same related parties	3,868	2.69
Mr.Chan with same related parties	3,348	2.33
3. With same affiliate		
Pao Feng Industrial Co., Ltd. with same affiliate	16,491	11.46
Lin Yuan Investment Co., Ltd. with same affiliate	14,150	9.83
China Steel Corp. with same affiliate	13,505	9.38
Eva Airways Corp. with same affiliate	12,565	8.73
Far Eastern New Century Corp with same affiliate	12,238	8.50
Formosa Petrochemical Corp. with same affiliate	10,618	7.38
Hung Sheng Construction Co., Ltd. with same affiliate	8,508	5.91
Yulon General Motors Ltd with same affiliate	8,268	5.74
Far Eastern Department Stores Co., Ltd. with same affiliate	8,124	5.64
Evergreen Marine Corp. (Taiwan) Ltd. with same affiliate	7,816	5.43
Formosa Chemicals & Fibre Corp. with same affiliate	7,397	5.14
Innolux Corp. with same affiliate	6,602	4.59
Nanya Plastics Corp. with same affiliate	5,766	4.01
First Financial Holding Co., Ltd. with same affiliate	5,463	3.80
Walsin Lihwa Corp.	5,435	3.78
Asia Cement Corp. with same affiliate	5,067	3.52
China Airlines Corp. with same affiliate	4,469	3.10
Farglory Construction Corp. with same affiliate	4,388	3.05
Tatung Co., Ltd. with same affiliate	4,260	2.96
Chang Chun Corp. with same affiliate	4,190	2.91
Formosa Plastics Corp. with same affiliate	4,172	2.90
Taiwan Mobile Co., Ltd. with same affiliate	4,126	2.87
Chung Shing Development Corp. with same affiliate	4,040	2.81
Wistron Corp. with same affiliate	3,996	2.78
Taiwan Cement Corp. with same affiliate	3,953	2.75
Uni-President Glass Industrial Co., Ltd. with same affiliate	3,788	2.63
Nankang Rubber Tire Corp., Ltd. with same affiliate	3,768	2.62
FPMC IDEAL MARINE CORP. with same affiliate	3,714	2.58
China Times Inc. with same affiliate	3,633	2.52
LCY Chemical Corp. with same affiliate	3,568	2.48
Continental Engineering Corp. with same affiliate	3,446	2.39
Yang Ming Marine Transport Corp. with same affiliate	3,317	2.30
Inventec Corp. with same affiliate	3,089	2.15
Compal Electronics, Inc. with same affiliate	3,062	2.13



III Audit Committee Report for the past year's financial report

Hua Nan Financial Holdings Co., Ltd.

Audit Committee's Audit Report

The Company's Board of Directors prepared and submitted the 2018 business report and financial statements. The financial statements have been audited by Ding-Sheng Chang, CPA, and Kwan-Chung Lai, CPA, of Deloitte Taiwan. The statements and reports prepared and submitted by the Board of Directors have been audited by the Audit Committee and no inconsistencies have been found. The Committee has prepared an Audit Report following unanimous agreement in accordance with Article 14-4 of the Securities and Exchange Act and Article 219 of the Company Act.

To

Hua Nan Financial Holdings Co., Ltd.
2019 Shareholders' Meeting

Hua Nan Financial Holdings Co., Ltd.
Chung-Yuan Hsu, Convener of the Audit Committee

March 25, 2019

Hua Nan Financial Holdings Co., Ltd.

Audit Committee's Audit Report

The 2018 earnings distribution proposal prepared and submitted by the Board of Directors have been audited by the Audit Committee and no inconsistencies have been found. The Committee has prepared an Audit Report following unanimous agreement in accordance with Article 14-4 of the Securities and Exchange Act and Article 219 of the Company Act.

To

Hua Nan Financial Holdings Co., Ltd.
2019 Shareholders' Meeting

Hua Nan Financial Holdings Co., Ltd.
Chung-Yuan Hsu, Convener of the Audit Committee

April 29, 2019

IV The past year's financial report

DECLARATION OF CONSOLIDATION OF FINANCIAL STATEMENTS OF AFFILIATES

The company and its subsidiaries required to be included in the consolidated financial statements of affiliates in accordance with the “Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises” for the year ended December 31, 2018 are all the same as the companies required to be included in the consolidated financial statements of parent and subsidiary companies as provided in International Financial Reporting Standard 10 “Consolidated Financial Statements”. Relevant information that should be disclosed in the consolidated financial statements of affiliates has all been disclosed in the consolidated financial statements of parent and subsidiary companies. Hence, we do not prepare a separate set of consolidated financial statements of affiliates.

Very truly yours,

HUA NAN FINANCIAL HOLDINGS CO., LTD.

March 25, 2019

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders

Hua Nan Financial Holdings Co., Ltd.

Opinion

We have audited the accompanying consolidated financial statements of Hua Nan Financial Holdings Co., Ltd. (the Company) and its subsidiaries, which comprise the consolidated balance sheets as of December 31, 2018 and 2017, and the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company and its subsidiaries as of December 31, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Financial Holding Companies, Regulations Governing the Preparation of Financial Reports by Securities Issuers, Regulations Governing the Preparation of Financial Reports by Public Banks, Regulations Governing the Preparation of Financial Reports by Securities Firms, Regulations Governing the Preparation of Financial Reports by Futures Commission Merchants, Regulations Governing the Preparation of Financial Reports by Insurance Companies, the guidelines issued by the authority, and International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

Basis for Opinion

We conducted our audits in accordance with the Regulations Governing Auditing and Attestation of Financial Statements of Financial Institutions by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Our responsibilities under those regulations and standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company and its subsidiaries in accordance with The Norm of Professional Ethics for Certified Public Accountant of the Republic of China, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2018. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters for the Company and its subsidiaries' consolidated financial statements for the year ended December 31, 2018 are stated as follows:

Impairment Loss of Discounts and Loans, Receivables, Guarantee and Financing Commitment

As detailed in Note 5 to the consolidated financial statements, the Company and its subsidiaries' management assess the impairment loss of discounts and loans, receivables, guarantee and financing commitment based on the assumptions about the probability of default and the expected loss rate. The management is based on historical experience, economic condition and forward-looking information to make assumptions about probability of default and expected loss rate selected input value of the impairment. Assessing evidence of the probability of default and impairment on discounts and loans, receivables, guarantee and financing commitment, and determining whether the credit risk has increased significantly since the initial recognition are critical judgments and estimates and complied the relevant laws and regulations. Therefore, the impairment loss of discounts and loans, receivables, guarantee and financing commitment is identified as a key audit matter.

Please refer to Note 4 to the consolidated financial statements for the accounting policies related to impairment evaluation on discounts and loans, receivables, guarantee and financing commitment, Note 5 for critical accounting judgments and key sources of estimation uncertainty, significant assumptions and input values used refer to Note 54 and Notes 13, 14 and 30 for related presentation and disclosure.

Our audit procedures performed in respect of the above key audit matter include understanding the methodology, key assumptions and parameter settings used by the management to measure the financial asset impairment model in accordance with International Financial Reporting Standard No.9. Assessing whether it is appropriate to reflect the actual situation of discounts and loans, receivables, guarantee and financing commitment and whether the credit risk has been significantly increased since the initial recognition, the definition of default and credit impairment, exposure at default, probability of default, loss given default and forward-looking information are reasonable and consistent with the calculation of expected credit losses. Obtained related information of the financial assets assessed by management. Completeness of the information should be tested, then selected samples from discounts and loans, receivables, guarantee and financing commitment to verify calculation accurate. Overall, confirm classification and allowance for impairment loss complied the relevant laws and regulations.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Financial Holding Companies, Regulations Governing the Preparation of Financial Reports by Securities Issuers, Regulations Governing the Preparation of Financial Reports by Public Banks, Regulations Governing the Preparation of Financial Reports by Securities Firms, Regulations Governing the Preparation of Financial Reports by Futures Commission Merchants, Regulations Governing the Preparation of Financial Reports by Insurance Companies, the guidelines issued by the authority, and International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company and its subsidiaries' ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company and its subsidiaries or to cease operations, or has no realistic alternative but to do so.

Those charged with governance, including the audit committee, are responsible for overseeing the Company and its subsidiaries' financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the auditing standards generally accepted in the Republic of China will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with the auditing standards generally accepted in the Republic of China, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

1. Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company and its subsidiaries' internal control.



3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company and its subsidiaries' ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company and its subsidiaries to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the Company and its subsidiaries to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements for the years ended December 31, 2018 and 2017 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partners on the audit resulting in this independent auditors' report are Dien-Sheng Chang and Kwan-Chung Lai.

Deloitte & Touche
Taipei, Taiwan
Republic of China

March 25, 2019

Notice to Readers

The accompanying consolidated financial statements are intended only to present the consolidated financial position, financial performance and cash flows in accordance with accounting principles and practices generally accepted in the Republic of China and not those of any other jurisdictions. The standards, procedures and practices to audit such consolidated financial statements are those generally applied in the Republic of China.

For the convenience of readers, the independent auditors' report and the accompanying consolidated financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language independent auditors' report and consolidated financial statements shall prevail.

HUA NAN FINANCIAL HOLDINGS CO., LTD. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2018 AND 2017

(In Thousands of New Taiwan Dollars)

ASSETS	2018		2017	
	Amount	%	Amount	%
CASH AND CASH EQUIVALENTS (Notes 4, 6 and 47)	\$ 48,510,679	2	\$ 58,983,323	2
DUE FROM THE CENTRAL BANK AND OTHER BANKS (Notes 6, 7 and 47)	156,720,416	6	185,191,799	7
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (Notes 3, 4, 8 and 47)	86,705,474	3	76,061,991	3
AVAILABLE-FOR-SALE FINANCIAL ASSETS, NET (Notes 3, 4, 15, 47 and 49)	-	-	149,474,678	6
FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (Notes 3, 4, 5, 9, 11 and 49)	191,447,673	7	-	-
INVESTMENTS IN DEBT INSTRUMENTS MEASURED AT AMORTIZED COST, NET (Notes 3, 4, 5, 10, 11 and 49)	450,489,822	17	-	-
SECURITIES PURCHASED UNDER AGREEMENTS TO RESELL (Notes 4, 6 and 12)	489,059	-	601,507	-
RECEIVABLES, NET (Notes 3, 4, 5, 13 and 47)	41,257,457	2	45,198,320	2
CURRENT TAX ASSETS	418,349	-	480,222	-
DISCOUNTS AND LOANS, NET (Notes 3, 4, 5, 14 and 47)	1,623,317,849	61	1,582,344,101	62
REINSURANCE CONTRACTS ASSETS, NET	4,030,604	-	4,005,896	-
HELD-TO-MATURITY FINANCIAL ASSETS, NET (Notes 3, 4, 16 and 49)	-	-	380,815,899	15
INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD, NET (Notes 4 and 17)	110,724	-	57,128	-
OTHER FINANCIAL ASSETS, NET (Notes 3, 4, 18 and 49)	30,363,702	1	41,634,967	2
PROPERTY AND EQUIPMENT, NET (Notes 4, 19, 47, 48 and 49)	32,264,055	1	32,518,581	1
INVESTMENT PROPERTIES, NET (Notes 4, 20, 48 and 49)	10,922,997	-	9,837,544	-
INTANGIBLE ASSETS, NET (Notes 4, 21 and 48)	762,044	-	565,232	-
DEFERRED TAX ASSETS (Notes 4 and 45)	3,496,800	-	2,646,268	-
OTHER ASSETS, NET (Notes 4, 22, 47, 48 and 49)	2,899,159	-	3,002,294	-
TOTAL	<u>\$ 2,684,206,863</u>	<u>100</u>	<u>\$ 2,573,419,750</u>	<u>100</u>
LIABILITIES AND EQUITY				
DEPOSITS FROM THE CENTRAL BANK AND BANKS (Notes 23 and 47)	\$ 132,267,041	5	\$ 84,127,060	3
FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS (Notes 4 and 8)	4,803,071	-	7,975,720	-
DERIVATIVE FINANCIAL LIABILITIES FOR HEDGING (Note 4)	-	-	4,082	-
SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE (Notes 4, 8, 9, 10, 15, 16 and 25)	46,323,247	2	40,797,559	2
COMMERCIAL PAPER PAYABLE, NET (Notes 24 and 49)	15,950,469	1	27,524,893	1
PAYABLES (Notes 26 and 48)	43,481,315	2	43,808,589	2
CURRENT TAX LIABILITIES	1,677,066	-	1,080,850	-
DEPOSITS AND REMITTANCES (Notes 27 and 47)	2,155,650,451	80	2,110,962,220	82
BONDS PAYABLE (Note 28)	58,589,023	2	53,448,450	2
OTHER BORROWINGS (Notes 29, 47 and 49)	2,121,000	-	703,000	-
PROVISIONS (Notes 3, 4, 30, 31 and 48)	19,967,657	1	18,447,562	1
OTHER FINANCIAL LIABILITIES (Notes 32 and 47)	13,631,338	1	8,872,718	1
DEFERRED TAX LIABILITIES (Notes 4 and 45)	6,119,745	-	6,103,727	-
OTHER LIABILITIES (Notes 4, 33 and 47)	9,467,857	-	5,329,157	-
Total liabilities	<u>2,510,049,280</u>	<u>94</u>	<u>2,409,185,587</u>	<u>94</u>
EQUITY ATTRIBUTABLE TO OWNER OF THE PARENT (Notes 4 and 34)				
Share capital				
Ordinary shares	115,436,133	4	110,465,199	4
Capital surplus	17,758,986	1	17,758,986	1
Retained earnings				
Legal reserve	14,860,042	-	13,658,494	-
Special reserve	6,492,093	-	6,492,093	-
Unappropriated earnings	15,829,364	1	15,363,375	1
Total retained earnings	<u>37,181,499</u>	<u>1</u>	<u>35,513,962</u>	<u>1</u>
Other equity				
Exchange differences on translating the financial statements of foreign operations	(109,568)	-	(542,124)	-
Unrealized gain on available-for-sale financial assets	-	-	1,014,968	-
Unrealized gain on investments in equity instruments measured at fair value through other comprehensive income	4,591,269	-	-	-
Unrealized loss on investments in debt instruments measured at fair value through other comprehensive income	(679,088)	-	-	-
Changes in the fair value attributable to changes in the credit risk of financial liabilities designated as at fair value through profit or loss	10,347	-	21,592	-
Loss on overlay approach measured at fair value through other comprehensive income	(34,097)	-	-	-
Total other equity	<u>3,778,863</u>	<u>-</u>	<u>494,436</u>	<u>-</u>
Total equity attributable to owner of the parent	<u>174,155,481</u>	<u>6</u>	<u>164,232,583</u>	<u>6</u>
NON-CONTROLLING INTERESTS	2,102	-	1,580	-
Total equity	<u>174,157,583</u>	<u>6</u>	<u>164,234,163</u>	<u>6</u>
TOTAL	<u>\$ 2,684,206,863</u>	<u>100</u>	<u>\$ 2,573,419,750</u>	<u>100</u>

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

HUA NAN FINANCIAL HOLDINGS CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

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

	2018		2017		Percentage Increase (Decrease)
	Amount	%	Amount	%	%
INTEREST REVENUE (Notes 4, 35 and 47)	\$ 44,713,719	97	\$ 41,374,024	98	8
INTEREST EXPENSE (Notes 4, 35 and 47)	(18,153,500)	(39)	(14,435,282)	(34)	26
NET INTEREST	<u>26,560,219</u>	<u>58</u>	<u>26,938,742</u>	<u>64</u>	(1)
NET REVENUES OTHER THAN INTEREST					
Commission and fee revenues, net (Notes 4, 36 and 47)	8,668,508	19	8,231,192	19	5
Income from insurance premiums, net (Notes 4 and 37)	2,780,451	6	2,831,956	7	(2)
Gain (loss) on financial assets and liabilities at fair value through profit or loss, net (Notes 4, 8, 38 and 47)	10,358,878	23	(4,460,184)	(11)	332
Gain on investment properties, net (Note 20)	471,766	1	376,730	1	25
Realized gain on available-for-sale financial assets (Notes 4, 39 and 47)	-	-	1,232,154	3	(100)
Realized gain on financial assets at fair value through other comprehensive income (Notes 4 and 40)	1,597,326	3	-	-	-
Foreign exchange (loss) gain, net (Notes 4 and 41)	(4,715,795)	(10)	6,480,891	15	(173)
Impairment loss on assets (Notes 4, 11, 18 and 22)	(9,658)	-	(60,769)	-	(84)
Share of gain (loss) of associate (Notes 4 and 17)	4,426	-	(537)	-	924
Gain on overlay approach (Notes 4 and 34)	133,078	-	-	-	-
Other non-interest income, net (Notes 4 and 47)	<u>153,285</u>	<u>-</u>	<u>650,373</u>	<u>2</u>	(76)
Total net revenues other than interest	<u>19,442,265</u>	<u>42</u>	<u>15,281,806</u>	<u>36</u>	27
TOTAL NET REVENUES	<u>46,002,484</u>	<u>100</u>	<u>42,220,548</u>	<u>100</u>	9
ALLOWANCE FOR DOUBTFUL ACCOUNTS, COMMITMENT, AND GUARANTEES (Notes 3, 4, 13 and 14)	(3,533,260)	(8)	(4,950,360)	(12)	(29)
CHANGE IN PROVISIONS FOR INSURANCE LIABILITIES, NET (Notes 4 and 30)	(23,475)	-	(237,716)	-	(90)
OPERATING EXPENSES (Notes 31, 42, 43, 44 and 47)					
Employee benefits	(16,099,214)	(35)	(14,112,087)	(33)	14
Depreciation and amortization	(1,262,452)	(3)	(1,140,750)	(3)	11
Others	(8,412,874)	(18)	(7,970,267)	(19)	6
Total operating expenses	<u>(25,774,540)</u>	<u>(56)</u>	<u>(23,223,104)</u>	<u>(55)</u>	11
NET PROFIT BEFORE INCOME TAX	<u>16,671,209</u>	<u>36</u>	<u>13,809,368</u>	<u>33</u>	21
INCOME TAX EXPENSE (Notes 4 and 45)	(2,049,774)	(4)	(1,793,800)	(4)	14
NET PROFIT FOR THE YEAR	<u>14,621,435</u>	<u>32</u>	<u>12,015,568</u>	<u>29</u>	22
OTHER COMPREHENSIVE INCOME (LOSS) (Notes 3, 4, 8, 34 and 45)					
Items that will not be reclassified subsequently to profit or loss:					
Remeasurement of defined benefit plans	(458,222)	(1)	(409,990)	(1)	12
Changes in the fair value attributable to changes in the credit risk of financial liabilities designated as at fair value through profit or loss	(11,245)	-	(20,519)	-	(45)
Unrealized loss on investments in equity instruments at fair value through other comprehensive income	(241,102)	-	-	-	-
Income tax relating to items that will not be reclassified subsequently to profit or loss	145,273	-	68,930	-	111
Items that may be reclassified subsequently to profit or loss:					
Exchange differences on translating the financial statements of foreign operations	432,556	1	(1,650,649)	(4)	126
Unrealized gain on available-for-sale financial assets	-	-	2,619,722	6	(100)
Unrealized loss on investments in debt instruments at fair value through other comprehensive income	(1,172,352)	(3)	-	-	-
Loss on overlay approach measured at fair value through other comprehensive income	(133,078)	-	-	-	-
Income tax relating to items that may be reclassified subsequently to profit or loss	<u>39,589</u>	<u>-</u>	<u>(7,776)</u>	<u>-</u>	609
Other comprehensive (loss) income for the year	<u>(1,398,581)</u>	<u>(3)</u>	<u>599,718</u>	<u>1</u>	(333)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>\$ 13,222,854</u>	<u>29</u>	<u>\$ 12,615,286</u>	<u>30</u>	5
NET PROFIT ATTRIBUTABLE TO:					
Owner of the parent	\$ 14,621,319	32	\$ 12,015,482	29	22
Non-controlling interests	116	-	86	-	35
	<u>\$ 14,621,435</u>	<u>32</u>	<u>\$ 12,015,568</u>	<u>29</u>	22
COMPREHENSIVE INCOME ATTRIBUTABLE TO:					
Owner of the parent	\$ 13,222,708	29	\$ 12,615,200	30	5
Non-controlling interests	146	-	86	-	70
	<u>\$ 13,222,854</u>	<u>29</u>	<u>\$ 12,615,286</u>	<u>30</u>	5
EARNINGS PER SHARE (Note 46)					
Basic and diluted	<u>\$ 1.27</u>		<u>\$ 1.04</u>		

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

HUA NAN FINANCIAL HOLDINGS CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
YEARS ENDED DECEMBER 31, 2018 AND 2017

	Share Capital	Capital Surplus					Retained Earnings	
	Capital Stock	Share Premium	Treasury Stock	Donated Assets	Others	Total	Legal Reserve	Special Reserve
BALANCE AT JANUARY 1, 2017	\$ 105,204,951	\$ 17,702,376	\$ 52,349	\$ 2,936	\$ 1,325	\$ 17,758,986	\$ 12,249,821	\$ 6,492,093
Appropriation of 2016 earnings								
Legal reserve	-	-	-	-	-	-	1,408,673	-
Cash dividends	-	-	-	-	-	-	-	-
Stock dividends	5,260,248	-	-	-	-	-	-	-
Net profit for the year ended December 31, 2017	-	-	-	-	-	-	-	-
Other comprehensive (loss) income for the year ended December 31, 2017	-	-	-	-	-	-	-	-
Total comprehensive income (loss) for the year ended December 31, 2017	-	-	-	-	-	-	-	-
BALANCE AT DECEMBER 31, 2017	110,465,199	17,702,376	52,349	2,936	1,325	17,758,986	13,658,494	6,492,093
Effect of application	-	-	-	-	-	-	-	-
BALANCE AT JANUARY 1, 2018 AS RESTATED	110,465,199	17,702,376	52,349	2,936	1,325	17,758,986	13,658,494	6,492,093
Appropriation of 2017 earnings								
Legal reserve	-	-	-	-	-	-	1,201,548	-
Cash dividends	-	-	-	-	-	-	-	-
Stock dividends	4,970,934	-	-	-	-	-	-	-
Net profit for the year ended December 31, 2018	-	-	-	-	-	-	-	-
Other comprehensive (loss) income for the year ended December 31, 2018	-	-	-	-	-	-	-	-
Total comprehensive income (loss) for the year ended December 31, 2018	-	-	-	-	-	-	-	-
Disposal of equity instruments at fair value through other comprehensive income	-	-	-	-	-	-	-	-
BALANCE AT DECEMBER 31, 2018	<u>\$ 115,436,133</u>	<u>\$ 17,702,376</u>	<u>\$ 52,349</u>	<u>\$ 2,936</u>	<u>\$ 1,325</u>	<u>\$ 17,758,986</u>	<u>\$ 14,860,042</u>	<u>\$ 6,492,093</u>

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

(In Thousands of New Taiwan Dollars)

Retained Earnings		Other Equity						Non-controlling Interests	Total Equity
Unappropriated Earnings	Total	Exchange Differences on Translating Foreign Operations	Unrealized (Loss) Gain on Available-for-sale Financial Assets	Revaluation Gain (Loss) on Investments in Equity Instruments Measured at Fair Value Through Other Comprehensive Income	Unrealized Gain (Loss) on Investment in Debt Instruments Measured at Fair Value Through Other Comprehensive Income	Changes in the Fair Value Attributable to Changes in the Credit Risk of Financial Liabilities Designated as at Fair Value Through Profit or Loss	Reclassification of Other Comprehensive Income due to the Adoption of Overlay Approach		
\$ 17,722,221	\$ 36,464,135	\$ 1,108,525	\$ (1,596,978)	\$ -	\$ -	\$ 42,111	\$ -	\$ 1,540	\$ 158,983,270
(1,408,673)	-	-	-	-	-	-	-	-	-
(7,364,347)	(7,364,347)	-	-	-	-	-	-	(46)	(7,364,393)
(5,260,248)	(5,260,248)	-	-	-	-	-	-	-	-
12,015,482	12,015,482	-	-	-	-	-	-	86	12,015,568
(341,060)	(341,060)	(1,650,649)	2,611,946	-	-	(20,519)	-	-	599,718
11,674,422	11,674,422	(1,650,649)	2,611,946	-	-	(20,519)	-	86	12,615,286
15,363,375	35,513,962	(542,124)	1,014,968	-	-	21,592	-	1,580	164,234,163
(1,857,703)	(1,857,703)	-	(1,014,968)	4,543,465	463,753	-	88,903	435	2,223,885
13,505,672	33,656,259	(542,124)	-	4,543,465	463,753	21,592	88,903	2,015	166,458,048
(1,201,548)	-	-	-	-	-	-	-	-	-
(5,523,260)	(5,523,260)	-	-	-	-	-	-	(59)	(5,523,319)
(4,970,934)	(4,970,934)	-	-	-	-	-	-	-	-
14,621,319	14,621,319	-	-	-	-	-	-	116	14,621,435
(312,949)	(312,949)	432,556	-	(241,132)	(1,142,841)	(11,245)	(123,000)	30	(1,398,581)
14,308,370	14,308,370	432,556	-	(241,132)	(1,142,841)	(11,245)	(123,000)	146	13,222,854
(288,936)	(288,936)	-	-	288,936	-	-	-	-	-
\$ 15,829,364	\$ 37,181,499	\$ (109,568)	\$ -	\$ 4,591,269	\$ (679,088)	\$ 10,347	\$ (34,097)	\$ 2,102	\$ 174,157,583



HUA NAN FINANCIAL HOLDINGS CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

(In Thousands of New Taiwan Dollars)

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Net profit before income tax	\$ 16,671,209	\$ 13,809,368
Adjustments for:		
Depreciation expenses	1,055,373	980,178
Amortization expenses	223,619	184,391
Allowance for doubtful accounts, commitments, and guarantees	3,533,260	4,950,360
Interest expense	19,245,268	15,938,655
Interest revenue	(45,539,589)	(42,250,895)
Dividend income	(1,431,527)	(1,051,261)
Change in provisions for insurance liabilities, net	23,475	237,716
Share of (gain) loss of associates accounted for using the equity method	(4,426)	537
Gain on overlay approach	(133,078)	-
Loss on disposal of property and equipment	226	748
Gain on disposal of investment properties	(76,718)	(23,928)
Loss on disposal of intangible assets	97	7
Gain on disposal of assets held for sale	-	(71,847)
Impairment loss on financial assets	5,566	12,879
Impairment loss on non-financial assets	4,092	47,890
Gain on disposal of collaterals assumed	(122)	(477)
Changes in operating assets and liabilities		
Decrease in due from the Central Bank and other banks	9,457,622	2,274,583
Increase in financial assets at fair value through profit or loss	5,506,902	(12,953,663)
Increase in financial assets at fair value through other comprehensive income	(25,155,223)	-
Increase in financial assets at amortized cost	(69,811,988)	-
Increase in available-for-sale financial assets	-	(25,363,792)
Decrease in derivative financial assets for hedging	-	876
Decrease (increase) in receivables	5,095,835	(5,588,067)
Increase in discounts and loans	(44,253,925)	(7,352,844)
Increase in assets under reinsurance contracts	(22,747)	(37,078)
Decrease in held-to-maturity financial assets	-	20,073,789
(Increase) decrease in other financial assets	(8,599,917)	22,973,151
Increase (decrease) in deposits from the Central Bank and other banks	48,139,981	(38,817,856)
Decrease in financial liabilities at fair value through profit or loss	(3,184,640)	(5,758,678)
Decrease in derivative financial liabilities for hedging	(4,082)	(11,080)
Increase (decrease) in securities sold under repurchase agreements	5,525,688	(1,144,002)
(Decrease) increase in payables	(1,202,252)	5,763,257
Increase in deposits and remittances	44,688,231	48,050,474
Decrease in provisions	(949,526)	(1,273,539)
Increase (decrease) in other financial liabilities	4,758,620	(510,792)
Increase in other liabilities	4,124,847	1,458,017
Cash used in from operations	(43,323,653)	(5,452,923)
Interest received	44,841,227	42,333,711
Dividend received	1,431,527	1,051,261
Interest paid	(18,037,256)	(15,859,253)
Income tax paid	(2,070,719)	(2,392,584)
Net cash (used in) generated from operating activities	(17,158,874)	19,680,212
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of investments accounted for using equity method	(49,170)	-
Proceeds from disposals of assets held for sale	-	124,500
Acquisition of property and equipment	(824,596)	(1,004,172)
Proceeds from disposal of property and equipment	688	1,213
Acquisition of intangible assets	(317,392)	(164,349)
Proceeds from disposal of collaterals assumed	2,058	2,003
Acquisition of collaterals assumed	(6)	(3,456)
Acquisition of investment properties	(1,606,250)	(615,788)
Proceeds from disposal of investments properties	573,337	237,778
(Increase) decrease in other assets	(144,625)	963,443
Net cash used in investing activities	(2,365,956)	(458,828)
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase (decrease) in short-term borrowings	1,218,000	(767,000)
(Decrease) increase in commercial paper payables	(11,572,628)	11,818,846
Proceeds from corporate debentures	12,000,000	-
Repayments of corporate debentures	(5,000,000)	-
Proceeds from bank debentures	4,200,000	2,800,000
Repayments of bank debentures	(6,050,000)	-
Proceeds from long-term borrowings	200,000	-
Repayments of long-term borrowings	-	(200,000)
Cash dividends paid	(5,507,244)	(7,342,080)
Net cash (used in) generated from financing activities	(10,511,872)	6,309,766
EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES	437,849	1,584,093
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(29,598,853)	23,947,057
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	152,814,535	128,867,478
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	\$ 123,215,682	\$ 152,814,535

Reconciliation of the amounts in the consolidated statements of cash flows with the equivalent items reported in the consolidated balance sheets as of December 31, 2018 and 2017:

	December 31	
	2018	2017
Cash and cash equivalents in consolidated balance sheets	\$ 48,510,679	\$ 58,983,323
Due from the Central Bank and other banks that meet the definition of cash and cash equivalents in IAS 7	74,215,944	93,229,705
Securities purchased under agreements to resell that meet the definition of cash and cash equivalents in IAS 7	489,059	601,507
Cash and cash equivalents in consolidated statements of cash flows	\$ 123,215,682	\$ 152,814,535

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

HUA NAN FINANCIAL HOLDINGS CO., LTD. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
 (In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

1. GENERAL

Hua Nan Financial Holdings Co., Ltd. (HNFH or the Company) was established by Hua Nan Commercial Bank Ltd. (HNCB) and EnTrust Securities Co., Ltd. (“EnTrust”) through a share swap on December 19, 2001. After share swap, HNCB and EnTrust became HNFH’s wholly owned subsidiaries. EnTrust was renamed Hua Nan Securities Co., Ltd. (HNSC) in June 2003.

On August 15, 2003, South China Insurance Co., Ltd. (SCIC) and EnTrust Investment Trust Corporation became wholly owned subsidiaries of HNFH through a share swap. EnTrust Investment Trust Corporation changed its name to Hua Nan Investment Trust Corporation (HNIT) on June 2003.

HNFH manages and invests in authorized domestic and overseas financial institutions.

Hua Nan Commercial Bank, Ltd. (“HNCB”) was established on March 1, 1947 through the restructuring of the Hua Nan Bank, which was founded in 1919. HNCB engages in (a) all commercial banking operations allowed by the Banking Act; (b) offshore banking business; (c) overseas branch operations authorized by the respective foreign governments; and (d) other operations as authorized by the central competent authorities.

HNCB maintains its head office in Taipei. As of December 31, 2018, HNCB had Banking, Financial Trading, International Banking and Trust Departments as well as 186 domestic branches and representative offices, an offshore banking unit (OBU), 12 overseas branches (located in Los Angeles, New York, Hong Kong, Singapore, London, Ho Chi Minh City, Sydney, Shenzhen, Shanghai, Fuzhou, Macao and Manila, respectively), 1 overseas sub branch (Baoan in Shenzhen) and 2 overseas representative offices (Hanoi, Vietnam and Yangon, Myanmar).

The operations of HNCB’s Trust Department are (1) trust business planning, managing and operating and (2) custody of nondiscretionary trust funds in domestic and overseas securities and mutual funds. These operations are regulated under the Banking Act and the Trust Enterprise Act.

Hua Nan Securities Co., Ltd. (HNSC) was incorporated on June 17, 1988 in conformity with related regulations. HNSC’s main business operations are (a) to underwrite securities; (b) to trade securities for itself at HNSC’s business location; (c) to accept orders to trade securities at HNSC’s business locations; (d) to engage in margin loan and securities financing for securities; (e) to accept orders to buy and sell foreign securities; (f) to engage in securities-related auxiliary futures trading services, to engage in securities-related futures services; (g) to act as a transfer agent for securities; (h) to engage in other securities-related businesses approved by the governing authorities.

South China Insurance Co., Ltd. (SCIC) was incorporated on May 1, 1963. SCIC is mainly engaged in property insurance services including automobile insurance, fire insurance, casualty insurance, liability insurance, and reinsurance of the preceding insurance businesses. SCIC has a head office in Taipei, 8 branches and 31 areas in main cities in Taiwan, and one overseas representative office in Mainland China.

Hua Nan Investment Trust Corporation (HNIT) was registered on September 29, 1992. HNIT is mainly engaged in issuing beneficiary certificates to raise investment trust funds and making securities investments using these funds. HNIT was authorized by the governing authorities to be engaged in the operation of discretionary investment services in September 2001.

Hua Nan Venture Capital Co., Ltd. (HNVC) was registered on January 28, 2004 under the “Company Act” and “Regulations for Scope and Guidance to Venture Capital Business”. HNVC is mainly engaged in venture capital investments business, investment consulting business, and manage consulting business. HNVC invested business including domestic and overseas technology companies, other domestic and overseas venture capital companies, and other companies allowed by the related regulations.

Hua Nan Asset Management Co., Ltd. (HNAMC) was invested by HNFH and was established on May 10, 2005. HNAMC is mainly engaged in properties purchase, properties leasing and purchase, evaluation, auction and management service of monetary creditor’s rights of financial institutions.

HNCB Insurance Agency Co., Ltd. (HNCB Insurance Agency) was established on March 21, 2001 based on Company Act. HNCB Insurance Agency is mainly engaged in personal insurance agency business and was HNCB's wholly owned subsidiaries. To increase economics of scale and operating synergy, Hua Nan Commercial Bank merged HNCB Insurance Agency Co., Ltd. on December 31, 2017.

Hua Nan International Leasing Co., Ltd. (HNILC) was established on July 13, 2012. HNILC is mainly engaged in financing and leasing.

Hua Nan International Leasing Corporation (HNILC Shenzhen) was established on October 25, 2012. HNILC Shenzhen is mainly engaged in financing and leasing.

Hua Nan Futures Co., Ltd. (HNFC) was established on April 30, 1994 based on Company Act, Futures Trading Act and other related regulations. On July 25, 1994 HNFC received the authorized license from Securities and Futures Bureau of MOF and is mainly engaged in futures broker business and futures consulting business. On May 20, 2009, HNFC received the approval of operating future management and the authorized license.

Hua Nan Investment Management Co., Ltd. (HNIM) was established on September 27, 1993 based on Company Act and other related regulations. HNIM is mainly engaged in security investment consulting business.

Hua Nan Holdings Corp. was established in British Virgin Island on March 17, 1997. The outstanding shares are 11,150,000 and are all held by HNSC. It is mainly engaged in holding company business.

Hua Nan Asset Management Corp. was established in Cayman Island on February 29, 2000 and was a wholly owned subsidiary of Hua Nan Holdings Corp. It was mainly engaged in consulting business. It notified the Company agreeing on the matter of its dissolution on July 13, 2017. And completed the cancellation on March 7, 2018.

Hua Nan Securities (HK) Limited was established in Hong Kong, and was a wholly owned subsidiary of Hua Nan Holdings Corp. It is mainly engaged in security business.

The functional currency of the Company is New Taiwan dollars, and the consolidated financial statements are presented in New Taiwan dollars.

As of December 31, 2018 and 2017, the Company and its subsidiaries had 10,368 and 10,094 employees, respectively.

2. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorized for issue by the board of directors on March 25, 2019.

3. APPLICATION OF NEW, AMENDED AND REVISED STANDARDS AND INTERPRETATIONS

- a. Initial application of the amendments to the Regulations Governing the Preparation of Financial Reports by Financial Holding Companies, Regulations Governing the Preparation of Financial Reports by Securities Issuers, Regulations Governing the Preparation of Financial Reports by Public Banks, Regulations Governing the Preparation of Financial Reports by Securities Firms, Regulations Governing the Preparation of Financial Reports by Futures Commission Merchants, Regulations Governing the Preparation of Financial Reports by Insurance Companies, and the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), Interpretations of IFRS (IFRIC), and Interpretations of IAS (SIC) (collectively, the "IFRSs") endorsed and issued into effect by the FSC

Except for the following, the initial application of the amendments to the Regulations Governing the Preparation of Financial Reports by Financial Holding Companies, Regulations Governing the Preparation of Financial Reports by Securities Issuers, Regulations Governing the Preparation of Financial Reports by Public Banks, Regulations Governing the Preparation of Financial Reports by Securities Firms, Regulations Governing the Preparation of Financial Reports by Futures Commission Merchants, Regulations Governing the Preparation of Financial Reports by Insurance Companies, and the IFRSs endorsed and issued into effect by the FSC did not have a significant effect on the Company and its subsidiaries' accounting policies:

IFRS 9 “Financial Instruments” and related amendments

IFRS 9 supersedes IAS 39 “Financial Instruments: Recognition and Measurement”, with consequential amendments to IFRS 7 “Financial Instruments: Disclosures” and other standards. IFRS 9 sets out the requirements for classification, measurement and impairment of financial assets and hedge accounting. Refer to Note 4 for information relating to the relevant accounting policies.

Classification, measurement and impairment of financial assets

On the basis of the facts and circumstances that existed as of January 1, 2018, the Company and its subsidiaries has performed an assessment of the classification of recognized financial assets and has elected not to restate prior reporting periods. The following table shows the original measurement categories and carrying amount under IAS 39 and the new measurement categories and carrying amount under IFRS 9 for each class of the Company and its subsidiaries’ financial assets and financial liabilities as of January 1, 2018.

Financial Assets	Measurement Category		Carrying Amount		Remark
	IAS 39	IFRS 9	IAS 39	IFRS 9	
Financial assets at fair value through profit or loss (i.e. fair value through profit or loss)	Fair value through profit or loss	Mandatorily at fair value through profit or loss	\$ 72,329,240	\$ 72,329,240	
	Designated as at fair value through profit or loss	Mandatorily at fair value through profit or loss	3,732,751	3,732,751	
Receivables, net	Loans and receivables	Amortized cost	45,140,778	45,114,304	1)
	Loans and receivables	Fair value through profit or loss	57,542	58,197	1)
Available-for-sale, net	Available-for-sale	Mandatorily at fair value through profit or loss	4,096,854	4,096,854	2)
	Available-for-sale	Fair value through other comprehensive income - equity instruments	10,706,609	10,706,609	3)
	Available-for-sale	Fair value through other comprehensive income - debt instruments	134,124,742	134,124,742	4)
	Available-for-sale	Amortized cost	743,543	751,590	5)
Held-to-maturity	Held-to-maturity	Amortized cost	380,205,770	380,184,718	5)
	Held-to-maturity	Fair value through other comprehensive income - debt instruments	709,840	723,503	4)
Other financial assets - financial assets carried at cost	Available-for-sale	Mandatorily at fair value through profit or loss	1,336,008	1,035,186	2)
	Available-for-sale	Fair value through other comprehensive income - equity instruments	4,249,877	7,682,561	6)
Other financial assets - bond investment with no active market	Loans and receivables	Fair value through other comprehensive income - debt instruments	14,211,039	14,415,425	7)
	Loans and receivables	Amortized cost	20,000	19,783	5)

Financial Assets	IAS 39 Carrying Amount as of January 1, 2018	Reclassifications	Remeasurements	IFRS 9 Carrying Amount as of January 1, 2018	Retained Earnings Effect on January 1, 2018	Other Equity Effect on January 1, 2018	Remark
Fair value through profit or loss	\$ 76,061,991						
Add: Reclassification from available-for-sale (IAS 39)							
Required reclassification		\$ 4,096,854	\$ -	\$ -	\$(356,769)	\$ 356,769	2)
Add: Reclassification from held-to-maturity (IAS 39)							
Required reclassification	-	1,336,008	(300,822)		(300,822)	-	2)
	<u>76,061,991</u>	<u>5,432,862</u>	<u>(300,822)</u>	<u>81,194,031</u>	<u>(657,591)</u>	<u>356,769</u>	
Fair value through other comprehensive income							
Debt instruments							
Add: Reclassification from available-for-sale (IAS 39)		134,124,742	-		(47,523)	56,791	4)
Add: Reclassification from held-to-maturity (IAS 39)		709,840	13,663		(199)	12,457	4)
Add: Reclassification from other financial assets (bond investment with no active market) (IAS 39)		14,211,039	204,386		(12,572)	219,331	7)
Equity instruments							
Add: Reclassification from available-for-sale (IAS 39)		10,706,609	-		-	-	3)
Add: Reclassification from other financial assets (financial assets carried at cost) (IAS 39)	-	4,249,877	3,432,684		3,421	3,429,263	6)
	-	<u>164,002,107</u>	<u>3,650,733</u>	<u>167,652,840</u>	<u>(56,873)</u>	<u>3,717,842</u>	
Amortized cost							
Add: Reclassification from available-for-sale (IAS 39)		743,543	8,047		(153)	6,977	5)
Add: Reclassification from held-to-maturity (IAS 39)		380,205,770	(21,052)		(17,620)	-	5)
Add: Reclassification from other financial assets (bond investment with no active market) (IAS 39)	-	20,000	(217)		(217)	-	5)
	-	<u>380,969,313</u>	<u>(13,222)</u>	<u>380,956,091</u>	<u>(17,990)</u>	<u>6,977</u>	
Receivables, net	45,198,320	-					
Less: Valuation of loss allowance		-	(26,474)		(21,975)	-	1)
Add: fair value through profit or loss - buy the overdue receivables	-	-	655		544	-	1)
	<u>45,198,320</u>	<u>-</u>	<u>(25,819)</u>	<u>45,172,501</u>	<u>(21,431)</u>	<u>-</u>	
Other financial assets, net	41,634,967						
Less: Mandatorily at fair value through profit or loss (IAS 9)		(1,336,008)	-		-	-	2)
Less: Reclassification to fair value through other comprehensive income - debt instruments (IAS 9)		(14,211,039)	-		-	-	7)
Less: Reclassification to fair value through other comprehensive income - equity instruments (IAS 9)		(4,249,877)	-		-	-	6)
Less: Financial assets at amortized cost (IAS 9)		(20,000)	-		-	-	5)
Less: Valuation of loss allowance	-	-	(5,664)		(4,701)	-	8)
	<u>41,634,967</u>	<u>(19,816,924)</u>	<u>(5,664)</u>	<u>21,812,379</u>	<u>(4,701)</u>	<u>-</u>	
	<u>\$ 162,895,278</u>	<u>\$ 530,587,358</u>	<u>\$ 3,305,206</u>	<u>\$ 696,787,842</u>	<u>\$(758,586)</u>	<u>\$ 4,081,588</u>	

Description:

- 1) Receivables that were previously classified as loans and receivables under IAS 39, except for the overdue receivables the Company and its subsidiaries and its bought were classified as fair value through profit or loss due to the Company's business model, were classified as at amortized cost with an assessment of expected credit losses under IFRS 9. As a result of retrospective application, the adjustments comprised an increase in deferred tax assets of \$4,499, an increase in deferred tax liabilities of \$111 and a decrease in retained earnings of \$21,431 on January 1, 2018.
- 2) Beneficiary certificates that were previously classified as available-for-sale financial assets under IAS 39 were classified as mandatorily at fair value through profit or loss under IFRS 9, because the contractual cash flows were not solely payments of principal and interest on the principal outstanding and these investments were not equity instruments. A part of listed stocks that were previously classified as available-for-sale financial assets under IAS 39 were classified as mandatorily at fair value through profit or loss under IFRS 9. A part of unlisted stocks that were previously classified as available-for-sale financial assets which carried at cost under IAS 39 were classified as mandatorily at fair value through profit or loss under IFRS 9. As to aforementioned stock investments, a part of them choose to adopt overlay approach in IFRS 4 "Insurance Contracts" to present designated financial assets' profit and loss. As a result of retrospective application, the adjustments comprised an increase in other equity - unrealized gain on available-for-sale financial assets of \$267,866, an increase in other equity - gain and loss on overlay approach measured at other comprehensive income of \$88,903, and a decrease in retained earnings of \$657,591 on January 1, 2018.
- 3) The Company elected to designate a part of listed stocks that were previously classified as available-for-sale financial assets under IAS 39 as at fair value through other comprehensive income under IFRS 9, because they are not held for sell. And reclassified other equity - unrealized gain on available-for-sale \$1,114,637 to other equity - unrealized gain on fair value through other comprehensive income-equity instruments.
- 4) Debt investments previously classified as available-for-sale financial assets and held-to-maturity financial assets under IAS 39 were classified as at fair value through other comprehensive income with an assessment of expected credit losses under IFRS 9, because on January 1, 2018, the contractual cash flows were solely payments of principal and interest on the principal outstanding and these investments were held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets. As a result of retrospective application, the related adjustments comprised an increase in deferred tax assets of \$9,337, an increase in deferred tax liabilities of \$1,474, a decrease in retained earnings \$47,722, a decrease in other equity - unrealized gain on available-for-sale financial assets of \$175,174 and an increase in other equity - unrealized gain on fair value through other comprehensive income-debt instruments.
- 5) Debt investments previously classified as available-for-sale financial assets, held-to-maturity financial assets and bond investment with no active market in receivables and loans under IAS 39 were classified as at amortized cost with an assessment of expected credit losses under IFRS 9, because on January 1, 2018, the contractual cash flows were solely payments of principal and interest on the principal outstanding and these investments were held within a business model whose objective is to collect contractual cash flows. As a result of retrospective application, the related adjustments comprised an increase in deferred tax assets of \$2,209, an increase in other equity - unrealized gain on available-for-sale financial assets of \$6,977 and a decrease in retained earnings of \$17,990 on January 1, 2018.
- 6) The Company elected to designate a part of unlisted stocks that were previously classified as available-for-sale financial assets under IAS 39 as at fair value through other comprehensive income under IFRS 9, and were remeasured at fair value. Because the Company recognized impairment loss \$3,421 during prior year, as a result of retrospective application, the related adjustments comprised an increase in retained earnings of \$3,421, an increase in unrealized gain on fair value through other comprehensive income -equity instruments of \$3,428,828 and an increase in non-controlling interests of \$435 on January 1, 2018.

- 7) Bond investments with no active market previously classified as loans and receivables under IAS 39 were classified as at fair value through other comprehensive income under IFRS 9, because on January 1, 2018, the contractual cash flows were solely payments of principal and interest on the principal outstanding and these investments were held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets. As a result of retrospective application, the related adjustments comprised an increase in deferred tax assets of \$2,569, an increase in deferred tax liabilities of \$196, a decrease in retained earnings of \$12,572, and an increase in other equity - gain and loss on fair value through other comprehensive income -debt instruments of \$219,331 on January 1, 2018.
 - 8) Other financial assets were assessed the expected credit losses under IFRS 9. As a result of retrospective application, the related adjustments comprised an increase in deferred tax assets of \$963 and a decrease in retained earnings of \$4,701 on January 1, 2018.
 - 9) The Company assessed financing commitments of loans' expected credit losses under IFRS 9. As a result of retrospective application, the related adjustments comprised an increase in financings commitments of \$1,324,238, an increase in deferred tax assets of \$225,121 and a decrease in retained earnings of \$1,099,117 on January 1, 2018.
- b. The Regulations Governing the Preparation of Financial Reports by Financial Holding Companies, Regulations Governing the Preparation of Financial Reports by Securities Issuers, Regulations Governing the Preparation of Financial Reports by Public Banks, Regulations Governing the Preparation of Financial Reports by Securities Firms, Regulations Governing the Preparation of Financial Reports by Futures Commission Merchants, Regulations Governing the Preparation of Financial Reports by Insurance Companies, and the "IFRSs" endorsed by the FSC for application starting from 2019

New IFRSs	Effective Date Announced by IASB (Note 1)
Annual Improvements to IFRSs 2015-2017 Cycle	January 1, 2019
Amendments to IFRS 9 "Prepayment Features with Negative Compensation"	January 1, 2019 (Note 2)
IFRS 16 "Leases"	January 1, 2019
Amendments to IAS 19 "Plan Amendment, Curtailment or Settlement"	January 1, 2019 (Note 3)
Amendments to IAS 28 "Long-term Interests in Associates and Joint Ventures"	January 1, 2019
IFRIC 23 "Uncertainty Over Income Tax Treatments"	January 1, 2019

Note 1: Unless stated otherwise, the above New IFRSs are effective for annual periods beginning on or after their respective effective dates.

Note 2: The FSC permits the election for early adoption of the amendments starting from 2018. The Company and its subsidiaries elected the adoption on January 1, 2019.

Note 3: The amendments are apply to amendments to plan amendments, curtailments or settlements occurring on or after January 1, 2019.

IFRS 16 "Leases"

IFRS 16 sets out the accounting standards for leases that will supersede IAS 17 "Leases", IFRIC 4 "Determining whether an Arrangement contains a Lease", and a number of related interpretations.

Definition of a lease

Upon initial application of IFRS 16, the Company and its subsidiaries will elect to apply the guidance of IFRS 16 in determining whether contracts are, or contain, a lease only to contracts entered into (or changed) on or after January 1, 2019. Contracts identified as containing a lease under IAS 17 and IFRIC 4 will not be reassessed and will be accounted for in accordance with the transitional provisions under IFRS 16.

The Company and its subsidiaries as lessee

Upon initial application of IFRS 16, the Company and its subsidiaries will recognize right-of-use assets and lease liabilities for all leases on the consolidated balance sheets except for those whose payments under low-value and short-term leases will be recognized as expenses. On the consolidated statements of comprehensive income, the Company and its subsidiaries will present the depreciation expense charged on right-of-use assets separately from the interest expense accrued on lease liabilities; interest is computed using the effective interest method. On the

consolidated statements of cash flows, cash payments for the principal portion of lease liabilities will be classified within financing activities; cash payments for the interest portion will be classified within operating activities. Prior to the application of IFRS 16, payments under operating lease contracts, were recognized as expenses on a straight-line basis. Cash flows for operating leases were classified within operating activities on the consolidated statements of cash flows. Leased assets and finance lease payables were recognized for contracts classified as finance leases on the consolidated balance sheets.

The Company and its subsidiaries elects to apply IFRS 16 retrospectively with the cumulative effect of the initial application of this standard recognized on January 1, 2019. Comparative information will not be restated.

Lease liabilities were recognized on January 1, 2019 for leases currently classified as operating leases with application of IAS 17. Lease liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate on January 1, 2019. Right-of-use assets will be measured at an amount equal to the lease liabilities. The Company and its subsidiaries will apply IAS 36 to all right-of use assets.

The Company and its subsidiaries as lessor

Except for sublease transactions, the Company and its subsidiaries will not make any adjustments for leases in which it is a lessor and will account for those leases with the application of IFRS 16 starting from January 1, 2019.

The Company and its subsidiaries subleased its leasehold building to a third party and the sublease is classified as an operating lease under IAS 17. The Company and its subsidiaries will assess the sublease classification on the basis of the remaining contractual terms and conditions of the head lease and sublease on January 1, 2019.

Anticipated impact on assets, liabilities and equity as of January 1, 2019 are set out as follows:

	Carrying Amount as of December 31, 2018	Adjustments Arising from Initial Application	Adjusted Carrying Amount as of January 1, 2019
Right-of-use assets	\$ -	\$ 1,921,059	\$ 1,921,059
Prepayments	338,689	(80,896)	257,793
Total effect on assets	\$ 338,689	\$ 1,840,163	\$ 2,178,852
Lease liabilities	\$ -	\$ 1,840,163	\$ 1,840,163
Total effect on liabilities	\$ -	\$ 1,840,163	\$ 1,840,163

Except for the above impact, as of the date the consolidated financial statements were authorized for issue, the Company and its subsidiaries assessed that there was no material impact on the Company and its subsidiaries' financial position and financial performance, when applying other standards and interpretations.

c. New IFRSs in issue but not yet endorsed and issued into effect by the FSC

New IFRSs	Effective Date Announced by IASB (Note 1)
Amendments to IFRS 3 "Definition of a Business"	January 1, 2020 (Note 2)
Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets between An Investor and Its Associate or Joint Venture"	To be determined by IASB
IFRS 17 "Insurance Contracts"	January 1, 2021
Amendments to IAS 1 and IAS 8 "Definition of Material"	January 1, 2020 (Note 3)

Note 1: Unless stated otherwise, the above New IFRSs are effective for annual periods beginning on or after their respective effective dates.

Note 2: The Group shall apply these amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2020 and to asset acquisitions that occur on or after the beginning of that period.

Note 3: The Group shall apply these amendments prospectively for annual reporting periods beginning on or after January 1, 2020.

IFRS 17 “Insurance Contract”

IFRS 17 sets out the accounting standards for insurance contract that will supersede IFRS 4 “Insurance Contract”. The main description are as followed:

Level of aggregation of insurance contracts

The Company and its subsidiaries shall identify portfolios of insurance contracts. A portfolio comprises contracts subject to similar risks and managed together. Contracts within a product line would be expected to have similar risks and hence would be expected to be in the same portfolio if they are managed together. The Company and its subsidiaries shall divide a portfolio of insurance contracts issued into a minimum of:

- 1) A group of contracts that are onerous at initial recognition, if any;
- 2) A group of contracts that at initial recognition have no significant possibility of becoming onerous subsequently, if any; and
- 3) A group of the remaining contracts in the portfolio, if any

The Company and its subsidiaries shall not include contracts issued more than one year apart in the same group. The Company and its subsidiaries shall apply the recognition and measurement requirements of IFRS 17 to the Company and its subsidiaries of contracts issued

Recognition

The Company and its subsidiaries shall recognise a group of insurance contracts it issues from the earliest of the following:

- 1) The beginning of the coverage period of the Company and its subsidiaries of contracts;
- 2) The date when the first payment from a policyholder in the Company and its subsidiaries becomes due; and
- 3) For a group of onerous contracts, when the Company and its subsidiaries becomes onerous

Measurement on initial recognition

On initial recognition, the Company and its subsidiaries shall measure a group of insurance contracts at the total of the fulfilment cash flows and contractual service margin. The fulfilment cash flows comprise estimates of future cash flows, an adjustment to reflect the time value of money and the financial risks related to the future cash flows and a risk adjustment for non-financial risk. Contractual service margin is a component of the asset or liability for the Company and its subsidiaries of insurance contracts that represents the unearned profit the entity will recognise as it provides services in the future. The Company and its subsidiaries shall measure the contractual service margin on initial recognition of a group of insurance contracts at an amount that, unless onerous contracts applies, results in no income or expenses arising from a) the initial recognition of an amount for the fulfilment cash flows, measured by applying paragraphs; b) the derecognition at the date of initial recognition of any asset or liability recognised for insurance acquisition cash flows applying; and c) any cash flows arising from the contracts in the Company and its subsidiaries at that date.

Subsequent measurement

The carrying amount of a group of insurance contracts at the end of each reporting period shall be the sum of the liability for remaining coverage and the liability for incurred claims. Liability for remaining coverage comprise the fulfilment cash flows related to future service allocated to the Company and its subsidiaries at that date and the contractual service margin of the Company and its subsidiaries at that date. The liability for incurred claims, comprise the fulfilment cash flows related to past service allocated to the Company and its subsidiaries at that date. Impairment loss should be recognize immediately if contracts portfolio become onerous contracts during subsequents measurement.

Onerous contracts

An insurance contract is onerous at the date of initial recognition if the fulfilment cash flows allocated to the contract, any previously recognised acquisition cash flows and any cash flows arising from the contract at the date of initial recognition in total are a net outflow. The Company and its subsidiaries shall recognise a loss in profit or loss for the net outflow for the Company and its subsidiaries of onerous contracts, resulting in the carrying amount

of the liability for the Company and its subsidiaries being equal to the fulfilment cash flows and the contractual service margin of the Company and its subsidiaries being zero. Contractual service margin remain zero, and no insurance contract revenue will be recognized before the recognized onerous amount is reversed.

Premium allocation approach

The Company and its subsidiaries may simplify the measurement of a group of insurance contracts using the premium allocation approach if, and only if, at the inception of the Company and its subsidiaries:

- 1) The entity reasonably expects that such simplification would produce a measurement of the liability for remaining coverage for the Company and its subsidiaries that would not differ materially from the one that would be produced applying the requirements; or
- 2) Coverage period of each contract in the Company and its subsidiaries is one year or less.

The criterion a) is not met if at the inception of the Company and its subsidiaries the Company and its subsidiaries expects significant variability in the fulfilment cash flows that would affect the measurement of the liability for remaining coverage during the period before a claim is incurred.

Using the premium allocation approach, the Company and its subsidiaries shall measure the liability for remaining coverage as the carrying amount of the liability on initial recognition minus any insurance acquisition cash flows at that date. At the end of each subsequent reporting period, the carrying amount of the liability is the carrying amount at the start of the reporting period plus the premiums received in the period, plus insurance acquisition cash flows, minus the amount recognised as insurance revenue for coverage provided in that period, and minus any investment component paid or transferred to the liability for incurred claims.

Investment contracts with discretionary participation features

An investment contract with discretionary participation features does not include a transfer of significant insurance risk. IFRS 17 applies to investment contract with discretionary participation features and insurance contract if issuer also issues insurance contract.

Modification and derecognition

If the terms of an insurance contract are modified and certain conditions are satisfied, the Company and its subsidiaries shall derecognise the original contract and recognise the modified contract as a new contract. The Company and its subsidiaries shall derecognise the insurance contract when contract is extinguished or its substance is being modified.

Transition rules

The Company and its subsidiaries shall provide apply retrospective approach, and apply modified retrospective approach or the fair value approach if retrospective approach is inapplicable.

Modified retrospective approach achieve the closest outcome to retrospective application possible using reasonable and supportable information available without undue cost or effort. Fair value approach should be applied if reasonable and supportable information are unavailable.

To apply the fair value approach, the Company and its subsidiaries shall determine the contractual service margin or loss component of the liability for remaining coverage at the transition date as the difference between the fair value of a group of insurance contracts at that date and the fulfilment cash flows measured at that date.

Except for the above impact, as of the date the consolidated financial statements were authorized for issue, the Company and its subsidiaries are continuously assessing the possible impact that the application of other standards and interpretations will have on the Company and its subsidiaries' financial position and financial performance.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

The consolidated financial statements have been prepared in accordance with Regulations Governing the Preparation of Financial Reports by Financial Holding Companies, Regulations Governing the Preparation of Financial Reports by Securities Issuers, Regulations Governing the Preparation of Financial Reports by Public Banks, Regulations Governing

the Preparation of Financial Reports by Securities Firms, Regulations Governing the Preparation of Financial Reports by Futures Commission Merchants, Regulations Governing the Preparation of Financial Reports by Insurance Companies, and IFRSs as endorsed and issued into effect by the FSC.

Basis of Preparation

The consolidated financial statements have been prepared on the historical cost basis except for financial instruments measured at fair values. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

The fair value measurements are grouped into Levels 1 to 3 based on the degree to which the fair value measurement inputs are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- a. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities;
- b. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- c. Level 3 inputs are unobservable inputs for the asset or liability.

Current/Non-current Assets and Liabilities

Since the length of the operating cycle in the banking industry could not be reasonably identified, accounts included in the Company and its subsidiaries' financial statements were not classified as current or non-current. Nevertheless, accounts were properly categorized according to the nature of each account and sequenced by their liquidity. Except for the matter stated in the preceding paragraph, cash and cash equivalents or assets to be realized within 12 months after the reporting period are classified as current. Liabilities to be liquidated or settled within 12 months and liabilities for which the Company and its subsidiaries do not have an unconditional right to defer settlement for at least 12 months after the reporting period, are classified as current (even if an agreement to refinance; or to reschedule payments, on a long-term basis is completed after the reporting period and before the consolidated financial statements are authorized for issue). Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification. All other assets and liabilities are classified as non-current.

The consolidated financial statements, however, do not show the classification of current or non-current assets/liabilities because the banking industry accounts are the major parts of the consolidated accounts.

Principles for Preparing Consolidated Financial Statements

The consolidated financial statements incorporate the financial statements of the Company and the entities controlled by the Company (i.e. its subsidiaries).

When necessary, adjustments are made to the financial statements of its subsidiaries to bring its accounting policies into line with those used by the Company.

All intra-group transactions, balances, income and expenses are eliminated in full upon consolidation.

The consolidated entities, nature and percentage of ownership is shown in Table 7.

Foreign Currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (i.e. foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions.

At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date.

Non-monetary items measured at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured at historical cost in a foreign currency are not retranslated. Exchange differences on monetary items arise from settlement or translation are recognized in profit or loss in the period in which they arise.

Exchange differences arising on the retranslation of nonmonetary assets (such as equity instruments) or liabilities measured at fair value are included in profit or loss for the period at the rates prevailing at the end of reporting period except for exchange differences arising on the retranslation of nonmonetary items in respect of which gains and losses are recognized directly in other comprehensive income, in which case, the exchange differences are also recognized directly in other comprehensive income.

For the purposes of presenting consolidated financial statements, the assets and liabilities of the Company and its subsidiaries' foreign operations are translated into New Taiwan dollars using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period. Unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising are recognized in other comprehensive income.

Cash and Cash Equivalents

Cash and Cash equivalents include cash on hand, demand deposits, time deposits that can be readily terminated without the deduction of principal, and highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. For the consolidated statement of cash flows, cash and cash equivalents include cash and cash equivalents in consolidated balance sheets, and those amounts of due from the Central Bank and other banks and securities purchased under agreements to resell that meet the definition of cash and cash equivalents in IAS 7 "Statement of Cash Flows", etc.

Investment in Associates

An associate is the Company and its subsidiaries over which the Company and its subsidiaries have significant influence and that is neither a subsidiary nor an interest in a joint venture.

The Company and its subsidiaries uses the equity method to account for its investments in associates. Under the equity method, an investment in an associate is initially recognized at cost and adjusted thereafter to recognize the Company and its subsidiaries' share of the profit or loss and other comprehensive income of the associate. The Company and its subsidiaries also recognize the changes in the Company and its subsidiaries' share of equity of associates.

The additional impairment loss of an associate was measured and recognized by using IAS 39 "Financial Investments: Recognition and Measurement" in year 2017. The additional impairment loss of an associate was measured and recognized by using IFRS 9 "Financial Instruments" in year 2018. The entire carrying amount of the investment is tested for impairment as a single asset by comparing its recoverable amount with its carrying amount (the higher of fair value less costs to sell and value in use) with its carrying amount under IAS 36 "Impairment of Assets". Any impairment loss recognized forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized to the extent that the recoverable amount of the investment subsequently increases under IAS 36 "Impairment of Assets".

The Company and its subsidiaries discontinues the use of the equity method from the date on which it ceases to have significant influence. Any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset. The difference between the previous carrying amount of the associate attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate. The Company and its subsidiaries accounts for all amounts previously recognized in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities.

Financial Instruments

Financial assets and financial liabilities are recognized when the Company and its subsidiaries become a party to the contractual provisions of the instruments.

Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

Financial assets

All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Trade date basis means that when financial assets are purchased or sold, the delivery date was within the period prescribed by regulation or market practice.

a. Measurement category

2018

Financial assets are classified into the following categories: Financial assets at fair value through profit or loss, financial assets at amortized cost and investments in debt instruments and equity instruments at fair value through other comprehensive income.

1) Financial assets at fair value through profit or loss

Financial assets are classified as at fair value through profit or loss when such a financial asset is mandatorily classified or designated as at fair value through profit or loss. Financial assets mandatorily classified as at fair value through profit or loss include investments in equity instruments which are not designated as at fair value through other comprehensive income and debt instruments that do not meet the amortized cost criteria or the fair value through other comprehensive income criteria.

Financial assets at fair value through profit or loss are subsequently measured at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividends or interest earned on such a financial asset.

Fair values of financial assets and financial liabilities at the balance sheet date are determined as follows: Publicly traded stocks - at closing prices; open-end mutual funds - at net asset values; domestic bonds - at prices quoted by the Taiwan GreTai Securities Market; overseas bonds - at prices quoted by the Bloomberg, the Reuters or the counterparty in transactions and financial assets and financial liabilities without quoted prices in an active market - at values determined using valuation techniques.

2) Financial assets at amortized cost

Financial assets that meet the following conditions are subsequently measured at amortized cost:

- a) The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- b) The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Subsequent to initial recognition, financial assets at amortized cost are measured at amortized cost, which equals the gross carrying amount determined by the effective interest method less any impairment loss. Exchange differences are recognized in profit or loss.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of such a financial asset, except for:

- a) Purchased or originated credit-impaired financial assets, for which interest income is calculated by applying the credit-adjusted effective interest rate to the amortized cost of such financial assets; and
- b) Financial assets that have subsequently become credit-impaired, for which interest income is calculated by applying the effective interest rate to the amortized cost of such financial assets.

3) Investments in debt instruments at fair value through other comprehensive income

Debt instruments that meet the following conditions are subsequently measured at fair value through other comprehensive income:

- a) The financial asset is held within a business model whose objective is achieved by both the collecting of contractual cash flows and the selling of such financial assets; and
- b) The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Investments in debt instruments at fair value through other comprehensive income are subsequently measured at fair value. Changes in the carrying amounts of these debt instruments relating to changes in foreign currency exchange rates, interest income calculated using the effective interest method and impairment losses or reversals are recognized in profit or loss. Other changes in the carrying amount of these debt instruments are recognized in other comprehensive income and will be reclassified to profit or loss when the investment is disposed of.

4) Investments in equity instruments at fair value through other comprehensive income

On initial recognition, the Company and its subsidiaries may make an irrevocable election to designate investments in equity instruments as at fair value through other comprehensive income. Designation as at fair value through other comprehensive income is permitted if the equity investment is not held for trading or if it is not contingent consideration recognized by an acquirer in a business combination.

Investments in equity instruments at fair value through other comprehensive income are subsequently measured at fair value with gains and losses arising from changes in fair value recognized in other comprehensive income and accumulated in other equity. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments; instead, it will be transferred to retained earnings.

Dividends on these investments in equity instruments are recognized in profit or loss when the Company and its subsidiaries' right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment

2017

Financial assets are classified into the following categories: Financial assets at fair value through profit or loss, held-to-maturity investments, available-for-sale financial assets and loans and receivables. Financial assets' classification are determined by its nature and purpose during initial recognition.

1) Financial assets at fair value through profit or loss

Financial assets are classified as at fair value through profit or loss when such financial assets are either held for trading or designated as at fair value through profit or loss.

A financial asset is classified as held for trading if:

- a) The main purpose to obtain those financial assets is to sell in a short term;
- b) The financial assets recognized initially are part of the identified financial instruments combined for management and were held for short-term profit; or
- c) Derivative financial instruments (except for financial guarantee contracts and derivative financial instruments designated for hedge).

A financial asset may be designated as at fair value through profit or loss upon initial recognition if:

- a) Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- b) The financial asset forms part of a group of financial assets or financial liabilities or both, which is managed in accordance with the Company and its subsidiaries' documented risk management or investment strategy, and evaluated on a fair value basis, and information about the Company and its subsidiaries is provided internally on that basis.

Furthermore, the contract contains one or more embedded derivatives so that the entire hybrid (combined) contract can be designated as at fair value through profit or loss.

Financial assets at fair value through profit or loss are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividend or interest earned on the financial asset.

Fair values of financial assets and financial liabilities at the balance sheet date are determined as follows: Publicly traded stocks - at closing prices; open-end mutual funds - at net asset values; domestic bonds - at prices quoted by the Taiwan GreTai Securities Market; overseas bonds - at prices quoted by the Bloomberg, the Reuters or the counterparty in transactions and financial assets and financial liabilities without quoted prices in an active market - at values determined using valuation techniques.

2) Held-to-maturity financial assets

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Company and its subsidiaries have the positive intent and ability to hold to maturity other than those that the Company and its subsidiaries upon initial recognition designate as at fair value through profit or loss, or designate as available for sale, or meet the definition of loans and receivables.

Subsequent to initial recognition, held-to-maturity investments are measured at amortized cost using the effective interest method less any impairment.

The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

3) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated as available-for-sale or are not classified as loans and receivables, held-to-maturity investments or fair value through profit or loss.

Available-for-sale financial assets are measured at fair value. Changes in the carrying amount of available-for-sale monetary financial assets relating to changes in foreign currency exchange rates, interest income calculated using the effective interest method and dividends on available-for-sale equity investments are recognized in profit or loss. Other changes in the carrying amount of available-for-sale financial assets are recognized in other comprehensive income. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss that previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

Dividends on available-for-sale equity instruments are recognized in profit or loss when the Company and its subsidiaries' rights to receive the dividends are established.

Available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are measured at cost less any identified impairment loss at the end of each reporting period and are recognized in a separate line item as financial assets carried at cost. If, in a subsequent period, the fair value of the financial assets cannot be reliably measured, the financial assets are remeasured at fair value. The difference between carrying amount and fair value is recognized in other comprehensive income on financial assets and recognized in profit or loss when impairment loss is identified.

4) Loans and receivables

Loans and receivables are non-derivatives with fixed or determinable payments that do not have a quoted market price in an active market.

Loans and receivables are measured at amortized cost using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the effect of discounting is immaterial.

b. Impairment of financial assets

2018

The Company and its subsidiaries recognize a loss allowance for expected credit losses on financial assets at amortized cost (including receivables), investments in debt instruments that are measured at fair value through other comprehensive income.

The Company and its subsidiaries always recognize lifetime expected credit losses (i.e. ECLs) for receivables that are not related to credit. For all other financial instruments, the Company and its subsidiaries recognize lifetime ECLs when there has been a significant increase in credit risk since initial recognition. If, on the other hand, the credit risk on a financial instrument has not increased significantly since initial recognition, the Company and its subsidiaries measure the loss allowance for that financial instrument at an amount equal to 12-month ECLs.

Expected credit losses reflect the weighted average of credit losses with the respective risks of default occurring as the weights. 12-month ECLs represent the portion of lifetime ECLs that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date. In contrast, lifetime ECLs represent the expected credit losses that will result from all possible default events over the expected life of a financial instrument

The Company and its subsidiaries recognize an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt instruments that are measured at fair value through other comprehensive income, for which the loss allowance is recognized in other comprehensive income and does not reduce the carrying amount of such a financial asset.

Under the “Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Nonperforming/Nonaccrual Loans” (the “Regulations”), HNCB evaluates credit losses on the basis of the estimated collectability. In accordance with the Regulations, credit assets are classified as normal assets, assets that require special mentioned, assets with substandard, assets with doubtful collectability, and assets on which there is loss. After evaluating the pledge value of certain credit assets on which there is loss, HNCB evaluate the possibility of recovering assets.

Based on the above Regulations, the minimum allowance for impairment losses and provision for losses on guarantees for the normal assets, assets that require special mentioned, assets that are substandard, assets with doubtful collectability, and assets on which there is loss should be 1%, 2%, 10%, 50% and 100% of outstanding, respectively. In order to enhance banks' endurance to real estate mortgage and the exposed risk in main land China, FSC issued Rule No. 10300329440 and Rule No. 10410001840. Rule No. 10300329440 states that loss reserve and guarantee liability provisions of loans related to housing and repairing and construction, must be at least 1.5%. Rule No. 10410001840 states that loss reserve and guarantee liability provisions of first category financial assets (including short-term trade financing) must be at least 1.5%.

HNCB recognized allowance for loans and receivables in accordance with “Regulations of the Procedures for Banking Institutions to Evaluate Assets and Deal with Past - Due/Non-performing Loans” and the test of impairment for financial assets. The larger amounts will be set as the standard of recognizing the allowance for doubtful accounts.

HNCB wrote off bad loans based on the possibilities of recovering overdue receivables as well as Non-performing loans and the values of collateral after the revaluation was approved by the board of directors.

2017

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

In determining the allowance for impairment losses and provision for losses on guarantees, HNCB assess the collectability of discounts and loans, receivables, and other financial assets (remittance purchased and nonperforming loans transferred from other than loans), as well as guarantees and acceptances as of the balance sheet date.

An allowance for doubtful receivables of SCIC is provided based on a review of the collectability of accounts receivable, and an increase in the number of delayed payments, as well as observable changes in national or local economic conditions that correlate with default on loans and receivables. The regulation of guidelines for Handling Assessment of Assets, Loans Overdue, Receivable on Demand and Bad Debts by Insurance Enterprises and then is determined by the ending balance.

Loans and receivables are assessed for impairment at the end of each reporting period and considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the foregoing discounts and loans, receivables, and other financial assets, the estimated future cash flows of the asset have been affected. Objective evidence of impairment could include:

- Significant financial difficulty of the issuer or debtor;
- Breach of contract, such as a default or delinquency in interest or principal payments;
- Probability that the debtor will enter into bankruptcy or financial re-organization;
- The disappearance of an active market for that financial asset because of financial difficulties;
- Overdue loans;
- Loans reclassified as nonperforming loans;
- Debt consultation/debt clearance/individual consultation; or
- The poverty-relief household handled the renewal of matured loans, repayment deferral, and negotiation of repayment plan under “The Bankers Association of the Republic of China (BAROC) Member Self-Discipline System for Negotiation with Debtors”.

Discounts and loans, receivables, and other financial assets that are assessed as not impaired individually are further assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of discounts and loans, receivables, and other financial assets could include the Company and its subsidiaries’ past experience of collecting payments and an increase in the number of delayed payments, as well as observable changes in national or local economic conditions that correlate with defaults on loans and receivables.

The amount of the impairment loss recognized is the difference between the asset carrying amount and the present value of estimated future cash flows, after taking into account the related collaterals and guarantees, discounted at the original effective interest rates. The carrying amount of the discounts and loans, receivables, and other financial assets is reduced through the use of an allowance account.

Under the “Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Nonperforming/Nonaccrual Loans” (the “Regulations”), HNCB evaluates credit losses on the basis of the estimated collectability. In accordance with the Regulations, credit assets are classified as normal assets, assets that require special mentioned, assets with substandard, assets with doubtful collectability, and assets on which there is loss.

Based on the above Regulations, the minimum allowance for impairment losses and provision for losses on guarantees for the normal assets, assets that require special mentioned, assets that are substandard, assets with doubtful collectability, and assets on which there is loss should be 1%, 2%, 10%, 50% and 100% of outstanding, respectively.

In order to enhance banks’ endurance to real estate mortgage and the exposed risk in main land China, FSC issued Rule No. 10300329440 on December 4, 2014 and Rule No. 10410001840 on April 23, 2015. Stipulate domestic bank undertakings real estate mortgage, need to follow the rules that loss reserve and guarantee liability provisions of first category financial assets (including short-term trade financing) must be at least 1.5%.

HNCB recognized allowance for loans and receivables in accordance with “Regulations of the Procedures for Banking Institutions to Evaluate Assets and Deal with Past - Due/Non-performing Loans” and the test of impairment for financial assets. The larger amounts will be set as the standard of recognizing the allowance for doubtful accounts.

HNCB wrote off bad loans based on the possibilities of recovering overdue receivables as well as Non-performing loans and the values of collateral after the revaluation was approved by the board of directors.

When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss in the period.

In respect of available-for-sale equity securities, impairment loss previously recognized in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized in other comprehensive income and accumulated under the heading of investments revaluation reserve. In respect of available-for-sale debt securities, impairment loss are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

For financial assets that are carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced through the book value except for discounts and loans which is reduced through the use of allowance account. When those discounts and loans are considered uncollectible, they are written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

c. **Derecognition of financial assets**

The Company and its subsidiaries derecognize a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party.

Before 2018, on derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss which had been recognized in other comprehensive income is recognized in profit or loss. Starting from 2018, on derecognition of a financial asset at amortized cost in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss. On derecognition of an investment in a debt instrument at fair value through other comprehensive income, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss which had been recognized in other comprehensive income is recognized in profit or loss. However, on derecognition of an investment in an equity instrument at fair value through other comprehensive income, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss, and the cumulative gain or loss which had been recognized in other comprehensive income is transferred directly to retained earnings, without recycling through profit or loss.

Financial liabilities

a. **Measurement and recognition**

Except the following situation, all the financial liabilities are measured at amortized cost using the effective interest method:

Financial liabilities at fair value through profit or loss

Financial liabilities are classified as at fair value through profit or loss when the financial liability is either held for trading or it is designated as at fair value through profit or loss.

A financial liability is classified as held for trading if:

- 1) The main purpose is to repurchase in a short term;
- 2) The financial liabilities recognized initially are part of the identified financial instruments combined for management and were held for short-term profit; or
- 3) Derivative financial instruments (except for financial guarantee contracts and derivative financial instruments designated for hedge).

Financial liabilities held for trading are stated at fair value, with any gain or loss arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any interest or dividends paid on such financial liability.

A financial liability may be designated as at fair value through profit or loss upon initial recognition if the recognition results in more relevant information and if:

- 1) Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

- 2) The financial liability forms part of a group of financial assets or financial liabilities or both, which is managed in accordance with the Company and its subsidiaries' documented risk management or investment strategy and is evaluated on a fair value basis and information about the Company and its subsidiaries is provided internally on that basis.

Furthermore, the contract contains one or more embedded derivatives so that the entire combined contract (asset or liability) can be designated as at fair value through profit or loss.

For a financial liability designated as at fair value through profit or loss, the amount of changes in fair value attributable to changes in the credit risk of the liability is presented in other comprehensive income, and it will not be subsequently reclassified to profit or loss. The remaining amount of changes in the fair value of that liability which incorporates any interest or dividend paid on the financial liability is presented in profit or loss. The gain or loss accumulated in other comprehensive income will be transferred to retained earnings when the financial liabilities are derecognized. If this accounting treatment related to credit risk would create or enlarge an accounting mismatch, all changes in fair value of the liability are presented in profit or loss.

b. Derecognition of financial liabilities

The difference between the carrying amount of the financial liability derecognized and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

Derivative Financial Instruments

Derivatives are initially recognized at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognized in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship. When the fair value of derivative financial instruments is positive, the derivative is recognized as a financial asset; when the fair value of derivative financial instruments is negative, the derivative is recognized as a financial liability.

Before 2018, derivatives embedded in non-derivative host contracts were treated as separate derivatives when they met the definition of a derivative; their risks and characteristics were not closely related to those of the host contracts; and the contracts were not measured at fair value through profit or loss. Starting from 2018, derivatives embedded in hybrid contracts that contain financial asset hosts that is within the scope of IFRS 9 are not separated; instead, the classification is determined in accordance with the entire hybrid contract. Derivatives embedded in non-derivative host contracts that are not financial assets that is within the scope of IFRS 9 (e.g. financial liabilities) are treated as separate derivatives when they meet the definition of a derivative; their risks and characteristics are not closely related to those of the host contracts; and the host contracts are not measured at fair value through profit or loss.

Overlay Approach

While adopting IFRS 9 at the beginning of 2018, SCIC also adopted IFRS 4 "Insurance Contracts" to recognize profit and loss of designated financial assets. The financial assets designated to overlay approach are as follow:

	December 31, 2018
<u>Financial assets at fair value through profit or loss</u>	
Listed stocks	\$ 1,660,117
Unlisted stocks	79,819
Beneficiary certificates	768,252
	<u>\$ 2,508,188</u>

As of December 31, 2018, the reclassification amount between profit and loss and other comprehensive income of financial assets designated to overlay approach are as follow:

	December 31, 2018
Loss recognized in profit and loss on initial application of IFRS 9	\$ 133,078
Less: Loss recognized in profit and loss if IAS 39 was applied	-
Gain on overlay approach	<u>\$ 133,078</u>

Hedge Accounting

Hedge accounting is as follows:

a. Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognized in profit or loss immediately, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The change in the fair value of the hedging instrument and the change in the hedged item attributable to the hedged risk are recognized in profit or loss in the line item relating to the hedged item.

Before 2018, hedge accounting is discontinued prospectively when the Company and its subsidiaries revokes the designated hedging relationship, or when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer meets the criteria for hedge accounting. Starting from 2018, the Company and its subsidiaries only discontinued hedge accounting prospectively when it no longer meets the criteria for hedge accounting, including hedging instrument expires, sold, terminated, or exercised.

b. Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in other comprehensive income. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss.

c. Hedges of net investments in foreign operations

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognized in other comprehensive income and accumulated under the heading of foreign currency translation reserve. The gain or loss relating to the ineffective portion is recognized in profit or loss immediately.

Gains and losses on the hedging instrument relating to the effective portion of the hedge accumulated in the foreign currency translation reserve are reclassified to profit or loss on the disposal or partial disposal of the foreign operation.

Overdue Loans

Under “Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/Non-accrual Loans”, nonperforming loans should be reclassified as overdue loans within performing period of 6 months. However the Nonperforming loans paid by installments after negotiation are exempted from the aforementioned rules.

Overdue loans transferred from loans should be recorded under discounts and loans. For other loans transferred from accounts other than loans, such as guarantees, acceptances, receivables factoring and credit card receivables should be recorded under other financial assets.

Margin Loans and Stock Loans

Margin loans pertain to the provision of funds to customers for them to buy securities. Margin loans receivable represents the amount given to customers. The securities bought by customers are used to secure these loans and are recorded through memo entries as “collateral securities.” The collateral securities are returned when the loans are repaid.

The refinancing of margin loans with securities finance companies is recorded as “refinancing borrowings,” which are collateralized by securities bought by customers.

The collateral securities are disposed of by HNSC when their market values fall below a pre-agreed level and the customer fails to maintain this level. If the proceeds of the disposal of collateral security cannot cover the balance of the loan and the customer cannot timely settle the deficiency, then the balance of the margin loan is reclassified under “overdue receivables.” If a collateral security cannot be sold in the open market, the balance of the loan is reclassified under “other receivables” or “overdue receivables.”

Stock loans are securities lent to customers for short sales. The deposits received from customers on securities lent out are credited to “deposits on short sale.” The securities sold short are recorded as “stock loans” using memo entries. The proceeds of the sales of securities lent to customers less any dealer’s commission, financing charges and securities exchange tax are recorded under “short sales proceeds payable.” When the customers return the stock certificates to HNSC, HNSC gives back to customers the deposits received and the proceeds of the sales of securities.

The margins deposited by securities firms to securities finance companies are recorded as “loan from refinanced margin.” The refinancing securities delivered to HNSC are recorded as “refinancing stock collaterals” using memo entries. A portion of the proceeds of the short-sale of securities borrowed from securities finance companies is retained by the securities finance companies as collateral and recorded as “refinancing deposits receivable.”

Bills and Bonds Sold or Purchased under Repurchase or Resale Agreement

Bonds and bills purchased under resale agreements refer to the actual payment made to the counterparty in transactions involving the purchase of securities, subject to an agreement by the purchaser to resell the securities. Such transaction is treated as margin trading. Bonds and bills sold under repurchase agreements refer to the actual receipts from the counterparty in transactions involving the sale of bonds and bills, subject to an agreement by the seller to repurchase the securities. All related interest income or expenses are recognized on an accrual basis.

In the resale transaction of bonds purchased under resell agreements, the proceeds of bonds sold, listed as liability account “Bonds purchased under resell agreement - short trading” are included in financial liabilities at fair value through profit or loss and evaluated at fair value at the end of the period. The fair values refer to the bond reference prices in OTC as of the balance sheet date, and unrealized valuation gains or losses are presented as “Gains (losses) on valuation of borrowed securities and bonds under resale agreements”. The costs to resell and purchase are calculated by the average method, and the gains or losses on sale are presented as “Gains (losses) on covering of borrowed securities and bonds under resale agreements”.

Securities Business Money Lending, Money Lending - Any Use Unrestricted and Securities Lending

The securities lending business and money lending-purpose unrestricted business and securities lending of Hua Nan Securities Co., Ltd. pertains to the provision of funds, which are recognized as securities loan receivable two business days after the funds are given to customers and receivable of securities business money lending-any use; an allowance for bad debt is estimated at the end of the period on the basis of the collectability of the loan receivable. The collaterals obtained from securities lending are recorded through memo entries as “collateral securities.” The collateral securities are returned when the loans are repaid. Revenue from customers’ payments is recognized as securities lending commissions and fees.

The collateral securities obtained through securities lending are recorded through memo entries as “collateral securities.” Cash collaterals are recorded as “securities lending refundable deposits.” Deposits for securities borrowed from TSE are recorded as “securities borrowing margin.” For the issuance demand of the put warrants and the hedging demand of options, guaranteed price deposits borrowed from securities holders of underlying securities or paid in markets are recorded as “borrowed securities collateral receivable” and the deposits are recorded as “securities borrowing margin.”

Securities lending refundable deposits (or securities borrowing margin) will be repaid (or collected) on the return of borrowed securities. Securities lending income and service fees received for securities lending business are recognized as securities lending income (included in other no-interest income.)

Customers’ Margin Accounts and Futures Traders’ Equity

Hua Nan Futures Co., Ltd. engages in futures brokerage and receive margin deposits from customers as required under existing regulations. The proceeds are deposited in a bank and presented as customers’ margin accounts and futures traders’ equity. Gains or losses from daily marking to market of the carrying amounts of the contracts and related commission are charged to the customers’ margin accounts and futures traders’ equity. Futures traders’ equity accounts cannot offset each other except when they are of the same kind and belong to someone. The debit balance of futures traders’ equity, which results from losses on futures transactions in excess of the margin deposited, is recorded as accounts receivable - futures margin deposits.

Securities Brokerage Accounts

These accounts pertain to open brokerage transactions. Under the related Regulations. These transactions are recorded as: Accounts receivable, net, accounts payable, other assets and other liabilities.

Property and Equipment

Property and equipment are measured at cost less accumulated depreciation and accumulated impairment loss.

Depreciation of property and equipment is recognized using straight-line method. Each significant part is depreciated separately. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

On derecognition of an item of property and equipment, the difference between the sales proceeds and the carrying amount of the asset is recognized in profit or loss.

Investment Properties

Investment properties are properties held to earn rentals and/or for capital appreciation. Investment properties also include land held for a currently undetermined future use.

Investment properties are initially measured at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at cost less accumulated depreciation and accumulated impairment loss.

On derecognition of an investment property, the difference between the net disposal proceeds and the carrying amount of the asset is included in profit or loss.

Goodwill

Goodwill arising from the acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment loss.

For the purposes of impairment testing, goodwill is allocated to each of the Company and its subsidiaries' cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired, by comparing its carrying amount, including the attributable goodwill, with its recoverable amount. However, if the goodwill allocated to a cash-generating unit was acquired in a business combination during the current annual period, that unit shall be tested for impairment before the end of the current annual period. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss is recognized directly in profit or loss. An impairment loss recognized for goodwill is not reversed in subsequent periods.

Intangible Assets**a. Intangible assets acquired separately**

Intangible assets with finite useful lives that are acquired separately are initially measured at cost and subsequently measured at cost less accumulated amortization and accumulated impairment loss. Amortization is recognized on a straight-line basis. The estimated useful life, residual values, and amortization methods are reviewed at the end of each reporting period, with the effect of any changes in estimates accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are measured at cost less accumulated impairment loss.

b. Derecognition of intangible assets

On derecognition of an intangible asset, the difference between the net disposal proceeds and the carrying amount of the asset is recognized in profit or loss.

Impairment of Tangible and Intangible Assets

At the end of each reporting period, the Company and its subsidiaries review the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered any impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. The Company and its subsidiaries estimate the recoverable amount of the cash-generating unit to which the asset belongs. Corporate assets are allocated to the individual cash-generating units on a reasonable and consistent basis of allocation. Otherwise they are allocated to the smallest group of cash-generating units on a reasonable and consistent allocation basis of allocation.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually and whenever there is an indication that the assets may be impaired.

The recoverable amount is the higher of fair value less costs to sell and value in use. If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount, with the resulting impairment loss recognized in profit or loss.

When an impairment loss is subsequently reversed, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but only to the extent of the carrying amount that would have been determined had no impairment loss (less amortization or depreciation) been recognized for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

Collaterals Assumed

Collaterals assumed are recorded at cost. Impairment losses shall be recognized in profit or loss by the difference between the original cost and the fair value evaluated on the balance sheet date.

Payment Collected for Warrant Exercise and Share Subscription

Payment received for exercising warrants and share subscriptions, both on the clients' behalf, are presented as "other assets".

Payment Collected for Cash Dividends

HNSC collects cash dividends on behalf of its clients. Collections and payments are presented as other assets - others.

Reinsurance

SCIC arrange the reinsurance business based on the business need and the related insurance laws to limit the losses caused by certain events. For reinsurance ceded business, SCIC cannot reuse to fulfill their obligations to insure even if the reinsurer refuses to fulfill its obligation.

Reinsurance premiums ceded is recognized based on reinsurance. It must synchronize with reinsurance premiums assumed according to the cut-off of reporting day. For those statements which have not been received by the insured, reinsurance premiums ceded is estimated in a reasonable and systematic way. The related income (such as: Reinsurance commissions and etc.) are recognized in the same period without being deferred.

Reinsurance reserve assets include unearned premium reserve, provision for reinsurance ceded and liability reserve ceded. SCIC classify the above mentioned reinsurance assets in accordance with the rules of "Regulations Governing the Provision of Various Reserves" and "Notice for Recognition of Liability Reserve on the Balance Sheet for Ceded Insurance over 1 year for Life Insurance Business". They are the privileges of reinsurer.

SCIC evaluates whether the privileges of reinsured is impaired or non-collectable on a regular basis, such as reinsurance reserve assets, claims and payment receivable from reinsurers and due from reinsurers and ceding companies. When objective evidence indicates that such incident happened after the initial recognition will possibly lead to SCIC being unable to collect all receivables on the contract, and the impact of the receivables from reinsured can be measured reliably with regard to the aforementioned events. The accumulated impairment shall be recognized in the context that the receivables do not exceed reinsurance reserve assets at book value. The allowance for bad debts shall be recognized when claims and payment receivable from reinsurers and due from reinsurers and ceding companies are non-collectable.

Insurance Liabilities

The insurance liabilities in SCIC's insurance contracts are regulated by "Regulations Governing the Setting Aside of Various Reserves by Insurance Enterprises", "Regulations for the Setting Aside and Management of the Reserves for Compulsory Automobile Liability Insurance", "Enforcement Rules for the Risk Spreading Mechanism of Residential Earthquake Insurance" and "Regulations Governing the Setting Aside of Nuclear Energy Reserve". The provision bases of insurance liabilities are as follows:

a. Unearned premium reserve

Unearned premium reserves are calculated on the basis of the retention of loss for each issuance policy. The reserve recognized in prior years is reversed to income when the related insurance policy expires. The unearned premium reserve should be determined by the insurance actuary and should be explained clearly on the submitted form to the authorized institution.

b. Separate loss reserve

A separate loss reserve for each type of insurance shall be calculated by the insurance actuary. Such calculation shall be based on past claims adjustment experience and expenses.

c. Special reserve

Special reserves include "Special Catastrophe Reserve" and "Special Risk-Volatility Reserve". The after-tax net value of increased provision each year shall be listed as the special reserves under stockholder's equity. The above amount to be written off or recovered shall be written off or recovered under liability reserves. If such liabilities reserves are insufficient for write-offs or recovered, the deficiency less income tax shall be written off or recovered with special reserves under stockholder's equity.

On January 1, 2011, the amount recorded in the account of special claim reserve under liabilities shall be recorded in the account of special reserve under head office accounts after deducting income tax and the amount specified by the competent authority for monitoring purposes.

Under Rule No. 10102515061 issued by FSC, since SCIC still has not recognized enough catastrophe reserves such as commercial earthquake insurance and typhoon and flood insurance, SCIC would not reclassified such special reserves from retained earnings to special surplus.

For the years ended in December 31, 2018 and 2017, SCIC is complied with "commercial earthquake insurance and typhoon and flood insurance", "Directions for Strengthening the Residential Earthquake Insurance Co-Insurance Pool Members' Reserves" and "Regulations of Reserve for Non-life Insurers Operating the Nuclear Insurance". Were SCIC not to apply the rule, the net profit of SCIC were to decrease \$8,865 and \$2,444 and the earnings per share were \$3.13 and \$3.34 for the years ended December 31, 2018 and 2017, respectively. The special reserve of SCIC were to decrease \$1,248,892 and \$1,259,973 and equity were to increase \$999,114 and \$1,045,778 as of December 31, 2018 and 2017, respectively.

1) Special catastrophe reserve

For each type of insurance, a special catastrophe reserve shall be set aside at the reserve ratio prescribed by the competent authority.

Upon the occurrence of a catastrophic event, the actual retained losses in excess of \$30 million and all property insurance risks totaling claims payable excess of \$2 billion may be withdrawn from the special catastrophe reserve.

A special catastrophe reserve that has been set aside for more than 30 years may be retired in the manner prescribed by the competent authority, and the amount treated as income.

2) Special risk-volatility reserve

For each type of insurance, when actual losses minus the balance of the special catastrophe reserve for that type of insurance after deduction of payouts from the reserve is lower than expected losses, a non-life insurance enterprise shall set aside the difference in the special risk-volatility reserve.

For each type of insurance, when the balance of actual losses minus the balance of the special catastrophe reserve for that type of insurance after deduction of payouts from the reserve is greater than expected losses, that portion of actual losses in excess of expected losses may be withdrawn from the special risk-volatility reserve previously set aside. If the special risk-volatility reserve for a particular type of insurance is insufficient to cover (losses in excess of expected losses), the losses may be withdrawn from the special risk-volatility reserve previously set aside for another type of insurance. The insurance type of the reserve thus drawn upon, and the amount of the withdrawal, shall be reported to the competent authority for recordation.

For each type of insurance, when cumulative provisions for the special risk-volatility reserve exceed 60 percent of the amount of retained earned premiums for the current year, that portion in excess shall be retired and treated as income.

d. Reserve for insufficient premium

Non-life insurance companies should evaluate the claim payments and expense which will be incurred in the future and compare the fore-mentioned expenditures to the premium based on insurance policy without expiration or the accepting risk which is not terminative. If the expenditures are lower than the premium, non-life insurance companies should provide the differences as the premium deficiency reserve.

Liability Adequacy Test

According to the “Rules Governing Auditing and Certification of Financial Statements by Certified Public Accountants” from the Actuarial Institute of ROC, SCIC will estimate the cash flows from insurance contracts in the day of balance sheet announcement. If the result shows that the carrying value which is recognized as insurance liabilities (deduct the intangible assets) is insufficient, we will recognize this shortage as current expense.

Provisions

The Company and its subsidiaries recognized provisions when the Company and its subsidiaries have a present obligation arising from past events (legal or constructive obligation) and the amounts of obligation can be estimated reliably and can be settled. Provisions are measured at the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Employee Benefits

a. Short-term employee benefits

Liabilities recognized in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.

b. Retirement benefits

Payments to defined contribution retirement benefit plans are recognized as an expense when employees have rendered service entitling them to the contributions.

Defined benefit costs (including service cost, net interest and rereasurement) under the defined benefit retirement benefit plans are determined using the projected unit credit method. Service cost and net interest on the net defined benefit liability (asset) are recognized as employee benefits expense in the period they occur. Remeasurement, comprising actuarial gains and losses, and the return on plan assets (excluding interest), is recognized in other comprehensive income in the period in which they occur. Remeasurement recognized in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss.

Net defined benefit liability represents the actual deficit in the Company and its subsidiaries' defined benefit plan. Any surplus resulting from this calculation is limited to the present value of any refunds from the plans or reductions in future contributions to the plans.

Pension costs for an interim period are calculated on a year-to-date basis by using the actuarially determined pension cost rate as determined at the end of the prior financial year, adjusted for significant market fluctuations since that time and for significant plan amendments, settlements, or other significant one-off events.

c. Employee benefit - employees' preferential deposits

HNCB have granted a preferential interest rate to its current employees and retired employees for their deposits within a prescribed amount. The preferential interest rate in excess of market interest rate is considered employee benefits.

Under Article 30 of the "Regulations Governing the Preparation of Financial Reports by Public Bank", if the Bank's preferential deposit interest rate for an employee as stated in the employment contract exceeds the market interest rate, the excess will be subject to IAS 19 "Employee Benefits" upon the employee's retirement. The actuarial valuation assumptions and parameters are based on the guidelines announced by authority.

Taxation

Income tax expense represents the sum of the current tax and deferred tax.

a. Current tax

According to the Income Tax Act, an additional tax at 10% of unappropriated earnings is provided for as income tax in the year the shareholders approve to retain the earnings.

Adjustments of prior years' tax liabilities are added to or deducted from the current year's tax provision.

b. Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for probable deductible temporary differences and tax credit of investment that taxable profits will be available against those deductible temporary differences.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. A previously unrecognized deferred tax asset is also reviewed at the end of each reporting period and recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company and its subsidiaries expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

c. Current and deferred taxes for the year

Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

The Company, HNFH, and HNFH's subsidiaries chose to adopt the linked-tax system income tax returns filing. Under Interpretation 2003-240 issued by Accounting Research and Development Foundation (ARDF), the linked-tax system requires a reasonable and systematic method for tax allocation. The tax allocation is recorded as receivables or payables.

Recognition of Revenues and Expenses

The transaction costs of acquisition of loans and receivables or additional service fee on generation or acquisition of the loans and receivables are served to adjust the book value of loans and receivables and thereby revise the effective interest rate.

Interest revenue generated from discounts and loans are recognized based on accrual basis. When the loans become past due and are considered uncollectible, the principal and interest receivable are transferred to nonperforming loan accounts, and the accrual of interest revenue is ceased. Interest revenue will be recognized when the interest of the nonperforming loan is collected. According to the regulations issued by Ministry of Finance, if the repayment of loan is extended under an agreement, the related interest should be recognized as deferred revenue and recognized as revenue when collected.

Commission fee revenue and expense are recognized when loans or other services are provided. Service fees on significant projects are recognized when the project has been completed, for instance, loan syndication fees are recognized as revenue when the syndication has been completed. If fee revenue and expense are related to provide service on loans, fee revenue and expense are either recognized over the period that service is performed or as an adjustment to the effective interest rate on the loans and receivables, mainly depend on their materiality.

The premiums income derived from underwriting business is recognized when claims of direct coverage are recognized based on claims (including claim expenses) applied and paid of the period; income and expenses derived from assumed and ceded reinsurance business are recorded on the date on which the bills are received, and reinsurance premium revenues of account in transit is estimated using a reasonable and systematic method at settlement. The associated expenses such as commissions, agency cost, service charges and reinsurance commission expenses are recognized accordingly and are not deferred.

Unearned premium reserve is provided based on various risk calculation for effective contracts yet to mature or covered risks yet to terminate in the coverage period, and has been provided based on each type of insurance.

Unearned premium reserve of Compulsory Automobile Liability Insurance is provided in accordance with the “Regulations for the Setting Aside and Management of the Reserves for Compulsory Automobile Liability Insurance”.

Unearned premium reserve of Residential Earthquake Insurance is provided in accordance with the “Enforcement Rules for the Risk Spreading Mechanism of Residential Earthquake Insurance”.

Unearned premium reserve of Nuclear Energy Insurance is provided in accordance with the “Regulations Governing the Setting Aside of Nuclear Energy Reserve”.

The unearned premium reserve should be determined by the insurance actuary and should be explained clearly on the submitted form to the authorized institution. After the approval, it should not be changed without submitting further application. The methodology for providing premium deficiency reserve is decided by actuaries and reported to the Authority.

According to the “Value-added and Non-value-added Business Tax Act” and “Stamp Tax Act”, the insurance revenue are recognized on accrual basis.

The reinsurance claims of assumed reinsurance business are recorded on the date on which the bills are received, and reinsurance premium expenses of account in transit is estimated using a reasonable and systematic method at settlement which is recognized as net change in claims reserve.

The claims incurred but not reported of underwriting business and assumed reinsurance business are provided based on claim experience and expenses of various insurance types and are calculated with methods based on actuarial principles which are recognized as net change in claims reserve incurred but not reported.

According to ceded reinsurance contract for the claim settlement recoverable from reinsurance business, paid claims (including claim expenses) are recognized as claims recoverable from reinsurers; claims reported but not paid and claims incurred but not reported (including claim expenses) are recognized as net change in claims reserve.

Claims reserve of Compulsory Automobile Liability Insurance is provided in accordance with the “Regulations for the Setting Aside and Management of the Reserves for Compulsory Automobile Liability Insurance”.

Claims reserve of Residential Earthquake Insurance is provided in accordance with the “Enforcement Rules for the Risk Spreading Mechanism of Residential Earthquake Insurance”.

Claims reserve of Nuclear Energy Insurance is provided in accordance with the “Regulations Governing the Setting Aside of Nuclear Energy Reserve”.

Residuals Taken Over and Subrogation Right

Residuals taken over of SCIC at direct underwriting business claim procedure recognize at fair value measured. The right to claim subject matter insured according to law, will recognize when situation of claim is definite (future economic benefit obtained is probable) and the amount could measure reliably.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

a. The Company and its subsidiaries as lessor

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease unless another systematic basis is representative of the time pattern of the lessee's benefit from the use of the leased asset.

Lease incentives included in the operating lease are recognized as an asset. The aggregate cost of incentives is recognized as a reduction of rental income on a straight-line basis over the lease term unless another systematic basis is more representative of the time pattern over which the benefit of the leased asset is diminished.

b. The Company and its subsidiaries as lessee

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Contingencies

A contingent liability is a possible obligation depending on whether some uncertain future event occurs, or a present obligation but payment is not probable or the amount cannot be measured reliably. A contingent liability is not recognized but disclosed in certain circumstances.

A contingent asset is a possible asset that arises from past event and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Company and its subsidiaries. A contingent asset is not recognized but disclosed only when the economic benefit probably.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Company and its subsidiaries' accounting policies, which are described in Note 4, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

a. Estimated impairment of financial assets - 2018

The provision for impairment of trade receivables, investments in debt instruments and financial guarantee contracts is based on assumptions about risk of default and expected loss rates. The Company and its subsidiaries use judgement in making these assumptions and in selecting the inputs to the impairment calculation, based on the Company and its subsidiaries' past history, existing market conditions as well as forward looking estimates at the end of each reporting period. For details of the key assumptions and inputs used, see Note 54. Where the actual future cash inflows are less than expected, a material impairment loss may arise.

b. Impairment loss of receivables - 2017

The Company and its subsidiaries consider the estimation of future cash flows when there is observable data indicating that an impairment loss occurs. The amount of impairment loss measured is the difference between the assets carrying amount and the present value of estimated future cash flows (excluding the future credit loss that might arise), discounted at the financial asset's original effective interest rate. When the actual future cash flows are less than expected, a material impairment loss may arise. The book value of receivables and its allowance for impairment losses please refer to Note 13.

c. Impairment loss of discounts and loans - 2017

The Company and its subsidiaries review loan portfolios to assess impairment periodically. In determining whether an impairment loss should be recorded, the Company and its subsidiaries make judgments as to whether there is any observable data indicating that impairment is occurred. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers (e.g. payment delinquency or default), or economic conditions that correlate with defaults on assets. For the purpose of assessing impairment, the management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when estimating expected future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly in order to decrease the difference between estimated loss and actual loss. Discounts and loans with allowance for impairment losses, please refer to Note 14.

6. CASH AND CASH EQUIVALENTS

	December 31	
	2018	2017
Cash on hand	\$ 13,123,456	\$ 12,160,448
Cash in banks	1,774,357	2,444,340
Due from other banks	20,233,893	30,007,235
Notes and checks for clearing	13,348,991	14,337,325
Cash equivalents	<u>29,982</u>	<u>33,975</u>
	<u>\$ 48,510,679</u>	<u>\$ 58,983,323</u>

Reconciliation of the amounts in the consolidated statements of cash flow, with the equivalent items reported in the consolidated balance sheets as of December 31, 2018 and 2017:

	December 31	
	2018	2017
Cash and cash equivalents in consolidated balance sheets	\$ 48,510,679	\$ 58,983,323
Due from the Central Bank and other banks that meet the definition of cash and cash equivalents in IAS 7	74,215,944	93,229,705
Securities purchased under resell agreements that meet the definition of cash and cash equivalents in IAS 7	<u>489,059</u>	<u>601,507</u>
Cash and cash equivalents in consolidated statements of cash flows	<u>\$ 123,215,682</u>	<u>\$ 152,814,535</u>

7. DUE FROM THE CENTRAL BANK AND OTHER BANKS

	December 31	
	2018	2017
Call loans to banks	\$ 74,441,398	\$ 111,650,791
Reserve - checking accounts	17,856,081	13,203,753
Reserve - demand accounts	55,393,366	52,570,568
Reserve - foreign-currency deposit	492,476	505,919
Due from the Central Bank	36,256	40,413
Interbank settlement funds	8,500,839	7,220,355
	<u>\$ 156,720,416</u>	<u>\$ 185,191,799</u>

Under the relevant regulations, the Company maintains a certain amount of deposit in. The reserve - demand accounts yields interest at a rate announced by Central Bank. The reserve is subject to withdrawal restrictions and adjusted monthly. The reserve - demand accounts at a prescribed percentage of the daily average of the Company's deposits. Reserve - checking accounts are not interest bearing and may be withdrawn anytime. Foreign-currency deposit maintains a certain amount of deposit in the reserve - foreign-currency deposits. The reserve is not interest bearing and may be withdrawn anytime.

8. FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	December 31	
	2018	2017
Held-for-trading financial assets		
Investments in bill	\$ -	\$ 67,115,104
Operating securities - hedging	-	1,739,993
Operating securities - dealing	-	1,629,442
Beneficiary certificates	-	499,618
Listed stocks	-	322,457
Currency swap	-	285,942
Forward	-	183,082
Operating securities - underwriting	-	182,064
Interest swap	-	151,411
Options	-	127,123
Margin deposits - future	-	64,292
Corporate bonds	-	14,472
Cross currency swap	-	14,189
Government bonds	-	51
	<u>-</u>	<u>72,329,240</u>
Financial assets mandatorily classified as at fair value through profit or loss		
Investments in bill	75,571,318	-
Currency swap	3,591,124	-
Listed stocks	1,911,371	-
Beneficiary certificates	1,212,421	-
Unlisted stocks	1,055,965	-
Corporate bonds	926,375	-
Bank debentures	756,544	-

	December 31	
	2018	2017
Operating securities - dealing	727,401	-
Equity investments	271,047	-
Operating securities - underwriting	189,662	-
Options	151,772	-
Interest swap	116,508	-
Operating securities - hedging	87,164	-
Forward	56,627	-
Cross currency swap	52,765	-
Margin deposits - future	<u>27,410</u>	<u>-</u>
	86,705,474	-
Financial assets designated as at fair value through profit or loss		
Bank debentures	-	2,011,494
Corporate bonds	<u>-</u>	<u>1,721,257</u>
	<u>-</u>	<u>3,732,751</u>
	<u>\$ 86,705,474</u>	<u>\$ 76,061,991</u>
Held-for-trading financial liabilities		
Warrants liabilities	\$ 2,535,550	\$ 2,823,390
Repurchase of warrants issued	(2,506,521)	(2,551,849)
Currency swap	408,497	1,754,172
Options	158,529	127,333
Cross currency swap	59,777	68,309
Forward	50,296	16,469
Interest swap	33,782	32,094
Others	<u>346</u>	<u>-</u>
	<u>740,256</u>	<u>2,269,918</u>
Financial liabilities designated as at fair value through profit or loss		
Bank debentures	<u>4,062,815</u>	<u>5,705,802</u>
	<u>\$ 4,803,071</u>	<u>\$ 7,975,720</u>

Financial liabilities designated as at fair value through profit or loss were influenced by interest paid by financial liabilities, fluctuations of market interest rates and credit spread. As of December 31, 2018 and 2017, accumulated fair value changes were loss \$62,815 and \$205,802, respectively. For the years ended December 31, 2018 and 2017, fair value changes due to credits spread risk were loss of \$11,245 and \$20,519, respectively.

The Company and its subsidiaries entered into derivative contracts to manage exposures due to exchange rate and interest rate fluctuations. The financial risk management objective of the Company and its subsidiaries is to minimize risks due to changes in fair value or cash flows.

The nominal principal of outstanding derivative contracts as of December 31, 2018 and 2017 were as follows:

	December 31			
	2018		2017	
Forward and currency swap	NT\$	267,465,109	NT\$	182,493,676
Options	NT\$	32,254,597	NT\$	28,525,827
Interest swap	NT\$	19,353,837	NT\$	16,726,560
Cross currency swap	NT\$	9,597,280	NT\$	9,443,557
Futures	NT\$	338,173	NT\$	395,986
Asset swap	NT\$	281,615	NT\$	35,000
Currency swap	US\$	53,985	US\$	16,369
Forward	US\$	33,000	US\$	48,000
Forward	CNY	20,000	CNY	-
Forward	EUR	8,100	EUR	2,800

For the years ended December 31, 2018 and 2017, gain on financial assets and liabilities as at fair value through profit or loss was \$22,861,654 and \$12,855,096 during the above period, respectively. For the years ended December 31, 2018 and 2017, loss on financial assets and liabilities as at fair value through profit or loss was \$12,502,776 and \$17,315,280 during the above period, respectively.

The principal of debt investments, which are financial assets mandatorily classified as at fair value through profit or loss, amounting to \$87,700 as of December 31, 2018 had been sold under repurchase agreements. The principal of debt investments, which are financial assets held for trading, amounting to \$832,400 as of December 31, 2017, had been sold under repurchase agreements.

The principal of bond investments, which are financial assets mandatorily classified as at fair value through profit or loss, amounting to \$3,700,000 as of December 31, 2018 had been sold under repurchase agreements. The principal of debt investments, which are financial assets held for trading, amounting to \$3,250,000 as of December 31, 2017, had been sold under repurchase agreements.

9. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME - 2018

	December 31, 2018	
Investments in equity instruments at fair value through other comprehensive income	\$	25,688,894
Investments in debt instruments at fair value through other comprehensive income		165,758,779
	\$	191,447,673

a. Investments in equity instruments at fair value through other comprehensive income

	December 31, 2018	
Listed shares	\$	18,554,635
Unlisted shares		7,134,259
	\$	25,688,894

These investments in equity instruments are not held for trading. Instead, they are held for medium to long-term strategic purposes. Accordingly, the management elected to designate these investments in equity instruments as at fair value through other comprehensive income. These investments in equity instruments were classified as available-for-sale and other financial assets under IAS 39. Refer to Note 3, Note 15 and Note 18 for information relating to their reclassification and comparative information for 2017.

For the year ended December 31, the Company and its subsidiaries sold a part of listed shares as at its fair value in order to manage credit concentration risk or earn profit. Related other equity-unrealized loss of financial assets at fair value through profit or loss amounting to \$288,936 was transferred to retained earnings.

For the year ended December 31, dividends of \$1,228,780 related to aforementioned investments in equity instruments at fair value through other comprehensive income was recognized. Those related to investments derecognized during the period were \$81,469 and those related to investments held at the end of the reporting period were \$1,147,311.

Refer to Note 49 for information on December 31, 2018 relating to investments in equity instruments at fair value through other comprehensive income pledged as security.

b. Investments in debt instruments at fair value through other comprehensive income

	December 31, 2018
Bank debentures	\$ 63,549,371
Corporate bonds	59,308,676
Government bonds	37,843,542
Agency mortgage-backed securities	3,163,006
Negotiable certificates of deposits	1,801,984
Treasury bills	92,200
	<u>\$ 165,758,779</u>

The above investments in debt instruments were classified as available-for-sale financial assets, held-to maturity financial assets and other financial assets under IAS 39. Refer to Note 3, Note 15, Note 16 and Note 18 for information relating to their reclassification and comparative information for 2017. The principal of debt investments, which are financial assets as at fair value through other comprehensive income, amounting to \$11,283,045 as of December 31, 2018 had been sold under repurchase agreements.

Refer to Note 11 for information relating to the credit risk management and impairment of debt instruments at fair value through other comprehensive income.

Refer to Note 49 for information on December 31, 2018 relating to investments in debt instruments at fair value through other comprehensive income pledged as security.

10. FINANCIAL ASSETS AT AMORTIZED COST, NET - 2018

	December 31, 2018
Negotiable certificates of deposits	\$ 326,622,561
Government bonds	54,472,590
Bank debentures	40,030,727
Corporate bonds	22,492,504
Treasury bills	<u>7,188,358</u>
	450,806,740
Less: Refundable deposits	(296,168)
Allowance for impairment loss	<u>(20,750)</u>
	<u>\$ 450,489,822</u>

The above investments in debt instruments were classified as available-for-sale financial assets and held-to maturity financial assets under IAS 39. Refer to Note 3, Note 15 and Note 16 for information relating to their reclassification and comparative information for 2017.

The principal of debt investments, which are financial assets at amortized cost, amounting to \$32,207,725 as of December 31, 2018 had been sold under repurchase agreements.

Refer to Note 11 for information relating to their credit risk management and impairment of investments in debt instruments at amortized cost.

Refer to Note 49 for information on December 31, 2018 relating to investments in debt instrument at amortized cost pledged as security.

11. CREDIT RISK MANAGEMENT FOR INVESTMENTS IN DEBT INSTRUMENTS - 2018

Investments in debt instruments were classified as at fair value through other comprehensive income and as at amortized cost.

December 31, 2018

	At Fair Value Through Other Comprehensive Income	At Amortized Cost	Total
Gross carrying amount	\$ 166,545,461	\$ 450,510,572	\$ 617,056,033
Less: Allowance for impairment loss	(79,029)	(20,750)	(99,779)
Amortized cost	166,466,432	\$ 450,489,822	616,956,254
Adjustment to fair value	(707,653)		(707,653)
	<u>\$ 165,758,779</u>		<u>\$ 616,248,601</u>

HNCB considers the credit evaluation supplied by external credit agencies, historical default rates and historical default loss percentage to estimate 12-month or lifetime expected credit losses. HNCB's current credit risk grading framework comprises the following categories:

Category	Description	Basis for Recognizing Expected Credit Losses	Expected Loss Rate	Gross Carrying Amount at December 31
Stage 1	Credit rating is above the investment grade on record date and there has not been a significant increase in credit risk	12-month ECL	0%-0.1045%	\$ 603,731,730
Stage 2	Credit rating is below the investment grade on record date and there has been a significant increase in credit risk	Lifetime ECL - not credit-impaired	-	-
Stage 3	Credit rating is Ca/CC on record date	Lifetime ECL - credit-impaired	-	-

HNSC considers the credit evaluation supplied by external credit agencies, historical default rates and historical default loss percentage to estimate 12-month or lifetime expected credit losses. HNSC's current credit risk grading framework comprises the following categories:

Category	Description	Basis for Recognizing Expected Credit Losses	Expected Loss Rate	Gross Carrying Amount at December 31
Stage 1	Credit rating is above the investment grade on record date and there has not been a significant increase in credit risk	12-month ECL	0%-0.174%	\$ 8,013,347
Stage 2	Credit rating is below the investment grade on record date and there has been a significant increase in credit risk	Lifetime ECL - not credit-impaired	-	-
Stage 3	Credit rating is Ca/CC on record date	Lifetime ECL - credit-impaired	-	-

In order to maintain the credit risk under a sustainable range, SCIC adopted a policy to only invests debt instruments which credit rating is above the investment grade and credit risk is evaluated low during impairment evaluation. SCIC subsequently follows up information provided by external rating agencies, as to monitor the credit risk changes of its debt investment. Meanwhile SCIC also follows up market yield curve and debtor's related significant information to evaluate if there has been a significant increase in credit risk after initial recognition.

SCIC assigned a team especially responsible in considering the credit evaluation supplied by external rating agencies, historical default rates and historical default loss percentage to estimate 12-month or lifetime expected credit losses. SCIC's current credit risk grading framework comprises the following categories:

Category	Description	Basis for Recognizing Expected Credit Losses	Expected Loss Rate	Gross Carrying Amount at December 31
Stage 1	Debtor has low credit risk or its credit risk has not increase significantly, and has sufficient capability to repay	12-month ECL	0.0242%-0.9139%	\$ 5,310,956
Stage 2	There has been a significant increase in credit risk since initial recognition	Lifetime ECL - not credit-impaired	-	-
Stage 3	There is evidence indicating the asset is credit-impaired	Lifetime ECL - credit-impaired	-	-
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Company and its subsidiaries has no realistic prospect of recovery	Direct writing off	-	-

The allowance for impairment loss of investments in debt instruments as at fair value through other comprehensive income and at amortized cost as at January 1, and December 31, grouped by credit rating is reconciled as follows:

Allowance for Impairment Loss	Credit Rating		
	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL - Not Credit-impaired)	Stage 3 (Lifetime ECL -Credit-impaired)
Balance at January 1, 2018 per IAS 39	\$ -	\$ -	\$ -
Effect of application	93,850	-	-
Balance at January 1, 2018 per IFRS 9	93,850	-	-
Transfers			
From stage 1 to stage 2	-	-	-
From stage 2 to stage 3	-	-	-
From stage 3 to write-off	-	-	-
New financial assets purchased	27,672	-	-
Derecognition	(22,168)	-	-
Change in model or risk parameters	62	-	-
Change in exchange rates or others	363	-	-
Balance at December 31, 2018	\$ 99,779	\$ -	\$ -

12. SECURITIES PURCHASED UNDER RESELL AGREEMENTS

	December 31	
	2018	2017
Investments in bill	\$ 489,059	\$ 601,507

Securities purchased under resell agreements as of December 31, 2018 and 2017 were expired in January 2019 and 2018 the amount agreed to resell were \$489,200 and \$601,556, respectively.



13. RECEIVABLES, NET

	December 31	
	2018	2017
Accounts receivable	\$ 8,332,651	\$ 11,026,121
Credit card receivables	8,154,576	7,727,830
Margin loans receivable	8,078,805	11,000,016
Receivable from PEM Group incident (Note 51)	7,513,651	7,167,571
Interest receivables	5,481,596	4,813,116
Acceptances	3,932,258	4,125,591
Receivables factoring - without recourse	498,300	541,253
Option receivables - nominal amounts	441,734	118,444
Buy the overdue receivables	43,429	117,942
Others	3,818,210	3,561,596
	46,295,210	50,199,480
Allowance for impairment losses	(5,037,753)	(5,001,160)
	<u>\$ 41,257,457</u>	<u>\$ 45,198,320</u>

The movements of the allowance for impairment losses were as follows:

	For the Year Ended December 31	
	2018	2017
Balance, beginning of the year	\$ 5,001,160	\$ 5,351,952
Effect of application	(83,538)	-
Balance at January 1, 2018 per IFRS 9	4,917,622	5,351,952
Provision	382,119	767,017
Write-off	(105,197)	(66,989)
Reclassification	(159,835)	(1,047,556)
Recoveries of bad debts	2,598	3,429
Foreign exchange gains and losses	446	(6,693)
Balance, end of the year	<u>\$ 5,037,753</u>	<u>\$ 5,001,160</u>

As of December 31, 2017, the overdue receivables which the Company and its subsidiaries bought are as at fair value through profit or loss because the objective of the Company and its subsidiaries' business model is not to collect contractual cash flows and neither is achieved by both collecting contractual cash flows and selling financial assets; related information are disclosed in Note 52. Account receivable's credit risk related to managing information of the Company and its subsidiaries' account receivables are disclosed in Note 54.

14. DISCOUNTS AND LOANS, NET

	December 31	
	2018	2017
Short-term loans and overdraft	\$ 256,761,797	\$ 228,790,593
Secured short-term loans and secured overdraft	247,633,470	242,620,087
Medium-term loans	309,793,740	306,159,471
Secured medium-term loans	122,835,791	120,937,606
Long-term loans	23,106,896	22,874,958
Secured long-term loans	676,324,727	666,973,997
Discounts and import and export bill negotiation	4,729,320	6,886,083
Nonperforming loans	2,443,175	6,097,060
Receivables financing	99,526	170,449
	<u>1,643,728,442</u>	<u>1,601,510,304</u>
Allowance for impairment loss	(20,515,537)	(19,317,172)
Adjustment of premium or discount	<u>104,944</u>	<u>150,969</u>
	<u>\$ 1,623,317,849</u>	<u>\$ 1,582,344,101</u>

The unrecognized interest revenue on nonperforming loans transferred from loans of HNCB amounted to \$81,511 and \$127,216 for the years ended December 31, 2018 and 2017, respectively.

HNCB wrote off credits only after completing the required legal procedures for the years ended December 31, 2018 and 2017.

The movement of the allowances for impairment loss were as follows:

	For the Year Ended December 31	
	2018	2017
Balance, beginning of the year	\$ 19,317,172	\$ 18,736,908
Provision	6,338,267	6,646,990
Write-off	(5,178,661)	(5,928,058)
Reclassification	(61,067)	(2,526)
Effect of exchange rate changes	<u>99,826</u>	<u>(136,142)</u>
Balance, end of the year	<u>\$ 20,515,537</u>	<u>\$ 19,317,172</u>

The Company and its subsidiaries have recovered the written-off credits amounted to \$3,096,849 and \$2,962,754 for the years ended December 31, 2018 and 2017, classified as the deduction of allowances.

Discounts and loans' credit risk related to managing information of the Company and its subsidiaries are disclosed in Note 54.

15. AVAILABLE-FOR-SALE FINANCIAL ASSETS, NET - 2017

	December 31, 2017
Bank debentures	\$ 52,552,401
Government bonds	46,516,932
Corporate bonds	31,997,250
Listed stocks	13,657,144
Negotiable certificates of deposits	3,712,663
Beneficiary certificates	1,146,322
Treasury bills	89,036
Less: Refundable deposits	<u>(197,070)</u>
	<u>\$ 149,474,678</u>

The principal of bond investments amounting to \$10,877,280 as of December 31, 2017, had been sold under repurchase agreements.

The amounts of the available-for-sale financial assets pledged as of December 31, 2017, are disclosed in Note 49.

16. HELD-TO-MATURITY FINANCIAL ASSETS, NET - 2017

	December 31, 2017
Negotiable certificates of deposits	\$ 278,216,517
Government bonds	49,848,107
Bank debentures	35,075,300
Corporate bonds	16,528,916
Treasury bills	1,246,770
Less: Refundable deposits	(99,711)
	<u>\$ 380,815,899</u>

The principal of bond investments amounting to \$25,559,800 as of December 31, 2017, had been sold under repurchase agreements.

The amounts of the held-to-maturity financial assets pledged as of December 31, 2017, are disclosed in Note 49.

17. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD, NET

	December 31			
	2018		2017	
	Amount	%	Amount	%
Associates that are not individually material				
Chung-Hua Real Estate Management Co., Ltd.	\$ 60,459	30.00	\$ 57,128	30.00
Ya-Wo International Development Co., Ltd.	<u>50,265</u>	29.80	<u>-</u>	-
	<u>\$ 110,724</u>		<u>\$ 57,128</u>	

The summarized financial information in respect of the Company and its subsidiaries' associates, which are not individually material, was set out below:

	For the Year Ended December 31	
	2018	2017
The Company and its subsidiaries' share of:		
Income (loss) from continuing operations	\$ 4,426	\$ (537)
Other comprehensive income	<u>-</u>	<u>-</u>
Total comprehensive income (loss) for the year	<u>\$ 4,426</u>	<u>\$ (537)</u>

As of July 2018, Hua Nan Venture Capital Co., Ltd. (HNVC) has invested \$25,032 and obtained 29.8% of the ownership in Ya-Wo International Development Co., Ltd. (Ya-Wo). In August 2018, Ya-Wo issued common stocks for cash, amounting to \$81,000. HNVC purchased \$24,138 and remained to same percentage of ownership.

The Company and its subsidiaries' share of profit and other comprehensive income of the associate for the years ended December 31, 2018 and 2017 were not based on the associate's financial statements audited by the auditors for the same years.

18. OTHER FINANCIAL ASSETS, NET

	December 31	
	2018	2017
Time deposits no qualified for cash equivalents	\$ 24,473,006	\$ 18,219,362
Security Leading margin	3,236,427	1,335,682
Customers' margin account	2,034,314	1,644,673
Long-term receivables, net	394,537	341,543
Nonperforming loans transferred from other than loans, net	207,471	253,919
Bonds investments with no active market, net	-	14,231,039
Financial assets carried at cost, net	-	5,582,464
Others	17,947	26,285
	<u>\$ 30,363,702</u>	<u>\$ 41,634,967</u>

The above financial assets which carried at cost, that held by the Company and its subsidiaries on December 31 2017, were measured at cost less impairment at the end of reporting period. The management consider the fair value can not be reasonably measure due to the fact that the range of unlisted equity investments' reasonable fair value estimation was significant, and the management are unavailable to reasonably evaluate the percentage of every estimation.

HNVC recognized an impairment loss of \$12,870 for the year ended December 31, 2017, because of investees' reduction in capital, poor operation and the estimated recoverable amount of financial assets being lower than its carrying amount.

HNVC sold financial asset valued at cost as book value \$252,496, and recognized disposal gain \$3,520.

The principal of bond investments with no active market had not been sold under repurchase agreements as of December 31, 2017.

The amounts of the financial assets carried at cost pledged as of December 31, 2017, are disclosed in Note 49.

19. PROPERTY AND EQUIPMENT, NET

	December 31	
	2018	2017
Land	\$ 21,115,457	\$ 21,091,864
Buildings	8,686,374	8,727,298
Computer and Machinery	1,171,117	1,157,731
Transportation equipment	219,695	245,330
Other equipment	783,303	678,924
Lease improvements	119,848	131,926
Construction in progress and prepayment for equipment, land and buildings	168,261	485,508
	<u>\$ 32,264,055</u>	<u>\$ 32,518,581</u>

The movements of property and equipment were as follows:

	For the Year Ended December 31, 2018							
	Land	Buildings	Computer and Machinery	Transportation Equipment	Other Equipment	Lease Improvements	Construction in Progress and Prepayment for Equipment, Land and Buildings	Total
<u>Cost</u>								
Balance, beginning of the year	\$ 21,091,864	\$ 15,438,798	\$ 6,029,201	\$ 1,086,061	\$ 3,127,191	\$ 265,166	\$ 485,508	\$ 47,523,789
Additions	-	15,921	307,734	39,034	86,253	9,331	366,323	824,596
Decrease	-	-	(168,864)	(32,188)	(30,833)	(12,755)	-	(244,640)
Reclassification	23,593	252,158	51,462	6,934	231,934	23,321	(683,570)	(94,168)
Effect of exchange rate changes	-	-	1,197	432	1,042	554	-	3,225
Balance, end of the year	<u>21,115,457</u>	<u>15,706,877</u>	<u>6,220,730</u>	<u>1,100,273</u>	<u>3,415,587</u>	<u>285,617</u>	<u>168,261</u>	<u>48,012,802</u>
<u>Accumulated depreciation</u>								
Balance, beginning of the year	-	6,711,500	4,871,470	840,731	2,448,267	133,240	-	15,005,208
Depreciation	-	310,340	345,699	71,611	213,599	44,441	-	985,690
Decrease	-	-	(168,450)	(32,188)	(30,583)	(12,505)	-	(243,726)
Reclassification	-	(1,337)	-	(14)	14	-	-	(1,337)
Effect of exchange rate changes	-	-	894	438	987	593	-	2,912
Balance, end of the year	-	<u>7,020,503</u>	<u>5,049,613</u>	<u>880,578</u>	<u>2,632,284</u>	<u>165,769</u>	-	<u>15,748,747</u>
Net amount	<u>\$ 21,115,457</u>	<u>\$ 8,686,374</u>	<u>\$ 1,171,117</u>	<u>\$ 219,695</u>	<u>\$ 783,303</u>	<u>\$ 119,848</u>	<u>\$ 168,261</u>	<u>\$ 32,264,055</u>

	For the Year Ended December 31, 2017							
	Land	Buildings	Computer and Machinery	Transportation Equipment	Other Equipment	Lease Improvements	Construction in Progress and Prepayment for Equipment, Land and Buildings	Total
<u>Cost</u>								
Balance, beginning of the year	\$ 20,959,818	\$ 15,510,398	\$ 6,099,473	\$ 1,094,394	\$ 3,090,118	\$ 227,631	\$ 91,154	\$ 47,072,986
Additions	-	11,992	383,932	23,518	58,535	64,935	463,346	1,006,258
Decrease	-	-	(455,050)	(30,972)	(35,499)	(36,007)	-	(557,528)
Reclassification	132,046	(83,592)	12,492	494	18,149	23,923	(70,051)	33,461
Effect of exchange rate changes	-	-	(11,646)	(1,373)	(4,112)	(15,316)	1,059	(31,388)
Balance, end of the year	<u>21,091,864</u>	<u>15,438,798</u>	<u>6,029,201</u>	<u>1,086,061</u>	<u>3,127,191</u>	<u>265,166</u>	<u>485,508</u>	<u>47,523,789</u>
<u>Accumulated depreciation</u>								
Balance, beginning of the year	-	6,446,148	5,014,760	802,691	2,285,897	153,818	-	14,703,314
Depreciation	-	286,952	319,989	69,890	200,582	29,681	-	907,094
Decrease	-	-	(453,455)	(30,972)	(35,133)	(36,007)	-	(555,567)
Reclassification	-	(21,600)	-	-	-	-	-	(21,600)
Effect of exchange rate changes	-	-	(9,824)	(878)	(3,079)	(14,252)	-	(28,033)
Balance, end of the year	-	<u>6,711,500</u>	<u>4,871,470</u>	<u>840,731</u>	<u>2,448,267</u>	<u>133,240</u>	-	<u>15,005,208</u>
Net amount	<u>\$ 21,091,864</u>	<u>\$ 8,727,298</u>	<u>\$ 1,157,731</u>	<u>\$ 245,330</u>	<u>\$ 678,924</u>	<u>\$ 131,926</u>	<u>\$ 485,508</u>	<u>\$ 32,518,581</u>

- a. Depreciation expense of HNCB \$3,068 was included in the account of employees' training expense for the years ended December 31, 2018 and 2017. Apportionment of depreciation expense from HNCB to its landlord were \$2,903 and \$601 for the years ended December 31, 2018 and 2017, respectively. Apportionment of depreciation expense from HNCB to HNFH were \$943 and \$20,134 for the years ended December 31, 2018 and 2017.
- b. The amounts of property and equipment pledged as collateral as of December 31, 2018 and 2017 are disclosed in Note 49.
- c. The above items of property and equipment were depreciated on straight line basis over the estimated useful life of the asset:

Buildings	6-57 years
Computer and machinery	2-6 years
Transportation equipment	4-9 years
Other equipment	3-16 years
Lease improvements	The shorter of 1-7 years or lease period

20. INVESTMENT PROPERTIES, NET

	December 31	
	2018	2017
Land	\$ 8,724,185	\$ 8,208,643
Buildings	1,854,566	1,617,750
Construction in progress	334,414	-
Others	9,832	11,151
	<u>\$ 10,922,997</u>	<u>\$ 9,837,544</u>

The movements of investment properties were as follows:

	For the Year Ended December 31	
	2018	2017
<u>Cost</u>		
Balance, beginning of the year	\$ 10,878,734	\$ 10,573,039
Additions	1,606,250	615,788
Decrease	(514,485)	(255,176)
Reclassification	46,842	(54,917)
Balance, end of the year	<u>12,017,341</u>	<u>10,878,734</u>
<u>Accumulated depreciation and impairment</u>		
Balance, beginning of the year	1,041,190	939,942
Depreciation	69,683	73,084
Impairment losses	-	47,890
Decrease	(17,866)	(41,326)
Reclassification	1,337	21,600
Balance, end of the year	<u>1,094,344</u>	<u>1,041,190</u>
Investment properties, net	<u>\$ 10,922,997</u>	<u>\$ 9,837,544</u>

- a. The investment properties held by the Company and its subsidiaries were depreciated over 6-56 years, using the straight-line method.
- b. The fair value of HNCB's, HNSC's and HNAME's investment properties as of December 31, 2018 and 2017 were \$29,538,417 and \$24,510,225, respectively. The fair value was not performed by independent qualified professional valuers. Management of the Company and its subsidiaries evaluated fair value based on market evidence of similar properties transaction's price, local market price, or the model that market participants would use in determining fair value. The fair value of SCIC's investment properties amounting to \$631,044 and \$545,563 as of December 31, 2018 and 2017. The fair value of properties was regarded effective on December 31, 2018 by SCIC management after reviewing the validity of appraisal report on December 31, 2016 and the rental price in adjacent area. The fair value of properties was regarded effective on December 31, 2017 by SCIC management after reviewing the validity of appraisal report on December 31, 2016 and the rental price in adjacent area. The fair value of HNAME's investment properties as of December 31, 2018 and 2017 were \$1,638,983 and \$1,723,507, respectively. The fair value was based on the evaluation conducted by the independent expert on the above dates. The fair value of investment properties was valued using the market and income approach.
- c. The accumulated impairment of investment properties as of December 31, 2018 and 2017 was \$24,638.
- d. For the years ended December 31, 2018 and 2017, the rental income from investment properties were \$524,146 and \$486,768, respectively. For the years ended December 31, 2018 and 2017, the gain on disposal of investment properties were \$76,718 and \$23,928, respectively. For the years ended December 31, 2018 and 2017, the direct operating expenses were \$129,098 and \$133,966, respectively.

21. INTANGIBLE ASSETS, NET

	December 31	
	2018	2017
Computer software	\$ 663,713	\$ 442,074
Goodwill	40,662	40,662
Others	57,669	82,496
	<u>\$ 762,044</u>	<u>\$ 565,232</u>

The movements of goodwill were as follows:

	For the Year Ended December 31	
	2018	2017
<u>Cost</u>		
Balance, beginning of the year	\$ 502,275	\$ 502,275
Balance, end of the year	<u>502,275</u>	<u>502,275</u>
<u>Accumulated amortization</u>		
Balance, beginning of the year	441,241	441,241
Balance, end of the year	<u>441,241</u>	<u>441,241</u>
<u>Accumulated impairment</u>		
Balance, beginning of the year	20,372	20,372
Balance, end of the year	<u>20,372</u>	<u>20,372</u>
	<u>\$ 40,662</u>	<u>\$ 40,662</u>

HNSC recognized goodwill at the excess of the contract price paid over the fair value of assets acquired. The accumulated impairment was \$20,372. Except for the aforementioned accumulated impairment, HNSC estimated no other impairment losses as of December 31, 2018 and 2017.

The movements of computer software and others were as follows:

	For the Year Ended December 31	
	2018	2017
<u>Cost</u>		
Balance, beginning of the year	\$ 2,658,573	\$ 2,506,761
Additions	318,133	164,349
Decrease	(53,132)	(5,003)
Reclassification	96,908	20,418
Effect of exchange rate changes	691	(27,952)
Balance, end of the year	<u>3,021,173</u>	<u>2,658,573</u>
<u>Accumulated amortization</u>		
Balance, beginning of the year	2,134,003	1,988,779
Amortization	218,178	176,865
Impairment loss	1,500	-
Decrease	(54,535)	(4,996)
Effect of exchange rate changes	645	(26,645)
Balance, end of the year	<u>2,299,791</u>	<u>2,134,003</u>
Net amount	<u>\$ 721,382</u>	<u>\$ 524,570</u>

Apportionment of amortization expense from HNCB to HNFH were \$9,626 and \$16 for the years ended December 31, 2018 and 2017.

For the year ended December 31, 2018, the management of SCIC expected there was no future economic benefits from the part of the intangible asset, and thus recognized impairment \$1,500 for all.

The above intangible assets with limited useful lives are amortized on a straight-line basis by the useful lives as follows:

Computer software	3-5 years
Others	5-10 years

22. OTHER ASSETS, NET

	December 31	
	2018	2017
Refundable deposits	\$ 1,310,581	\$ 1,448,810
Operating deposits and settlement fund	675,343	708,404
Prepayments	340,144	377,699
Pledged assets	217,500	157,500
Temporary payments and suspense accounts	118,341	48,532
Others, net	<u>237,250</u>	<u>261,349</u>
	<u>\$ 2,899,159</u>	<u>\$ 3,002,294</u>

- a. For the year ended December 31, 2018, the management of SCIC expected there was no future economic benefits from part of the refundable deposit, and thus recognized impairment \$2,500 for all.
- b. The amounts of the other assets pledged as of December 31, 2018 and 2017 are disclosed in Note 49.

23. DEPOSITS FROM THE CENTRAL BANK AND BANKS

	December 31	
	2018	2017
Call loans from banks	\$ 127,217,302	\$ 78,473,119
Overdraft	2,456,430	3,645,436
Deposits from banks	1,720,877	776,835
Deposits from the Central Bank	71,409	51,922
Deposits from Chunghwa Post Co., Ltd.	801,023	1,179,748
	<u>\$ 132,267,041</u>	<u>\$ 84,127,060</u>

24. COMMERCIAL PAPER PAYABLE, NET

- a. Commercial paper

Institution	December 31	
	2018	2017
Bank SinoPac	\$ 5,000,000	\$ 6,000,000
Yuanta Commercial Bank	3,900,000	-
Taishin International Bank Corp.	2,500,000	4,210,000
Mega Bills Finance Corp.	2,452,000	1,218,000
Union Bank of Taiwan Corp.	500,000	1,800,000
Taiwan Cooperative Bills Finance Corp.	384,000	870,000
China Bills Finance Corp.	387,000	2,744,000
Taiwan Finance Corp.	309,000	549,000
Grand Bills Finance Corp.	300,000	2,157,000
International Bills Finance Corp.	200,000	2,800,000
Dah Chung Bills Finance Corp.	35,000	1,000,000
KGI Commercial Bank Co., Ltd.	-	1,600,000
Ta Ching Bill Finance Corp.	-	1,300,000
Taipei Fubon Commercial Bank Co., Ltd.	-	1,200,000
Far Eastern International Bank Ltd.	-	91,000
Discount of commercial paper payable	(16,531)	(14,107)
	<u>\$ 15,950,469</u>	<u>\$ 27,524,893</u>

- b. Ranges of annual interest rates of the commercial paper payable were 0.63%-1.25% and 0.47%-0.938% as of December 31, 2018 and 2017, respectively.
- c. Regarding the above mentioned commercial paper payable, except non-guarantee issuers, are with guarantee or acceptance by bills finance companies and banks and related collaterals of commercial paper payable, please refer to Note 49.

25. SECURITIES SOLD UNDER REPURCHASE AGREEMENTS

The amounts of securities sold under repurchase agreements were \$46,323,247 and \$40,797,559 as of December 31, 2018 and 2017, respectively. Ranges of interest rates were 0.24%-3.00% and 0.20%-2.50% as of December 31, 2018 and 2017, respectively. The maturity date of securities sold under repurchase agreements were November 2019 and September 2018, respectively.

26. PAYABLES

	December 31	
	2018	2017
Notes and checks in clearing	\$ 13,348,984	\$ 14,337,325
Accounts payable	7,692,002	10,120,111
Accrued expenses	4,996,257	3,593,693
Acceptances	4,173,894	4,605,652
Interests payable	3,379,007	2,550,828
Short sales proceeds payable	1,753,089	1,492,352
Deposit for short sales	1,604,287	1,355,653
Collections for others	1,303,106	1,264,320
Dividends payable	526,540	510,465
Options payables - nominal amounts	444,831	118,445
Payable - factoring	183,395	175,481
Others	4,075,923	3,684,264
	<u>\$ 43,481,315</u>	<u>\$ 43,808,589</u>

27. DEPOSITS AND REMITTANCES

	December 31	
	2018	2017
Checking account deposits	\$ 59,279,711	\$ 60,043,719
Demand deposits	597,829,403	572,354,132
Time deposits	460,479,356	433,077,169
Negotiable certificates of deposits	27,458,634	44,687,200
Savings deposits	1,009,531,341	999,594,423
Remittances	1,072,006	1,205,577
	<u>\$ 2,155,650,451</u>	<u>\$ 2,110,962,220</u>

28. BONDS PAYABLE

	December 31	
	2018	2017
Bank debentures	\$ 41,700,000	\$ 43,550,000
Corporate debentures	16,900,000	9,900,000
Discount of corporate debentures	(10,977)	(1,550)
	<u>\$ 58,589,023</u>	<u>\$ 53,448,450</u>

a. Bank debentures as of December 31, 2018 and 2017 were as follow:

	December 31	
	2018	2017
95-3 term twelve-year subordinated debenture; 2.6% fixed rate; maturity on September 26, 2018	\$ -	\$ 1,050,000
98-3 term subordinated debenture without maturity date; from the first to tenth year: 3.3% fixed rate after the tenth year: 4.3% fixed rate; redeemable after December 9, 2019	3,000,000	3,000,000
99-1 term ten-year subordinated debenture; 1.65% fixed rate; maturity on November 23, 2020	5,000,000	5,000,000
100-1 term seven-year subordinated debenture; 1.63% fixed rate; maturity on December 6, 2018	-	5,000,000
101-1A term seven-year subordinated debenture; 1.43% fixed rate; maturity on November 6, 2019	1,300,000	1,300,000
101-1B term ten-year subordinated debenture; 1.55% fixed rate; maturity on November 6, 2022	3,700,000	3,700,000
103-1 term ten-year subordinated debenture; 1.85% fixed rate; maturity on March 28, 2024	4,300,000	4,300,000
103-2A term seven-year subordinated debenture; 1.83% fixed rate; maturity on September 26, 2021	3,900,000	3,900,000
103-2B term ten-year subordinated debenture; 1.98% fixed rate; maturity on September 26, 2024	4,000,000	4,000,000
103-3A term seven-year subordinated debenture; 1.83% fixed rate; maturity on December 19, 2021	900,000	900,000
103-3B term ten-year subordinated debenture; 1.98% fixed rate; maturity on December 19, 2024	1,900,000	1,900,000
104-1 term subordinated debenture without maturity date; 3.3% fixed rate; redeemable after May 28, 2020	3,200,000	3,200,000
105-1 term ten-year subordinated debenture; 1.55% fixed rate; maturity on March 30, 2026	1,700,000	1,700,000
105-2 term ten-year subordinated debenture; 1.2% fixed rate; maturity on September 23, 2026	1,800,000	1,800,000
106-1 term subordinated debenture without maturity date; 3.15% fixed rate; redeemable after March 30, 2022	2,800,000	2,800,000
107-1 term subordinated debenture without maturity date; 2.7% fixed rate; maturity on May 26, 2023	3,200,000	-
107-2 term three-year dominant debenture; 0.69% fixed rate; maturity on April 25, 2021	1,000,000	-
	<u>\$ 41,700,000</u>	<u>\$ 43,550,000</u>

b. Corporate bonds as of December 31, 2018 and 2017 were as follow:

In January 2018, HNFH issued 106-1 unsecured dominant corporate bonds with a face value of \$7,000,000 and a coupon rate of 0.92%. The corporate bond will mature in five years, and principal is repayable on maturity date. Interest is payable annually.

In January 2018, HNFH issued 106-1 unsecured subordinated corporate bonds with a face value of \$5,000,000 and a coupon rate of 1.75%. The corporate bond will mature in ten years, and principal is repayable on maturity date. Interest is payable annually.

In January 2013, HNFH issued 101-1 unsecured dominant corporate bonds with a face value of \$5,000,000 and a coupon rate of 1.23%. The corporate bond will mature in five years, and principal is repayable on maturity date. Interest is payable annually.

In January 2013, HNFH issued 101-1 unsecured subordinated corporate bonds with a face value of \$4,900,000 and a coupon rate of 1.55%. The corporate bond will mature in seven years, and principal is repayable on maturity date. Interest is payable annually.

29. OTHER BORROWINGS

a. Short-term debts

Character of Debts	December 31	
	2018	2017
Credit loans	\$ 636,000	\$ 378,000
Guaranteed loans	\$ 985,000	\$ 25,000

b. Long-term debts

Character of Debts	December 31	
	2018	2017
Credit loans	\$ 500,000	\$ 300,000

- c. The ranges of interest rate of other borrowings were 0.65%-1.25%, 0.60%-1.25% as of December 31, 2018 and 2017, respectively. The maturity date of other borrowings were August 2021 and May 2019.
- d. The aforementioned related collaterals of other borrowings please refer to Note 49.

30. PROVISIONS

	December 31	
	2018	2017
Reserves of insurance industry	\$ 11,737,106	\$ 11,712,507
Provisions for employee benefits	6,206,672	5,958,332
Provision for loan commitment	1,386,283	-
Reserve for losses on guarantees	610,450	750,077
Others	27,146	26,646
	<u>\$ 19,967,657</u>	<u>\$ 18,447,562</u>

Reserves of insurance industry were summarized below:

Unearned Premium Reserve

- a. Details of unearned premium reserve are as follows:

	December 31	
	2018	2017
One-year commercial fire insurance	\$ 243,911	\$ 239,170
Personal automobile property damage insurance	1,280,182	1,318,993
Personal automobile liabilities insurance	712,517	657,294
Compulsory personal automobile liabilities insurance	249,782	234,484
Injury insurance	445,083	359,290
Other insurance	1,432,115	1,254,100
	<u>\$ 4,363,590</u>	<u>\$ 4,063,331</u>

The balances which exceed 5% of the balance of the account are as above.

- b. Details of unearned premium reserve and ceded unearned premium reserve are as follows:

	December 31, 2018				
	Unearned Premium Reserve		Ceded Unearned Premium Reserve	Retention	
	Direct Insurance	Assumed Reinsurance Business	Ceded Reinsurance Business		
Fire insurance	\$ 687,845	\$ 25,197	\$ 356,112	\$ 356,930	
Marine insurance	90,568	(602)	104,521	(14,555)	
Motor insurance	2,403,478	140,045	655,762	1,887,761	
Casualty insurance	395,224	23,759	178,674	240,309	
Health and injury insurance	458,779	2,025	37,304	423,500	
Foreign inward business insurance	-	137,272	554	136,718	
	<u>\$ 4,035,894</u>	<u>\$ 327,696</u>	<u>\$ 1,332,927</u>	<u>\$ 3,030,663</u>	

	December 31, 2017			
	Unearned Premium Reserve		Ceded Unearned Premium Reserve	Retention
	Direct Insurance	Assumed Reinsurance Business	Ceded Reinsurance Business	
Fire insurance	\$ 580,615	\$ 27,531	\$ 216,271	\$ 391,875
Marine insurance	102,209	(985)	70,968	30,256
Motor insurance	2,374,596	138,341	646,690	1,866,247
Casualty insurance	389,260	20,645	182,454	227,451
Health and injury insurance	368,690	1,823	12,276	358,237
Foreign inward business insurance	-	60,606	-	60,606
	<u>\$ 3,815,370</u>	<u>\$ 247,961</u>	<u>\$ 1,128,659</u>	<u>\$ 2,934,672</u>

c. The movements of unearned premium reserve and ceded unearned premium reserve are as follows:

	For the Year Ended December 31			
	2018		2017	
	Unearned Premium Reserve	Ceded Unearned Premium Reserve	Unearned Premium Reserve	Ceded Unearned Premium Reserve
Balance, beginning of the year	\$ 4,063,331	\$ 1,128,659	\$ 4,018,778	\$ 1,196,393
Provision	4,361,271	1,332,927	4,063,331	1,128,659
Release	(4,064,040)	(1,128,659)	(4,018,778)	(1,196,393)
Exchange difference	<u>3,028</u>	<u>-</u>	<u>-</u>	<u>-</u>
Balance, end of the year	<u>\$ 4,363,590</u>	<u>\$ 1,332,927</u>	<u>\$ 4,063,331</u>	<u>\$ 1,128,659</u>

Claims Reserve

a. Details of claims reserve are as follows:

	December 31	
	2018	2017
One-year commercial fire insurance	\$ 372,775	\$ 413,001
Hull insurance	756,724	932,223
Personal automobile property damage insurance	455,504	454,440
Personal automobile liability insurance	806,036	798,271
Compulsory personal automobile liability insurance	439,360	428,062
General liability insurance	362,823	400,556
Other insurance	<u>1,429,728</u>	<u>1,524,537</u>
	<u>\$ 4,622,950</u>	<u>\$ 4,951,090</u>

The balances which exceed 5% of the balance of the account are as above.

b. Details of claims reserve and ceded claims reserve are as follows:

	December 31, 2018				
	Claim Reserve		Ceded Claims Reserve	Retention	
	Direct Underwriting Business	Assumed Reinsurance Business	Ceded Reinsurance Business		
<u>Reported but not paid</u>					
Fire insurance	\$ 447,680	\$ 8,466	\$ 306,461	\$ 149,685	
Marine insurance	879,505	26,214	821,117	84,602	
Motor insurance	1,580,535	54,880	401,112	1,234,303	
Casualty insurance	560,319	4,763	265,933	299,149	
Health and injury insurance	53,986	11	3,773	50,224	
Foreign inward business insurance	-	104,644	-	104,644	
	<u>3,522,025</u>	<u>198,978</u>	<u>1,798,396</u>	<u>1,922,607</u>	
<u>Incurred but not reported</u>					
Fire insurance	33,953	506	20,401	14,058	
Marine insurance	59,174	5,052	51,832	12,394	
Motor insurance	335,582	141,346	181,883	295,045	
Casualty insurance	150,622	7,170	63,818	93,974	
Health and injury insurance	161,616	824	17,805	144,635	
Foreign inward business insurance	-	6,102	-	6,102	
	<u>740,947</u>	<u>161,000</u>	<u>335,739</u>	<u>566,208</u>	
	\$ 4,262,972	\$ 359,978	\$ 2,134,135	\$ 2,488,815	

	December 31, 2017			
	Claim Reserve		Ceded Claims Reserve	Retention
	Direct Underwriting Business	Assumed Reinsurance Business	Ceded Reinsurance Business	
<u>Reported but not paid</u>				
Fire insurance	\$ 675,484	\$ 20,521	\$ 416,792	\$ 279,213
Marine insurance	929,164	21,768	854,181	96,751
Motor insurance	1,606,608	56,260	418,274	1,244,594
Casualty insurance	569,964	11,434	262,356	319,042
Health and injury insurance	68,257	11	5,355	62,913
Foreign inward business insurance	-	53,602	-	53,602
	<u>3,849,477</u>	<u>163,596</u>	<u>1,956,958</u>	<u>2,056,115</u>
<u>Incurred but not reported</u>				
Fire insurance	\$ 33,853	\$ 699	\$ 23,047	\$ 11,505
Marine insurance	100,078	10,746	92,475	18,349
Motor insurance	369,573	136,636	195,434	310,775
Casualty insurance	148,387	6,390	62,419	92,358
Health and injury insurance	129,614	697	11,844	118,467
Foreign inward business insurance	-	1,344	-	1,344
	<u>781,505</u>	<u>156,512</u>	<u>385,219</u>	<u>552,798</u>
	<u>\$ 4,630,982</u>	<u>\$ 320,108</u>	<u>\$ 2,342,177</u>	<u>\$ 2,608,913</u>

c. The movements of claims reserve and ceded claims reserve are as follows:

	For the Year Ended December 31			
	2018		2017	
	Claims Reserve	Ceded Claims Reserve	Claims Reserve	Ceded Claims Reserve
Balance, beginning of the year	\$ 4,951,090	\$ 2,342,177	\$ 4,889,421	\$ 2,413,245
Provision	4,621,417	2,134,135	4,951,090	2,342,177
Release	(4,951,392)	(2,342,177)	(4,889,421)	(2,413,245)
Exchange difference	1,835	-	-	-
Balance, end of the year	<u>\$ 4,622,950</u>	<u>\$ 2,134,135</u>	<u>\$ 4,951,090</u>	<u>\$ 2,342,177</u>

d. The movements of claims reserve and ceded claims reserve are as follows:

	For the Year Ended December 31, 2018							
	Direct Underwriting		Assumed Reinsurance		Net Change	Ceded Reinsurance		Net Change
	Business		Business			Business		
	Provision	Release	Provision	Release		Provision	Release	
<u>Reported but not paid</u>								
Fire insurance	\$ 447,680	\$ 675,484	\$ 8,466	\$ 20,521	\$(239,859)	\$ 306,461	\$ 416,792	\$(110,331)
Marine insurance	879,505	929,164	26,214	21,768	(45,213)	821,117	854,181	(33,064)
Motor insurance	1,580,535	1,606,608	54,880	56,260	(27,453)	401,112	418,274	(17,162)
Casualty insurance	560,319	569,964	4,763	11,434	(16,316)	265,933	262,356	3,577
Health and injury insurance	53,986	68,257	11	11	(14,271)	3,773	5,355	(1,582)
Foreign inward business insurance	-	-	103,206	53,899	49,307	-	-	-
	<u>3,522,025</u>	<u>3,849,477</u>	<u>197,540</u>	<u>163,893</u>	<u>(293,805)</u>	<u>1,798,396</u>	<u>1,956,958</u>	<u>(158,562)</u>
<u>Incurred but not reported</u>								
Fire insurance	33,953	33,853	506	699	(93)	20,401	23,047	(2,646)
Marine insurance	59,174	100,078	5,052	10,746	(46,598)	51,832	92,475	(40,643)
Motor insurance	335,582	369,573	141,346	136,636	(29,281)	181,883	195,434	(13,551)
Casualty insurance	150,622	148,387	7,170	6,390	3,015	63,818	62,419	1,399
Health and injury insurance	161,616	129,614	824	697	32,129	17,805	11,844	5,961
Foreign inward business insurance	-	-	6,007	1,349	4,658	-	-	-
	<u>740,947</u>	<u>781,505</u>	<u>160,905</u>	<u>156,517</u>	<u>(36,170)</u>	<u>335,739</u>	<u>385,219</u>	<u>(49,480)</u>
	<u>\$ 4,262,972</u>	<u>\$ 4,630,982</u>	<u>\$ 358,445</u>	<u>\$ 320,410</u>	<u>\$(329,975)</u>	<u>\$ 2,134,135</u>	<u>\$ 2,342,177</u>	<u>\$(208,042)</u>

	For the Year Ended December 31, 2017								
	Direct Underwriting		Assumed Reinsurance		Net Change	Ceded Reinsurance		Net Change	
	Business		Business			Business			
	Provision	Release	Provision	Release		Provision	Release		
<u>Reported but not paid</u>									
Fire insurance	\$ 675,484	\$ 1,161,544	\$ 20,521	\$ 23,648	\$(489,187)	\$ 416,792	\$ 810,893	\$(394,101)	
Marine insurance	929,164	625,404	21,768	31,359	294,169	854,181	573,700	280,481	
Motor insurance	1,606,608	1,529,607	56,260	38,952	94,309	418,274	417,602	672	
Casualty insurance	569,964	522,028	11,434	15,043	44,327	262,356	266,626	(4,270)	
Health and injury insurance	68,257	49,001	11	11	19,256	5,355	3,723	1,632	
Foreign inward business insurance	-	-	53,602	34,293	19,309	-	-	-	
	<u>3,849,477</u>	<u>3,887,584</u>	<u>163,596</u>	<u>143,306</u>	<u>(17,817)</u>	<u>1,956,958</u>	<u>2,072,544</u>	<u>(115,586)</u>	
<u>Incurred but not reported</u>									
Fire insurance	33,853	43,029	699	1,174	(9,651)	23,047	27,989	(4,942)	
Marine insurance	100,078	87,635	10,746	11,852	11,337	92,475	84,188	8,287	
Motor insurance	369,573	343,052	136,636	132,522	30,635	195,434	170,630	24,804	
Casualty insurance	148,387	113,947	6,390	5,218	35,612	62,419	44,635	17,784	
Health and injury insurance	129,614	118,707	697	626	10,978	11,844	13,259	(1,415)	
Foreign inward business insurance	-	-	1,344	769	575	-	-	-	
	<u>781,505</u>	<u>706,370</u>	<u>156,512</u>	<u>152,161</u>	<u>79,486</u>	<u>385,219</u>	<u>340,701</u>	<u>44,518</u>	
	\$ 4,630,982	\$ 4,593,954	\$ 320,108	\$ 295,467	\$ 61,669	\$ 2,342,177	\$ 2,413,245	\$(71,068)	

Special Reserve

a. Details of special reserve were as follows:

	December 31	
	2018	2017
Catastrophe	\$ 318,375	\$ 329,456
Risk-volatility	<u>2,426,343</u>	<u>2,365,341</u>
	<u>\$ 2,744,718</u>	<u>\$ 2,694,797</u>

b. Special reserve - the movements of compulsory automobile liability insurance were as follows:

	For the Year Ended December 31	
	2018	2017
Balance, beginning of the year	\$ 1,434,824	\$ 1,422,343
Provision	93,130	43,103
Release	(32,128)	(30,622)
Balance, end of the year	<u>\$ 1,495,826</u>	<u>\$ 1,434,824</u>

c. Special reserve - the movements of non-compulsory automobile liability insurance were as follows:

	Liabilities					
	For the Year Ended December 31					
	2018			2017		
	Catastrophe	Risk-volatility	Total	Catastrophe	Risk-volatility	Total
Balance, beginning of the year	\$ 329,456	\$ 930,517	\$ 1,259,973	\$ 332,401	\$ 930,517	\$ 1,262,918
Release	(11,081)	-	(11,081)	(2,945)	-	(2,945)
Balance, end of the year	\$ 318,375	\$ 930,517	\$ 1,248,892	\$ 329,456	\$ 930,517	\$ 1,259,973

d. The assets and liability of compulsory automobile liability insurance and the revenue and cost of compulsory automobile liability insurance

1) The assets and liability of compulsory automobile liability insurance

Items		Amount	
	Assets	December 31, 2018	December 31, 2017
1.	Cash and cash in banks	\$ 2,096,252	\$ 1,992,381
2.	Cash equivalents	-	-
3.	Notes receivable	7,035	7,719
4.	Premiums receivable	14,537	19,024
5.	Indemnity refundable on reinsurance ceded	48,549	92,089
6.	Refundable reinsurance	40,447	39,798
7.	Other receivable	-	-
8.	Financial assets at fair value through other comprehensive income	-	-
9.	Ceded unearned premium reserve	191,473	182,482
10.	Ceded claims reserve	273,810	298,663
11.	Temporary payments	1,441	2,442
12.	Other assets	-	-
13.	Total	\$ 2,673,544	\$ 2,634,598

Items		Amount	
	Liabilities	December 31, 2018	December 31, 2017
1.	Notes payable	\$ -	\$ -
2.	Insurance claims and benefits payable	-	-
3.	Reinsurance indemnity payable	-	-
4.	Due to reinsurance and ceding companies	61,643	55,652
5.	Unearned premium reserve	457,512	440,437
6.	Claims reserve	654,839	698,958
7.	Special reserve	1,495,826	1,434,824
8.	Temporary receipts	3,292	4,288
9.	Other liabilities	432	439
10.	Total	\$ 2,673,544	\$ 2,634,598

2) The revenues and costs of compulsory automobile liability insurance

	For the Year Ended December 31	
	2018	2017
Operating revenues		
Direct written premiums	\$ 568,481	\$ 536,260
Reinsurance premiums	<u>243,328</u>	<u>239,516</u>
Premiums income	811,809	775,776
Less: Reinsurance expense	(341,088)	(321,757)
Net changes in unearned premium reserve	<u>(8,084)</u>	<u>(6,507)</u>
Retained earned premium	462,637	447,512
Interest revenue	<u>14,851</u>	<u>14,721</u>
Total operating revenues	<u>\$ 477,488</u>	<u>\$ 462,233</u>
Operating costs		
Claims incurred and paid	\$ 509,074	\$ 663,776
Reinsurance claims incurred	235,350	156,558
Less: Claims recovered from reinsurance	<u>(308,672)</u>	<u>(391,807)</u>
Net claims	435,752	428,527
Net changes in claims reserve	(19,266)	21,225
Net changes in special reserve	<u>61,002</u>	<u>12,481</u>
Total operating costs	<u>\$ 477,488</u>	<u>\$ 462,233</u>

Reserve for Deficiency Premium

a. Details of reserve for deficiency premium and ceded reserve for deficiency premium are as follows:

	December 31, 2018			
	Reserve for Deficiency Premium		Ceded Reserve for Deficiency Premium	Retention
	Direct Underwriting Business	Assumed Reinsurance Business	Ceded Reinsurance Business	
Fire insurance	\$ -	\$ -	\$ -	-
Marine insurance	-	-	-	-
Motor insurance	-	-	-	-
Casualty insurance	-	-	-	-
Health and injury insurance	-	-	-	-
Foreign inward business insurance	-	5,848	-	5,848
	<u>\$ -</u>	<u>\$ 5,848</u>	<u>\$ -</u>	<u>\$ 5,848</u>

	December 31, 2017			
	Reserve for Deficiency Premium		Ceded Reserve for Deficiency Premium	Retention
	Direct Underwriting Business	Assumed Reinsurance Business	Ceded Reinsurance Business	
Fire insurance	\$ -	\$ -	\$ -	-
Marine insurance	2,227	-	-	2,227
Motor insurance	-	-	-	-
Casualty insurance	-	-	-	-
Health and injury insurance	-	-	-	-
Foreign inward business insurance	-	1,062	-	1,062
	<u>\$ 2,227</u>	<u>\$ 1,062</u>	<u>\$ -</u>	<u>\$ 3,289</u>

b. The movements of reserve for deficiency premium and ceded reserve for deficiency premium are as follows:

	For the Year Ended December 31			
	2018		2017	
	Reserve for Deficiency Premium	Ceded Reserve for Deficiency Premium	Reserve for Deficiency Premium	Ceded Reserve for Deficiency Premium
Balance, beginning of the year	\$ 3,289	\$ -	\$ 32,116	\$ 11,983
Provision	5,813	-	3,289	-
Release	(3,289)	-	(32,116)	(11,983)
Exchange difference	35	-	-	-
Balance, end of the year	<u>\$ 5,848</u>	<u>\$ -</u>	<u>\$ 3,289</u>	<u>\$ -</u>

c. Loss of reserve for deficiency premium - the movements of reserve for deficiency premium and ceded reserve for deficiency premium are as follows:

	For the Year Ended December 31, 2018																	
	Direct Underwriting Business		Assumed Reinsurance Business		Net Change	Ceded Reinsurance Business		Net Change	Loss of Provisions for									
	Reserve for Deficiency Premium		Reserve for Deficiency Premium			Reserve for Deficiency Premium												
	Provision	Release	Provision	Release		Provision	Release		Reserve									
Fire insurance	\$	-	\$	-	\$	-	\$	-	\$	-								
Marine insurance	-	2,227	-	-	(	2,227)	-	-	-	(	2,227)					
Motor insurance	-	-	-	-	-	-	-	-	-	-	-							
Casualty insurance	-	-	-	-	-	-	-	-	-	-	-							
Health and injury insurance	-	-	-	-	-	-	-	-	-	-	-							
Foreign inward business insurance	-	-	5,813	1,062	4,751	-	-	-	-	4,751								
	\$	-	\$	2,227	\$	5,813	\$	1,062	\$	2,524	\$	-	\$	-	\$	-	\$	2,524

	For the Year Ended December 31, 2017								
	Direct Underwriting Business		Assumed Reinsurance Business		Net Change	Ceded Reinsurance Business		Net Change	Loss of Provisions for
	Reserve for Deficiency Premium		Reserve for Deficiency Premium			Deficiency Premium			
	Provision	Release	Provision	Release		Provision	Release		Reserve
Fire insurance	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Marine insurance	2,227	15,787	-	632	(14,192)	-	11,911	(11,911)	(2,281)
Motor insurance	-	-	-	-	-	-	-	-	-
Casualty insurance	-	15,271	-	259	(15,530)	-	72	(72)	(15,458)
Health and injury insurance	-	-	-	-	-	-	-	-	-
Foreign inward business insurance	-	-	1,062	167	895	-	-	-	895
	\$ 2,227	\$ 31,058	\$ 1,062	\$ 1,058	\$ (28,827)	\$ -	\$ 11,983	\$(11,983)	\$(16,844)

31. PROVISIONS FOR EMPLOYEE BENEFITS

	December 31	
	2018	2017
Recognized in consolidated balance sheet		
Defined benefit plans	\$ 5,061,209	\$ 4,803,034
Preferential interest on employees' deposits	<u>1,145,463</u>	<u>1,155,298</u>
	<u>\$ 6,206,672</u>	<u>\$ 5,958,332</u>

a. Defined contribution plans

The Company and its subsidiaries adopted a pension plan under the Labor Pension Act (the "LPA"), which is a state-managed defined contribution plan. Under the LPA, the Company and its subsidiaries make monthly contributions to employees' individual pension accounts at 6% of monthly salaries and wages.

The total expenses of defined contribution plans recognized in profit or loss for the years ended December 31, 2018 and 2017 were \$266,999 and \$244,539, respectively.

b. Defined benefit plans

The defined benefit plans adopted by the Company and its subsidiaries in accordance with the Labor Standard Law is operated by the government, and pension benefits are calculated on the basis of the length of service and average monthly salaries of the six months before retirement. Under the plan, HNFH, HNCB and HNAMEC made monthly contributions at the rate of 12% of gross salaries, SCIC made monthly contribution at the rate of 8.81% of gross salaries, HNSC, HNIT, made monthly contributions at the rate of 2% of gross salaries. The preceding monthly contributions were deposited in the name of each company's committee in the Bank of Taiwan ("the Bureau"). If the amount of the balance in the pension fund is inadequate to pay retirement benefits for employees who conform to retirement requirements in the next year, the Company and its subsidiaries are required to fund the difference in one appropriation that should be made before the end of March of the next year. The total expenses of defined benefit plans recognized in profit or loss for the years ended December 31, 2018 and 2017 were \$371,142 and \$376,275, respectively.

The amount of defined benefit plans which listed in balance sheet are as follow:

	December 31	
	2018	2017
Present value of funded defined benefit obligation	\$ 12,042,030	\$ 11,556,221
Fair value of plan asset	(6,980,821)	(6,753,187)
Deficit	<u>5,061,209</u>	<u>4,803,034</u>
Net defined benefit liability	<u>\$ 5,061,209</u>	<u>\$ 4,803,034</u>

Movements in net defined benefit liability were as follows:

	Present Value of the Defined Benefit Obligation	Fair Value of the Plan Assets	Net Defined Benefit Liability
Balance at January 1, 2018	\$ 11,202,160	\$ (6,335,602)	\$ 4,866,558
Service cost			
Current service cost	310,826	-	310,826
Past service cost	1,121	-	1,121
Net interest expense (income)	152,057	(87,729)	64,328
Recognized in profit or loss	464,004	(87,729)	376,275
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	\$ -	\$ 19,951	\$ 19,951
Actuarial loss - changes in demographic assumptions	4,237	-	4,237
Actuarial loss - changes in financial assumptions	161,653	-	161,653
Actuarial loss - experience adjustments	222,809	1,340	224,149
Recognized in other comprehensive income	388,699	21,291	409,990
Contributions from the employer	-	(748,659)	(748,659)
Benefits paid	(496,466)	397,512	(98,954)
Settlement	(2,176)	-	(2,176)
Balance at December 31, 2018	\$ 11,556,221	\$ (6,753,187)	\$ 4,803,034
Balance at January 1, 2017	\$ 11,556,221	\$ (6,753,187)	\$ 4,803,034
Service cost			
Current service cost	305,120	-	305,120
Past service cost	8,283	-	8,283
Net interest expense (income)	142,444	(84,705)	57,739
Recognized in profit or loss	455,847	(84,705)	371,142
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	(177,675)	(177,675)
Actuarial loss - changes in demographic assumptions	16,232	-	16,232
Actuarial loss - changes in financial assumptions	148,550	-	148,550
Actuarial loss - experience adjustments	476,711	(5,596)	471,115
Recognized in other comprehensive income	641,493	(183,271)	458,222
Contributions from the employer	-	(489,130)	(489,130)
Benefits paid	(611,531)	529,472	(82,059)
Balance at December 31, 2017	\$ 12,042,030	\$ (6,980,821)	\$ 5,061,209

Through the defined benefit plans under the Labor Standards Law, the Company and its subsidiaries are exposed to the following risks:

- 1) Investment risk: The plan assets are invested in domestic/and foreign/equity and debt securities, bank deposits, etc. The investment is conducted at the discretion of the Bureau or under the mandated management. However, in accordance with relevant regulations, the return generated by plan assets should not be below the interest rate for a 2-year time deposit with local banks.

- 2) Interest risk: A decrease in the government bond interest rate will increase the present value of the defined benefit obligation; however, this will be partially offset by an increase in the return on the plan's debt investments.
- 3) Salary risk: The present value of the defined benefit obligation is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the present value of the defined benefit obligation.

The actuarial valuations of the present value of the defined benefit obligation were carried out by qualified actuaries. The principal assumptions used for the purposes of the actuarial valuations were as follows:

	December 31	
	2018	2017
Discount rate	0.75%-1.18%	0.88%-3.00%
Expected rate of salary increase	2.00%-3.00%	1.39%-3.00%

If possible reasonable change in each of the significant actuarial assumptions will occur and all other assumptions will remain constant, the present value of the defined benefit obligation would (decrease) or increase, respectively, as follows:

	December 31	
	2018	2017
Discount rate		
0.25%-0.5% increase	\$ (300,095)	\$ (296,662)
0.25%-0.5% decrease	\$ 313,249	\$ 310,057
Expected rate of salary increase		
0.25%-0.5% increase	\$ 345,838	\$ 343,699
0.25%-0.5% decrease	\$ (326,644)	\$ (323,207)

The sensitivity analysis presented above may not be representative of the actual change in the present value of the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

	December 31	
	2018	2017
The expected contributions to the plan for the next year	\$ 855,479	\$ 678,363
The average duration of the defined benefit obligation	6.00-14.00 years	4.30-14.00 years

c. Preferential interest on employees' deposits

HNCB offers preferential interest on employees' deposits to both current and retired employees.

	December 31	
	2018	2017
Present value of funded defined preferential interest on employee's deposits obligation	\$ 1,145,463	\$ 1,155,298
Fair value of plant assets	-	-
Net preferential interest on employee's deposits liability	\$ 1,145,463	\$ 1,155,298

Movements in net preferential interest on employee's deposits liability were as follows:

	Present Value of the Preferential Interest on Employee's Deposits Obligation	Fair Value of the Plan Assets	Net Preferential Interest on Employee's Deposits Liability
Balance at January 1, 2017	\$ 1,196,784	\$ -	\$ 1,196,784
Service cost			
Past service cost	60,332	-	60,332
Net interest expense	45,336	-	45,336
Actuarial loss in the rules of the Banking Bureau	111,203	-	111,203
Recognized in profit or loss	216,871	-	216,871
Benefits paid	(258,357)	-	(258,357)
Balance at December 31, 2017	\$ 1,155,298	\$ -	\$ 1,155,298
Balance at January 1, 2018	\$ 1,155,298	\$ -	\$ 1,155,298
Service cost			
Past service cost	74,925	-	74,925
Net interest expense	43,628	-	
Actuarial loss in the rules of the Banking Bureau	132,967	-	132,967
Recognized in profit or loss	251,520	-	251,520
Benefits paid	(261,355)	-	(261,355)
Balance at December 31, 2018	\$ 1,145,463	\$ -	\$ 1,145,463

The principal assumptions used for the purposes of the actuarial valuations were as follows:

	December 31	
	2018	2017
Discount rate	4.00%	4.00%
Expected return on employees' deposits	2.00%	2.00%
Account decline rate	2.75%	2.50%
The probability of preferential interest on employees' deposits changed	50.00%	50.00%

If possible reasonable change in each of the significant assumptions will occur and all other assumptions will remain constant, the present value of the defined benefit obligation would (decrease) or increase as follows:

	December 31	
	2018	2017
Discount rate		
0.25% increase	\$ (19,500)	\$ (19,937)
0.25% decrease	\$ 20,085	\$ 20,544
Expected return on employees' deposits		
0.25% increase	\$ (126,002)	\$ (124,117)
0.25% decrease	\$ 126,002	\$ 124,118
Account decline rate		
2% increase	\$ (152,857)	\$ (155,688)
2% decrease	\$ 188,945	\$ 193,060
The probability of changes in preferential interest on employees' deposits		
10% increase	\$ 229,093	\$ 231,060
10% decrease	\$ (229,093)	\$ (231,059)

The sensitivity analysis presented above may not be representative of the actual change in the present value of the preferential interest on employee's deposits obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

	December 31	
	2018	2017
The expected contributions to the plan for the next year	\$ 130,678	\$ 129,179
The average duration of preferential interest on employees' deposits	7.2 years	7.3 years

32. OTHER FINANCIAL LIABILITIES

	December 31	
	2018	2017
Principal of structured products	\$ 11,204,709	\$ 6,817,630
Futures traders' equity	2,407,762	2,026,702
Appropriations loan funds	18,867	28,386
	<u>\$ 13,631,338</u>	<u>\$ 8,872,718</u>

33. OTHER LIABILITIES

	December 31	
	2018	2017
Deposits from securities borrowing	\$ 4,194,513	\$ 2,716,795
Guarantee deposits received	3,960,992	1,238,285
Advance receipts	784,349	770,406
Temporary receipt and suspense accounts	216,111	167,623
Receipts under custody - collections from underwriting	9,360	158,518
Others	<u>302,532</u>	<u>277,530</u>
	<u>\$ 9,467,857</u>	<u>\$ 5,329,157</u>

34. EQUITY

a. Capital stock

The shareholders resolved the stock dividends of \$5,260,248 to paid-in capital, the number of common shares is 526,025 thousand at the shareholders' meeting on June 28, 2017. Total capital stock was increased to \$110,465,199. These appropriations of stock dividends were approved by the Securities and Futures Bureau, and the record date for stock dividends was August 25, 2017.

The shareholders resolved the stock dividends of \$4,970,934 to paid-in capital, the number of common shares is 497,093 thousand at the shareholders' meeting on June 22, 2018. Total capital stock was increased to \$115,436,133. These appropriations of stock dividends were approved by the Securities and Futures Bureau, and the record date for stock dividends was August 24, 2018.

The issued common stocks of a par value of \$10 are 11,543,613 shares as of December 31, 2018.

b. Capital surplus

The capital surplus from the issuance of new shares at a premium (additional paid-in capital from issuance of common shares, issuance of shares in a business combination and treasury stock transactions, etc.) and endowments received by the Company may be used to offset a deficit; in addition, when the Company has no deficit, such capital surplus may be distributed as cash dividend or transferred to capital (limited to a certain percentage of the Company's paid-in capital every year).

Details of HNFH's capital surplus were as follows:

	December 31	
	2018	2017
Share premium	\$ 17,702,376	\$ 17,702,376
Treasury stock	52,349	52,349
Donated assets received	2,936	2,936
Others	1,325	1,325
	<u>\$ 17,758,986</u>	<u>\$ 17,758,986</u>

Under the Financial Holding Company Act and related directives of the Securities and Futures Bureau, if the capital surplus obtained by a financial holding company through a share swap comes from its subsidiaries' unappropriated retained earnings after legal and special reserves, the surplus is exempted from the restriction stated in the Securities and Exchange Act.

The sources and usage of HNFH's capital surplus as of December 31, 2018 were as follows:

	December 31, 2018
Arising through a share swap on December 19, 2001	\$ 44,439,624
Bonus to employees and the remuneration to directors and supervisors from subsidiaries before December 19, 2001	(250,881)
Issuance of cash dividend in 2001	(692,924)
Issuance of stock dividend from capital surplus in 2012	(3,317,439)
Offsetting a deficit in 2002	(26,693,288)
SCIC and HNIT became wholly owned subsidiaries of HNFH through a share swap	(185,812)
Issuance of stock dividend from capital surplus in 2004	(945,701)
Issuance of new shares in 2011	8,004,000
Stock-based compensation	115,382
Donated assets received	2,936
Treasury stock transactions and the capital surplus from investment accounted for using equity method	(2,716,911)
Balance, end of the year	<u>\$ 17,758,986</u>

c. Special reserve

According to Rule No. 09900738571 issued by FSC, Rule No. 10000002891 issued under Regulations Governing Securities Firms, and Rule No. 10010000440 issued by the FSC, the securities default reserve and trading loss reserve set up as of December 31, 2010 are transferred to special reserve. The special reserve may not be used, except to offset a deficit or transferred to capital when special reserve reaches 50% of the Company's paid-in capital, following up legal reserve. The Company appropriates and reserves special reserve based on Rule No. 1010012865, Rule No. 1010047490 and Rule No. 10510001510 issued by the FSC and the directive titled "Questions and Answers for Special Reserves Appropriated Following Adoption of IFRSs".

d. Appropriation of earnings and dividend policy

Under the dividend policy in the Amended Articles, HNFH takes residual dividend policy in order to expand its scale and enhance its abilities to make profit. When HNFH appropriates its earnings, legal reserve should be appropriated from the annual net income less any accumulated deficit. A special reserve based on legal rules or business needs may then be appropriated or reserved. Stockholders' meeting approve to appropriate 30%-100% distributable amount, including unappropriated earnings in prior years, for stock dividend and cash dividend. Stock or cash dividends were appropriated based on the Company's operating plan, and the cash dividends should be more than 10% of total dividends. Cash dividend would not be appropriated if it is less than \$0.1 per share unless the approval of the stockholders' meeting. For the policies on distribution of employees' compensation and remuneration to directors and supervisor before and after amendment, please refer to Note 42.

Shareholders' meeting should be held in the next year, and the distribution of earnings would be recognized and reflected in the financial statements in that year.

Appropriation of earnings to legal reserve shall be made until the legal reserve equals the Company's paid-in capital. Legal reserve may be used to offset deficit. If the Company has no deficit and the legal reserve has exceeded 25% of the Company's paid-in capital, the excess may be transferred to capital or distributed in cash.

Based on a directive issued by the Securities and Futures Bureau, when distributing earnings, an amount equal to the net debit balance of certain shareholders' equity accounts (including unrealized loss in financial instruments and cumulative translation adjustments) shall be transferred from unappropriated earnings to a special reserve. An amount equal to the past net debit balance of certain shareholders' equity accounts shall be transferred from past unappropriated earnings to a special reserve, yet such amount can not be distributed. However the Company and its subsidiaries should replenish amount, which equals to the difference between the net debit balance of certain shareholders' equity accounts and amount appropriated to special reserve during initial IFRS adoption, to special reserve. Any special reserve appropriated may be reversed to the extent of the decrease in the net debit balance.

The appropriation of earnings for 2017 and 2016 had been approved by the shareholders' meeting on June 22, 2018 and June 28, 2017, respectively. The appropriations and dividends per share were as follows:

	Appropriation of Earnings		Dividends Per Share (NT\$)	
	2017	2016	2017	2016
Legal reserve	\$ 1,201,548	\$ 1,408,673	\$ -	\$ -
Cash dividends	5,523,260	7,364,347	0.50	0.70
Stock dividends	4,970,934	5,260,248	0.45	0.50

e. Unrealized gain (loss) available-for-sale financial assets

	For the Year Ended December 31	
	2018	2017
Balance at January 1	\$ 1,014,968	\$ (1,596,978)
Effect of application	(1,014,968)	-
Balance at January 1 per IFRS 9	-	(1,596,978)
Unrealized gain on revaluation of available-for-sale financial assets	-	3,209,624
Income tax related to unrealized gain on revaluation of available-for-sale financial assets	-	(7,776)
Cumulative gain or loss reclassified to profit or loss on disposal of available-for-sale financial assets	-	(589,902)
Balance at December 31	\$ -	\$ 1,014,968

f. Unrealized gain (loss) on financial assets at fair value through other comprehensive income

	For the Year Ended December 31, 2018	
	Gain and Loss on Equity Instruments	Gain and Loss on Debt Instruments
Balance at January 1	\$ -	\$ -
Effect of application	4,543,465	463,753
Balance at January 1 per IFRS 9	4,543,465	463,753
Unrealized loss - equity instruments	(241,132)	-
Unrealized loss - debt instruments	-	(810,440)
Income tax related to unrealized loss - debt instruments	-	29,511
Loss allowance adjustment - debt instruments	-	6,634
Disposal of investments in debt instruments	-	(368,546)
Cumulative unrealized loss of equity instruments transferred to retained earnings due to disposal	288,936	-
Balance at December 31	\$ 4,591,269	\$ (679,088)

g. Gain and loss on overlay approach measured at other comprehensive income

	For the Year Ended December 31, 2018
Balance at January 1	\$ -
Effect of application	88,903
Balance at January 1 per IFRS 9	88,903
Loss on overlay approach measured at other comprehensive income	(133,078)
Income tax related to loss on overlay approach measured at other comprehensive income	10,078
Balance at December 31	<u><u>\$ (34,097)</u></u>

35. NET INTEREST

	For the Year Ended December 31	
	2018	2017
Interest revenue		
Discounts and loans	\$ 32,753,898	\$ 30,994,565
Securities investments	7,033,505	5,788,700
Others	<u>4,926,316</u>	<u>4,590,759</u>
	<u>44,713,719</u>	<u>41,374,024</u>
Interest expense		
Deposits	13,443,321	11,035,408
Due to the Central Bank and banks	2,426,746	1,626,987
Others	<u>2,283,433</u>	<u>1,772,887</u>
	<u>18,153,500</u>	<u>14,435,282</u>
	<u><u>\$ 26,560,219</u></u>	<u><u>\$ 26,938,742</u></u>

36. COMMISSION AND FEE REVENUES, NET

	For the Year Ended December 31	
	2018	2017
Commission and fee revenues		
Commission	\$ 3,600,365	\$ 3,204,886
Brokerage business	2,532,677	2,167,982
Trust and financial management business	2,135,090	2,245,893
Credit card business	1,099,064	1,070,965
Remittance business	678,286	663,165
Loan business	428,277	402,010
Guarantee business	274,929	271,761
Foreign exchange and import/export business	215,452	223,373
Others	<u>566,200</u>	<u>518,685</u>
	<u>11,530,340</u>	<u>10,768,720</u>
Commission and fee expense		
Insurance commission	\$ 1,431,255	\$ 1,336,648
Credit card business	616,298	546,462
Brokerage business	226,620	169,244
Remittance business	89,201	71,870
Safekeeping fee	76,430	56,226
Credit investigating expense	56,983	58,787
Trust business	29,918	47,678
Business promotion expense	21,469	30,761
Others	<u>313,658</u>	<u>219,852</u>
	<u>2,861,832</u>	<u>2,537,528</u>
	<u><u>\$ 8,668,508</u></u>	<u><u>\$ 8,231,192</u></u>

37. INCOME FROM INSURANCE PREMIUMS, NET

	For the Year Ended December 31	
	2018	2017
Insurance revenue		
Direct written premiums	\$ 9,265,013	\$ 9,048,599
Indemnity refundable on reinsurance ceded	<u>1,664,779</u>	<u>1,895,704</u>
	<u>10,929,792</u>	<u>10,944,303</u>
Insurance expense		
Insurance claims and benefits	5,067,698	5,133,165
Reinsurances premiums ceded	3,065,854	2,963,509
Disbursements toward industry stability	<u>15,789</u>	<u>15,673</u>
	<u>8,149,341</u>	<u>8,112,347</u>
	<u>\$ 2,780,451</u>	<u>\$ 2,831,956</u>

38. GAIN (LOSS) ON FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	For the Year Ended December 31	
	2018	2017
Realized gain or loss on financial assets at fair value through profit or loss		
Currency swap	\$ 5,293,890	\$ (4,187,841)
Foreign exchange options	200,145	265,928
Cross currency swap	164,944	1,142,241
Interest swap	20,149	12,516
Listed stocks	(695,884)	255,559
Forward	(261,161)	747,250
Beneficiary certificates of fund	(49,284)	10,637
Government bonds	(17,691)	67,015
Future	(7,666)	(155,167)
Others	<u>(34,189)</u>	<u>362</u>
	<u>4,613,253</u>	<u>(1,841,500)</u>
Valuated gain or loss on financial assets at fair value through profit or loss		
Currency swap	4,631,906	(2,387,514)
Listed stock	202,291	(1,096)
Issuing bank debenture liabilities	154,231	41,860
Cross currency swap	47,109	(826,564)
Forward	(145,219)	177,946
Others	<u>83,910</u>	<u>50,168</u>
	<u>4,974,228</u>	<u>(2,945,200)</u>
Dividend income on financial assets at fair value through profit or loss	<u>170,197</u>	<u>131,225</u>
Interest revenue on financial assets at fair value through profit or loss	<u>825,870</u>	<u>876,871</u>
Interest expense on financial liabilities at fair value through profit or loss	<u>(224,670)</u>	<u>(681,580)</u>
	<u>\$ 10,358,878</u>	<u>\$ (4,460,184)</u>

When the Company and its subsidiaries designated financial instruments measure at fair value through profit or loss, fair value change in derivate instruments is also listed in “financial assets and liabilities at fair value through profit or loss”.



39. REALIZED GAIN ON AVAILABLE-FOR-SALE FINANCIAL ASSETS - 2017

		For the Year Ended December 31, 2017
Dividend income	\$	642,252
Gain from disposal		
Stocks		475,898
Government bonds		109,464
Bank debentures		82,233
Corporate bonds		35,324
Funds		33,576
Others		<u>3,643</u>
		<u>740,138</u>
Loss from disposal		
Stocks	(	99,569)
Government bonds	(	44,145)
Bank debentures	(	<u>6,522</u>
	(	<u>150,236</u>
	\$	<u>1,232,154</u>

40. REALIZED GAIN ON FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME - 2018

		For the Year Ended December 31, 2018
Dividend income	\$	1,228,780
Gain from disposal		
Corporate bonds		9,809,172
Government bonds		382,947
Bank debentures		2,402
Agency mortgage-backed securities		<u>124</u>
		<u>10,194,645</u>
Loss from disposal		
Corporate bonds	(	9,745,876)
Government bonds	(	79,896)
Bank debentures	(	292)
Agency mortgage-backed securities	(	<u>35</u>
	(	<u>9,826,099</u>
	\$	<u>1,597,326</u>

41. FOREIGN EXCHANGE GAIN (LOSS), NET

	For the Year Ended December 31	
	2018	2017
Foreign exchange gain	\$ 46,706	\$ 6,778,845
Foreign exchange loss	(4,762,501)	(297,954)
	\$ (4,715,795)	\$ 6,480,891

Part of financial assets and liabilities at fair value through profit or loss held by the Company and its subsidiaries, like currency swap, its gain or loss on valuation arising from spot position is recorded gain (loss) on as “foreign exchange gain or loss”; its gain or loss on valuation arising from forward position is recorded as “gain (loss) on financial assets or liabilities at fair value through profit or loss”.

42. EMPLOYEE BENEFITS EXPENSE

	For the Year Ended December 31	
	2018	2017
Salaries and wages	\$ 8,314,750	\$ 7,758,803
Incentives and bonus	4,796,530	3,513,566
Labor insurance and national health insurance	849,111	816,882
Pension and compensation	682,323	654,661
Others	<u>1,456,500</u>	<u>1,368,175</u>
	<u>\$ 16,099,214</u>	<u>\$ 14,112,087</u>

The Company distribute employees' and board of directors' compensation at the rates between 0.2‰ and 1.5‰ and no higher than 1%, respectively, of net profit before income tax, employees' and board of directors compensation.

The board of directors had been hold on March 25, 2019 and March 26, 2018, which resolution compensations to employees and remuneration to directors for 2017 and 2016.

For the year ended December 31, 2018, the employees' and board of directors' compensation were \$14,683 and \$147,540 representing 0.9932‰ and 0.998‰ of the base net profit, respectively. For the year ended December 31, 2017, the employees' and board of directors' compensation were \$9,717 and \$121,221, representing 0.8‰ and 0.998‰ of the base net profit, respectively.

If there is a change in the proposed amounts after the annual consolidated financial statements are authorized for issue, the differences are recorded as a change in accounting estimate.

There is no difference between the proposed and approved amounts of the compensation and bonus to employees and remuneration to directors and the accrual amounts reflected in the financial statements for the 2018 and 2017.

The information on the approved compensations to employees and remuneration to directors for 2018 and 2017 is available on the Market Observation Post System (M.O.P.S.) website of the Taiwan Stock Exchange.

43. DEPRECIATION AND AMORTIZATION EXPENSE

	For the Year Ended December 31	
	2018	2017
Depreciation expense		
Properties equipments		
Buildings	\$ 307,272	\$ 283,885
Computer and Machinery	344,756	300,185
Transportation equipment	71,611	69,700
Other equipment	213,599	200,442
Lease improvements	<u>41,538</u>	<u>29,079</u>
	978,776	883,291
Investments properties	<u>69,683</u>	<u>73,084</u>
	1,048,459	956,375
Amortization expense	<u>213,993</u>	<u>184,375</u>
	<u>\$ 1,262,452</u>	<u>\$ 1,140,750</u>



44. OTHER OPERATING EXPENSES

	For the Year Ended December 31	
	2018	2017
Taxation and government fee	\$ 2,490,710	\$ 2,554,905
Rent	1,218,153	1,197,214
Professional fee	751,727	383,345
Membership fee	609,182	578,328
Advertisement	605,095	513,751
Insurance	502,869	499,598
Postage fee	489,153	454,491
Maintenance and warranty fee	265,342	258,558
Others	<u>1,480,643</u>	<u>1,530,077</u>
	<u>\$ 8,412,874</u>	<u>\$ 7,970,267</u>

45. INCOME TAX

Under a Ministry of Finance directive “Article 49 of the Financial Holding Company Act and Article 40 of Business Mergers and Acquisition Act”, a financial holding company and its domestic subsidiaries in which over 90% of issued shares was held by the financial holding company for 12 months within the same taxation year may adopt the linked-tax system for income tax filing.

The principle adopted by the Company, HNCB, HNSC, SCIC, HNIT, HNVC and HNAMEC (collectively, the “Group”) under the linked-tax system is to reduce the income tax liabilities of the Company and its subsidiaries and to consider the fairness of the tax borne by all the companies in order to maximize the synergy of the Company and its subsidiaries.

a. Income tax recognized in profit or loss

The components of tax expense were as follows:

	For the Year Ended December 31	
	2018	2017
Current tax		
In respect of the current year	\$ 2,117,786	\$ 1,518,606
In respect of prior years	(114,276)	(76,519)
Income tax of overseas branches	<u>454,994</u>	<u>532,083</u>
	2,458,504	1,974,170
Deferred tax		
In respect of the current year	6,585	(180,370)
Tax rate change	<u>(415,315)</u>	-
Income tax expenses recognized through profit or loss	<u>\$ 2,049,774</u>	<u>\$ 1,793,800</u>

A reconciliation of accounting profit and income tax expenses were as follows:

	For the Year Ended December 31	
	2018	2017
Income tax expenses calculated at the statutory rate (2018: 20%, 2017: 17%)	\$ 3,334,242	\$ 2,347,593
Tax effect of adjusting items:		
Permanent differences	(1,326,844)	(1,182,754)
Temporary differences	152,212	344,350
Tax credit of investment	(53,530)	-
Income tax of overseas branches	454,994	532,083
Effects of different income tax rate of subsidiaries operating in other jurisdiction	11,706	9,417
Adjustments for prior years' tax	(114,276)	(76,519)
Current tax	2,458,504	1,974,170
Deferred tax	6,585	(180,370)
Tax rate change	(415,315)	-
Income tax expenses recognized in profit or loss	<u>\$ 2,049,774</u>	<u>\$ 1,793,800</u>

The Income Tax Act in the ROC was amended in 2018 and the corporate income tax rate was adjusted from 17% to 20% effective in 2018. The effect of the change in tax rate on deferred tax income to be recognized in profit or loss is recognized in full in the period in which the change in tax rate occurs. In addition, the rate of the corporate surtax applicable to 2018 unappropriated earnings will be reduced from 10% to 5%.

b. Income tax recognized in other comprehensive income

	For the Year Ended December 31	
	2018	2017
<u>Deferred tax</u>		
Tax rate change	\$ 53,865	\$ -
In respect of the current period		
Remeasurement of defined benefit plans	91,408	68,930
Fair value changes on available-for-sale financial assets	-	(7,766)
Fair value changes on financial assets as at fair value through other comprehensive income	29,511	-
Loss on overlay approach measured at other comprehensive income	<u>10,078</u>	<u>-</u>
Income tax recognized in other comprehensive income	<u>\$ 184,862</u>	<u>\$ 61,164</u>

c. Current tax assets and liabilities

	December 31	
	2018	2017
Current tax assets		
Tax refund receivable	\$ 224,626	\$ 219,772
Others	<u>193,723</u>	<u>260,450</u>
	<u>\$ 418,349</u>	<u>\$ 480,222</u>
Current tax liabilities		
Income tax payable	<u>\$ 1,677,066</u>	<u>\$ 1,080,850</u>

d. Deferred tax assets and liabilities

The components of deferred tax assets and liabilities were as follows:

	December 31	
	2018	2017
<u>Deferred tax assets</u>		
Provisions for bad debts and losses on guarantees over limitation	\$ 1,765,648	\$ 1,449,430
Defined benefit plans and preferential interest rate plan for employees' deposits	1,044,967	854,111
Provisions for financing commitments of loans	264,848	-
Business losses	229,521	229,521
Others	191,816	113,206
	<u>\$ 3,496,800</u>	<u>\$ 2,646,268</u>
<u>Deferred tax liabilities</u>		
Land value increment tax	\$ 6,098,182	\$ 6,098,183
Others	21,563	5,544
	<u>\$ 6,119,745</u>	<u>\$ 6,103,727</u>

The movements of deferred tax assets and deferred tax liabilities were as follows:

For the year ended December 31, 2018

	Opening Balance	Effect of Application	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Closing Balance
<u>Deferred tax assets</u>					
Temporary differences					
Provisions for bad debts and losses on guarantees over limitation	\$ 1,449,430	\$ 4,289	\$ 311,929	\$ -	\$ 1,765,648
Defined benefit plans and preferential interest rate plan for employees' deposits	853,124	-	46,569	145,273	1,044,966
Provision for financing commitments of loans	-	225,121	39,727	-	264,848
Business losses	229,521	-	-	-	229,521
Others	114,193	15,698	26,927	34,999	191,817
	<u>\$ 2,646,268</u>	<u>\$ 245,108</u>	<u>\$ 425,152</u>	<u>\$ 180,272</u>	<u>\$ 3,496,800</u>
<u>Deferred tax liabilities</u>					
Land value increment tax	\$ 6,098,182	\$ -	\$ -	\$ -	\$ 6,098,182
Temporary differences					
Others	5,545	4,076	16,421	(4,479)	21,563
	<u>\$ 6,103,727</u>	<u>\$ 4,076</u>	<u>\$ 16,421</u>	<u>\$ (4,479)</u>	<u>\$ 6,119,745</u>

For the year ended December 31, 2017

	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Closing Balance
<u>Deferred tax assets</u>				
Temporary differences				
Provisions for bad debts and losses on guarantees over limitation	\$ 1,219,794	\$ 229,636	\$ -	\$ 1,449,430
Defined benefit plans and preferential interest rate plan for employees' deposits	870,925	(86,731)	68,930	853,124
Business losses	229,521	-	-	229,521
Reserve for operations losses	10,296	-	-	10,296
Others	80,353	31,310	(7,766)	103,897
	<u>\$ 2,410,889</u>	<u>\$ 174,215</u>	<u>\$ 61,164</u>	<u>\$ 2,646,268</u>
<u>Deferred tax liabilities</u>				
Land value increment tax	\$ 6,098,182	\$ -	\$ -	\$ 6,098,182
Temporary differences				
Others	11,700	(6,155)	-	5,545
	<u>\$ 6,109,882</u>	<u>\$ (6,155)</u>	<u>\$ -</u>	<u>\$ 6,103,727</u>

HNFH's income tax returns through 2014 had been assessed by the tax authorities. The interest expense and operating expenses were adjusted to decrease, and taxable income were increased to \$336,268 ended December 31, 2013 and \$390,811 ended December 31, 2014, respectively. The Company disagreed with the tax authorities assessment of its tax return and had applied for a re-examination.

HNFH's income tax return through 2014 had been assessed by the tax authority.

HNSC's income tax return through 2014 had been assessed and approved by the tax authority. However, HNSC is currently appealing the tax authority's assessments of supplementary taxable income for 2007 to 2009 and 2011 to 2014, as a result of different opinions on allocations of operating expenses and interest expenses in the dealing department and on recognition of warrants and goodwill between HNSC and the tax authority. To be conservative, the income tax expense and the tax payable were recognized in the account. However, HNSC did not accept the assessments and had applied for administrative remedy.

Income tax return through 2014 of SCIC, HNVC and HNAMC had been assessed by the tax authority. HNVC disagreed with the tax authorities' assessment of 2009 to 2012 tax returns and had applied for administrative remedy.

Income tax returns through 2016 of HNIM, HNILC and HNFC had been assessed by the tax authorities.

46. EARNINGS PER SHARE

Earnings per share is calculated by earnings on the Company's stockholders divide by weighted average number of ordinary shares outstanding.

	For the Year Ended December 31	
	2018	2017
Basic and diluted earnings per share		
Profit for the year attributable to HNFH's shareholders	\$ 1.27	\$ 1.04

The earnings and weighted average number of ordinary shares outstanding in the computation of earnings per share from continuing operations were as follows:

Net Profit for the Year

	For the Year Ended December 31	
	2018	2017
Profit for the year attributable to HNFH's shareholders	\$ 14,621,319	\$ 12,015,482

Shares

	For the Year Ended December 31	
	2018	2017
Weighted average number of ordinary shares in computation of basic and diluted earnings per share	11,543,613	11,543,613

The weighted average number of shares outstanding used for earnings per share calculation has been retroactively adjusted for the issuance of bonus shares. This adjustment caused the basic and diluted earnings per share for the year ended December 31, 2017 to decrease from \$1.09 to \$1.04. Additionally, the basic and diluted earnings per share for the year ended December 31, 2018 was the same with the basic and diluted earnings per share for the year ended December 31, 2017.

47. RELATED PARTY TRANSACTIONS

Related party transactions and related party transactions of subsidiaries over \$100 million were summarized below, and the transactions wrote-off were disclosed in Table 15.

a. Name and relationship with related parties were as follows:

Related Party	Relationship with the Company
Bank of Taiwan Co., Ltd. (BOT)	Major shareholder of HNFH
Bank Taiwan Life Insurance Co., Ltd. (BTLI)	Major shareholder of HNFH (the related information and proportionate share in investees with BOT)
Funds Under Hua Nan Investment Trust Corporation (HNIT)	Funds issuer is a subsidiary of HNFH
Yuan-Ding Investment Co., Ltd. (Yuan-Ding Investment)	The director of HNFH is its chairman
Yung-Cheong Investment Co., Ltd. (Yung-Cheong Investment)	The director of HNFH is its chairman
Yung-Chi Asset Management Corp. (Yung-Chi AMC)	HNCB's director is its chairman
Shiun-You Co., Ltd. (Shiun-You)	HNCB's director is its chairman
Shing-Kong Investment Trust Co., Ltd. (Shing-Kong IT)	The Chairman of its parent company is a close relatives of the directors of HNSC
Shin Kong Commercial Bank Co., Ltd. (SKCB)	The Chairman of its parent company is a close relatives of the directors of HNSC
Shin Kong Life Insurance Co., Ltd. (SKLI)	HNCB's director is a close relative of its chairman
Taipei Financial Center Corp. (Taipei 101)	The CEO of HNFH is its director
Chou Dang-Yin	A close relative of the supervisor of HNSC
Chung-Hua Real Estate Management Co., Ltd. (Chung-Hua Real Estate)	Associates of HNCB
Others	Directors, supervisors, managers, their relatives, companies under their control, and other related parties in substance

b. Substantial transactions with related parties were as follows:

1) Due from other banks

	December 31			
	2018		2017	
	Amount	%	Amount	%
BOT	\$ 228,890	1.13	\$ 317,818	1.06

2) Call loans to banks

	For the Year Ended December 31, 2018			
	Highest Balance	Ending Balance	Interest Income	Interest Rate (%)
BOT	\$ 10,670,305	\$ 245,880	\$ 8,693	0.09-4.4

	For the Year Ended December 31, 2017			
	Highest Balance	Ending Balance	Interest Income	Interest Rate (%)
BOT	\$ 10,000,000	\$ 296,800	\$ 2,565	0.01-5.1
SKCB	2,000,000	-	332	0.2-0.29
	<u>\$ 12,000,000</u>	<u>\$ 296,800</u>	<u>\$ 2,897</u>	

3) Call loans from banks

	For the Year Ended December 31, 2018			
	Highest Balance	Ending Balance	Interest Expense	Interest Rate (%)
BOT	\$ 19,663,275	\$ 1,299,175	\$ 46,434	0.178-5.08

	For the Year Ended December 31, 2017			
	Highest Balance	Ending Balance	Interest Expense	Interest Rate (%)
BOT	\$ 11,112,275	\$ 1,528,375	\$ 50,551	0.169-5.1
SKBC	1,155,960	-	300	0.71-30
	<u>\$ 12,268,235</u>	<u>\$ 1,528,375</u>	<u>\$ 50,851</u>	

4) Deposits

	For the Year Ended December 31					
	2018			2017		
	Ending Balance	Interest Rate (%)	Interest Expenses	Ending Balance	Interest Rate (%)	Interest Expenses
Chung-Hua Real Estate	\$ 53,532	0-0.082	\$ 32	\$ 3,141	0-0.08	\$ 3
Yuan-Ding Investment	2,474	-	-	403	-	-
Taipei 101	58	-	-	-	-	-
Yung-Chi AMC	-	0-0.08	2	4,745	0.08	11
Shiun-You	-	0-0.08	2	1,847	0-0.081	2
Others	<u>18,394,146</u>	<u>0-13</u>	<u>169,315</u>	<u>12,987,286</u>	<u>0-13</u>	<u>113,311</u>
	<u>\$ 18,450,210</u>		<u>\$ 169,351</u>	<u>\$ 12,997,422</u>		<u>\$ 113,327</u>

5) Loans

For the Year Ended December 31, 2018							
Type	Number/Name of Related Party	Highest Balance	Ending Balance	Payment Status		Type of Collateral	Is the Transaction at Arm's Length Commercial Term
				Normal	Overdue		
Consumer loan	7	\$ 3,134	\$ 2,521	\$ 2,521	\$ -	None	Yes
Household mortgages	40	365,476	320,887	320,887	-	Real estate	Yes
Others	Yuan-Ding Investment	14,000	-	-	-	Real estate	Yes
Others	Chung-Hua Real Estate	9,000	-	-	-	Real estate	Yes
Other	Taipei 101	1,040,065	1,000,000	1,000,000	-	None	Yes
Others	Others	85,426	78,262	78,262	-	Real estate, overdraft	Yes

For the Year Ended December 31, 2017							
Type	Number/Name of Related Party	Highest Balance	Ending Balance	Payment Status		Type of Collateral	Is the Transaction at Arm's Length Commercial Term
				Normal	Overdue		
Consumer loan	9	\$ 4,537	\$ 2,386	\$ 2,386	\$ -	None	Yes
Household mortgages	35	313,372	278,241	278,241	-	Real estate	Yes
Others	Yuan-Ding Investment	24,000	14,000	14,000	-	Real estate	Yes
Others	Chung-Hua Real Estate	13,000	9,000	9,000	-	Real estate	Yes
Others	Yung-Chi AMC	891,500	-	-	-	Real estate	Yes
Others	Yung-Cheong Investment	5,000	-	-	-	Listed stocks	Yes
Others	Others	74,828	69,423	69,423	-	Real estate, overdraft	Yes

	For the Year Ended December 31, 2018			
	Highest Balance	Ending Balance	Interest Rates (%)	Interest Revenue
SCIC				
Main management	\$ 14,549	\$ 8,700	1.445-1.570	\$ 193

	For the Year Ended December 31, 2017			
	Highest Balance	Ending Balance	Interest Rates (%)	Interest Revenue
SCIC				
Main management	\$ 18,268	\$ 14,549	1.445-1.570	\$ 258

SCIC loans to some main management, and the lending rate is made by adding 0.375% to 1% markup to average rate on time savings deposits of Bank of Taiwan.

The type of loans are both real estate loans for the years ended December 31, 2018 and 2017.

6) Operating deposits

	December 31			
	2018		2017	
	Amount	%	Amount	%
BOT	\$ 350,000	52.08	\$ 355,000	50.11

7) Futures traders' equity

	December 31	
	2018	2017
Fund under HNIT	\$ 2,994	\$ 13,684

8) Securities transaction

For the years ended December 31, 2018 and 2017, HNSC purchased open-end mutual funds for \$325,300 and \$700,000, respectively, and disposed HNIT open-end mutual funds for \$434,118 and \$560,983, respectively. The disposal loss were \$2,882 and \$17, respectively, and were calculated on the basis of the net assets value on the transaction dates.

Open-end mutual funds purchased by HNSC from HNIT amounted to \$26,927 and \$138,236 as of December 31, 2018 and 2017, respectively (recorded as financial assets at fair value through profit or loss).

HNSC disposed Shing-Kong IT open-end mutual funds, open-end mutual funds for \$15,000 and \$0 for the years ended December 31, 2018 and 2017 respectively. The disposals loss and gain were \$815 and \$105, respectively, and were calculated on the basis of the net assets value on the transaction dates.

Open-end mutual funds purchased by HNSC from Shing-Kong IT amount to \$14,970 and \$28,963, respectively as of December 31, 2018 and 2017 (recorded as financial assets at fair value through profit or loss).

The cost of mutual funds purchased by SCIC from HNIT on December 31, 2018 and 2017, amounts to \$177,000 and \$240,000, respectively (on December 31, 2018 recorded as financial assets at fair value through profit or loss and recorded as available-for-sale financial assets on December 31, 2017).

For the years ended December 31, 2018 and 2017, the gain or loss from the sale of funds under HNIT and related revenues were loss \$8,644 and gain \$2,631, respectively (recorded as net income or loss of financial assets and liabilities at fair value through profit or loss for the year ended December 31, 2018 and realized gain on available-for-sale financial assets for the year ended December 31, 2017).

9) Receivables - management expense

	December 31			
	2018		2017	
	Amount	%	Amount	%
Fund under HNIT	\$ 13,064	0.03	\$ 13,924	0.03

10) Other borings

	For the Year Ended December 31, 2018			
	Highest Balance	Ending Balance	InterestIncome	Interest Rate (%)
BOT	\$ 100,000	\$ 73,000	\$ 203	0.93-1.06

11) Other liabilities

	December 31			
	2018		2017	
	Amount	%	Amount	%
Fund under HNIT	\$ 14,139	0.15	\$ 19,904	0.37

12) Trust business commission

	For the Year Ended December 31			
	2018		2017	
	Amount	%	Amount	%
Fund under HNIT	\$ 165,135	7.73	\$ 177,660	7.91

13) Brokerage commission

	For the Year Ended December 31			
	2018		2017	
	Amount	%	Amount	%
Fund under HNIT	\$ 1,559	0.06	\$ 1,102	0.05
Others	9,094	0.36	4,926	0.23
	\$ 10,653	0.42	\$ 6,028	0.28

14) Brokerage commission discount (decrease in the brokerage commission)

	For the Year Ended December 31			
	2018		2017	
	Amount	%	Amount	%
Others	\$ 5,396	0.21	\$ 1,929	0.09

15) Dividends

	For the Year Ended December 31			
	2018		2017	
	Amount	%	Amount	%
Others	\$ 371	-	\$ -	-

16) Commission

	For the Year Ended December 31			
	2018		2017	
	Amount	%	Amount	%
SKLI	\$ 264,121	7.34	\$ 494,424	15.43
BOT	8,260	0.23	7,941	0.25
BTLI	4,671	0.13	11,359	0.35
Shiun-You	22	-	51	-
Chung-Hua Real Estate	20	-	-	-
	\$ 277,094	7.70	\$ 513,775	16.03

Preceding commission and fee revenue are the rewards from SKLI and BTLI to HNCB Insurance Agency under commission revenue; the rewards from BOT to HNCB under gold passbook, the rewards from Chung-Hua Real Estate to HNCB under business promotion commission revenue and the rewards from Shiun-You to HNCB under credit card acquiring commission revenue. There is no similar kind of transaction that can be compared with.

17) Leases

- a) Yung-Chi AMC rents out office to HNCB, with rental paid monthly under an operating lease agreement till April 2027. Lease expenses were as follows:

	For the Year Ended December 31	
	2018	2017
Yung-Chi AMC	\$ 1,920	\$ 1,944

- b) SKLI rents out office to HNCB, with rental paid monthly under an operating lease agreement till December 2022. Lease expenses were as follows:

	For the Year Ended December 31	
	2018	2017
SKLI	\$ 13,273	\$ 13,710

- c) Yuan-Ding Investment rents out office and parking space to HNSC, with rental paid monthly under an operating lease agreement. Lease expenses and guarantee deposits were as follows (the deposit is calculated):

Guarantee deposits

	December 31	
	2018	2017
Yuan-Ding	\$ 3,624	\$ 3,624

Lease expenses

	For the Year Ended December 31	
	2018	2017
Yuan-Ding	\$ 10,906	\$ 10,903

- d) Chou Dang-Yin rents out office space to HNSC, with rental paid monthly under an operating lease agreement. Lease expenses and guarantee deposits were as follows:

Guarantee deposits

	December 31	
	2018	2017
Chou Dang-Yin	\$ 900	\$ 900

Lease expenses

	For the Year Ended December 31	
	2018	2017
Chou Dang-Yin	\$ 1,200	\$ 1,200

- e) BOT rents out office space to HNSC, with rental paid monthly under an operating lease agreement. Lease expenses and guarantee deposits were as follows:

Guarantee deposits

	December 31	
	2018	2017
BOT	\$ 100	\$ 100

Lease expenses

	For the Year Ended December 31	
	2018	2017
BOT	\$ 600	\$ 600

- f) Other related parties rents out office space to HNSC, with rental paid monthly under an operating lease agreement. Lease expenses and guarantee deposits were as follows:

Guarantee deposits

	December 31	
	2018	2017
Others	\$ 225	\$ 225

Lease expenses

	For the Year Ended December 31	
	2018	2017
Others	\$ 899	\$ 898

18) Interest expense

	For the Year Ended December 31			
	2018		2017	
	Amount	%	Amount	%
Fund under HNIT	\$ 4	-	\$ 16	-

19) Other operating expenses

	For the Year Ended December 31			
	2018		2017	
	Amount	%	Amount	%
BOT	\$ 88	-	\$ 170	-
Others	2,570	0.03	3,173	0.04
	\$ 2,658	0.03	\$ 3,343	0.04

20) Other non-interest net revenues

	For the Year Ended December 31			
	2018		2017	
	Amount	%	Amount	%
BOT	\$ 956	0.01	\$ 1,806	0.02
SKCB	26	-	25	-
Others	-	-	20	-
	<u>\$ 982</u>	<u>0.01</u>	<u>\$ 1,851</u>	<u>0.02</u>

21) Cash and cash equivalents

Checking deposits and savings deposits (foreign currency included)

	December 31			
	2018		2017	
	Amount	%	Amount	%
BOT	\$ 8,697	0.49	\$ 8,491	0.35
SKCB	1	-	1	-
	<u>\$ 8,698</u>	<u>0.49</u>	<u>\$ 8,492</u>	<u>0.35</u>

Time deposits

	December 31			
	2018		2017	
	Amount	%	Amount	%
BOT	\$ 12,800	0.72	\$ 12,800	0.52
SKCB	2,500	0.14	2,500	0.10
	<u>\$ 15,300</u>	<u>0.86</u>	<u>\$ 15,300</u>	<u>0.62</u>

Interest revenues from related parties were \$982 and \$1,851 for the three months and years ended December 31, 2018 and 2017, respectively.

- 22) As of December 31, 2018, the Company and its subsidiaries paid Chung-Hua Real Estate \$4,880 to build an information technology center. It is recognized in construction in progress and prepayment for equipment, land and buildings.

23) Compensation of key managements personnel

The key managements refer to directors, supervisors, and managements personnel beyond vice president.

	For the Year Ended December 31	
	2018	2017
Short-term employee benefits	\$ 456,556	\$ 479,277
Post-employment benefits	32,800	16,631
Other long-term employee benefits	18	18
	<u>\$ 489,374</u>	<u>\$ 495,926</u>

24) Others

In compliance with Banking Act, except for consumer and government loans, credits extended by HNCB to any related party should be fully secured, and the credit terms for related parties should be similar to those for third parties.

For transactions between HNCB and related parties, the terms are similar to those transacted with third parties, except for the preferential interest rates for employees with limited amounts.

c. Information of related party transactions of subsidiaries over \$100 million

1) HNCB

a) Deposits

	For the Year Ended December 31					
	2018			2017		
	Ending Balance	Interest Rate (%)	Interest Expense	Ending Balance	Interest Rate (%)	Interest Expense
SCIC	\$ 691,706	0-1.065	\$ 1,386	\$ 666,456	0-1.065	\$ 1,301
HNFC	506,288	0-2.2	859	519,531	0-1.065	641
HNSC	474,552	0-1.065	642	565,003	0-1.065	626
HNLC Shenzhen	444,581	0.05-2.25	7,264	438,103	0.05-2.25	10,545
HNFH	422,124	0.08-0.39	5,400	275,710	0.08	5,548
HNVC	98,505	0-2.1	699	149,886	0-1.065	611
HNIT	82,610	0.08-0.443	71	88,410	0-0.257	84
Hua Nan Securities (HK) Limited	56,536	0.001-0.1	2	171,331	0.223	2
Chung-Hua Real Estate	53,532	0-0.082	32	3,141	0-0.08	3
HNAMC	39,791	0-0.13	19	3,586	0-0.094	17
HNIM	27,941	0.08-1.065	254	28,079	0.08-1.065	261
HNILC	12,169	0-1.85	39	6,244	0.08-1.4	27
Yuan Ding Investment	2,474	-	-	403	-	-
Taipei 101	58	-	-	-	-	-
Hua Nan Holdings Corp.	3	0.3001	-	33	0.284	200
Yung-Chi Amc	-	0-0.08	2	4,745	0-0.08	11
Shiun-You	-	0-0.08	2	1,847	0-0.081	2
Hua Nan Asset Management Corp.	-	-	-	-	0.236	1
Others	18,394,146	0-13	169,315	12,987,286	0-13	113,311
	<u>\$ 21,307,016</u>		<u>\$ 185,986</u>	<u>\$ 15,909,794</u>		<u>\$ 133,191</u>

b) Sales or purchases of bills and bonds

	For the Year Ended December 31, 2018				
	Bills and Bonds Purchased From Related Parties	Bills and Bonds Sold to Related Parties	Bills and Bonds Purchased Under Resale Agreements From Related Parties	Bills and Bonds Sold Under Repurchase Agreements From Related Parties	Interest Expense
HNLC	\$ 450,496	\$ 50,294	\$ -	\$ -	-

	For the Year Ended December 31, 2017				
	Bills and Bonds Purchased From Related Parties	Bills and Bonds Sold to Related Parties	Bills and Bonds Purchased Under Resale Agreements From Related Parties	Bills and Bonds Sold Under Repurchase Agreements From Related Parties	Interest Expense
HNLC	\$ 348,104	\$ 100,302	\$ -	\$ -	-

c) Payable to related party for allocation under the linked-tax system

	December 31			
	2018		2017	
	Amount	%	Amount	%
Tax payable to the parent company	\$ 706,290	49.19	\$ 116,329	13.27

2) HNSC

a) Cash and cash equivalents

	December 31			
	2018		2017	
	Amount	Annual Interest Rate (%)	Amount	Annual Interest Rate (%)
HNCB	\$ 474,552	0-1.065	\$ 565,003	0-1.065

b) Payable to related party for allocation under the linked-tax system

	For the Year Ended December 31			
	2018		2017	
	Amount	%	Amount	%
Tax payable to the parent company	\$ 164,314	100.00	\$ 78,389	100.00

3) SCIC

a) Cash and cash equivalents

	December 31			
	2018		2017	
	Amount	Annual Interest Rate (%)	Amount	Annual Interest Rate (%)
HNCB	\$ 691,706	0-1.065	\$ 666,456	0-1.065

b) Marketable securities

SCIC and HNIT signed a discretionary investment contract. SCIC can invest securities and assign HNCB for the custody institution. The period of the contract begins since July 25, 2003. The contract expands per year.

The amount of discretionary investment and the value of the assets under management were as follow:

	December 31			
	2018		2017	
	The Amount of Discretionary Investment	Value of the Assets Under Management	The Amount of Discretionary Investment	Value of the Assets Under Management
HNIT	\$ 150,000	\$ 137,627	\$ 150,000	\$ 152,562

4) HNIT

Cash dividends equivalents

	December 31			
	2018		2017	
	Ending Balance	%	Ending Balance	%
HNCB	\$ 82,610	0.08-0.443	\$ 88,410	0-0.257

5) HNVC

Cash dividends equivalents

	December 31			
	2018		2017	
	Amount	Annual Interest Rate (%)	Amount	Annual Interest Rate (%)
HNCB	\$ 98,505	0-2.1	\$ 149,886	0-1.065

6) HNAME

- a) HNAME purchased non-performing loans ("NPLS") from HNBF in October 2005. As of December 31, 2018 and 2017, there were \$174,198 of NPL which have not been sold or recovered, respectively.
- b) HNAME sold land to HNCB in 2017. The transaction price was \$566,000. After deducting output tax \$2,595 and carrying amount \$285,883, HNAME recognized disposal gain \$277,522.

7) HNLC - Shenzhen

Cash and cash equivalents

	December 31			
	2018		2017	
	Amount	Annual Interest Rate (%)	Amount	Annual Interest Rate (%)
HNCB	\$ 444,581	0.05-2.25	\$ 438,103	0.05-2.25

8) Subsidiaries of HNSC

a) Cash and cash equivalents

	December 31			
	2018		2017	
	Amount	Annual Interest Rate (%)	Amount	Annual Interest Rate (%)
HNCB	\$ 590,768	0-0.3001	\$ 718,974	0-1.065

b) Customers' margin account-deposit

	December 31	
	2018	2017
HNCB	\$ 475,397	\$ 484,819

48. NON-CASH TRANSACTION

For the years ended December 31, 2018 and 2017, the Company and its subsidiaries entered into the following non-cash investing and financing activities which were not reflected in the consolidated statements of cash flows:

	For the Year Ended December 31	
	2018	2017
Property and equipment transferred into intangible assets	\$ 89,022	\$ 15,929
Property and equipment transferred into investment property	\$ 63,705	\$ -
Investment property transferred into property and equipment	\$ 18,200	\$ 65,839
Investment property transferred into other assets	\$ -	\$ 10,678
Other assets transferred into property and equipment	\$ 41,696	\$ 5,151
Other assets transferred into intangible assets	\$ 7,886	\$ 4,489
Increase in decommissioning liability	\$ -	\$ 2,086

49. PLEDGED ASSETS

The pledged assets as of December 31, 2018 and 2017 were as follows:

	December 31	
	2018	2017
Equity instruments at fair value through other comprehensive income	\$ 139,122	\$ -
Debt instruments at fair value through other comprehensive income - par value	1,050,580	-
Financial assets at amortized cost - bond investment - par value	5,078,700	-
Financial assets at amortized cost - negotiable certificates of deposits	39,050,000	-
Available-for-sale financial assets - bond investment - par value	-	1,169,440
Held-to-maturity financial assets - bond investment - par value	-	5,359,300
Held-to-maturity financial assets - negotiable certificates of deposits	-	39,200,000
Other financial assets - financial assets carried at cost - stocks	-	26,756
Other assets - operating deposits and settlement fund	675,343	708,404
Other assets - restricted assets	233,130	157,500
Property and equipment - land	938,871	960,054
Property and equipment - buildings, net	242,881	271,106
Investment properties - land	88,500	108,853
Investment properties - buildings, net	29,307	30,391
	<u>\$ 47,526,434</u>	<u>\$ 47,991,804</u>

50. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

a. HNCB and its subsidiaries

1) As of December 31, 2018 and 2017, HNCB and its subsidiaries had commitments as follows:

	December 31	
	2018	2017
Undrawn loan commitment (Note)	\$ 150,289,304	\$ 111,434,634
Undrawn credit card commitment	95,642,222	91,757,870
Standby letters of credit	26,943,628	27,154,086
Guarantees issued	40,722,624	34,523,430
Collections for customers	105,236,245	103,828,821
Commissioned deposit	1,263	1,263
Travelers' checks consigned-in	220,511	235,276
Guarantee notes payable	45,129,280	45,679,740
Trust assets	535,520,121	470,579,325
Marketable securities under custody	10,811,711	11,894,027
Agent for book-entry government bonds	73,657,300	94,916,400
Agent for short-term bills under custody	55,164,860	84,860,609

Note: Only disclose irrevocable undrawn loan commitment.

- 2) HNCB Insurance Agency engaged in insurance agent contracts with insurance companies, and the content of the contracts was as follows:

Insurance Company	Contract Date	Calculation of Commission	Period
Sing Kong Life Insurance	2017.08.28	Based on regulations of the contract	The contract is annual. 1 month before the expiration date without disagreements between both sides, the contract extends a year automatically.
Allianz Insurance	2017.08.28	Based on regulations of the contract	The contract is annual. 1 month before the expiration date without disagreements between both sides, the contract extends a year automatically.
Taiwan Life Insurance	2017.08.28	Based on regulations of the contract	The contract is annual. 1 month before the expiration date without disagreements between both sides, the contract extends a year automatically.
Cathay Life Insurance	2017.08.28	Based on regulations of the contract	The effective date is the contract date, one year period. 30 days before the expiration date without disagreements between both sides, the contract extends a year automatically.
Fubon Life Insurance	2017.08.28	Based on regulations of the contract	The effective date is the contract date, one year period. 30 days before the expiration date without disagreements between both sides, the contract extends a year automatically.
TransGlobe Life Insurance	2017.08.28	Based on regulations of the contract	The contract is annual. 1 month before the expiration date without disagreements between both sides, the contract extends a year automatically.
Cardif Assurance Vie	2017.08.28	Based on regulations of the contract	The effective date is the contract date, one year period. 30 days before the expiration date without disagreements between both sides, the contract extends a year automatically.
Nan Shan Life Insurance	2017.08.28	Based on regulations of the contract	The effective date is the contract date, one year period. 30 days before the expiration date without disagreements between both sides, the contract extends a year automatically.
Farglory Life Insurance	2017.08.28	Based on regulations of the contract	The contract is annual. 1 month before the expiration date without disagreements between both sides, the contract extends a year automatically.
Mercuries Life Insurance	2017.08.28	Based on regulations of the contract	The contract is annual. 1 month before the expiration date without disagreements between both sides, the contract extends a year automatically.
BankTaiwan Life Insurance	2017.09.30	Based on regulations of the contract	The contract is annual. 1 month before the expiration date without disagreements between both sides, the contract extends a year automatically.
CIGNA Life Insurance	2017.08.28	Based on regulations of the contract	The contract is annual. 1 month before the expiration date without disagreements between both sides, the contract extends a year automatically.
Chubb Life Insurance	2017.08.28	Based on regulations of the contract	The effective date is the contract date, one year period. 30 days before the expiration date without disagreements between both sides, the contract extends a year automatically.
AIA Life Insurance	2017.08.28	Based on regulations of the contract	The contract is annual. 1 month before the expiration date without disagreements between both sides, the contract extends a year automatically.
Yuanta Life Insurance	2017.08.28	Based on regulations of the contract	The contract is annual. 1 month before the expiration date without disagreements between both sides, the contract extends a year automatically.
Prudential Life Insurance	2017.08.28	Based on regulations of the contract	The effective date is the contract date, one year period. 30 days before the expiration date without disagreements between both sides, the contract extends a year automatically.
China Life Insurance	2017.08.28	Based on regulations of the contract	The contract is annual. 1 month before the expiration date without disagreements between both sides, the contract extends a year automatically.
South China Insurance Co., Ltd.	2017.08.28	Based on regulations of the contract	The contract is annual. 1 month before the expiration date without disagreements between both sides, the contract extends a year automatically.

b. HNSC and its subsidiaries

- 1) HNSC and its subsidiaries' use of certain office spaces is covered by operating lease agreements. At the end of the lease period, HNSC and its subsidiaries do not have bargain price forward the rental spaces. The refundable deposits for the lease as of December 31, 2018 and 2017 were \$18,026 and \$18,298.

The irrevocable minimum future rental payments are as follows:

	December 31	
	2018	2017
Less than 1 year	\$ 69,757	\$ 67,038
1 year to 5 years	<u>68,488</u>	<u>86,892</u>
	<u>\$ 138,245</u>	<u>\$ 153,930</u>

According to the irrevocable sublease contract, total minimum expected future sublease revenue was \$105,942.

The lease payment recognized as expenses was as follows:

	For the Year Ended December 31	
	2018	2017
Rental payment	\$ 89,883	\$ 91,330
Sublease revenue	<u>(105,942)</u>	<u>(104,050)</u>
	<u>\$ (16,059)</u>	<u>\$ (12,720)</u>

- 2) The complainant Mr. Wei considered that HNSC's former employee Mrs. Huang and her friend Mrs. Tu as suspected of being involved in the crime of fraud and fled after stealing and selling the complainant's stocks. He appealed a lawsuit to Taiwan Taipei District Court against HNSC to compensate \$20,000 for losses caused by its employee. Because Mrs. Huang and her friend Mrs. Tu were promulgated an order for their arrest, this case is not proceeding in the court and still belongs to Taiwan Taipei District Court.
- 3) The plaintiff, Mr. Pong, appealed against HNSC for not paying the full amount of pension payment, and asked for \$2,029 as compensation. Taipei District Court sentenced that HNSC should pay \$868 to Mr. Pong and the interest which is calculated using 5% interest rate since November 2, 2012. Taiwan High Court sentenced that HNSC should pay \$1,161 to Mr. Pong on October 13, 2015 and the interest which is calculated using 5% interest rate since November 2, 2012. Taiwan High Court also sentenced that in addition to \$868 as compensation in first instance. HNSC should pay \$1,141 more on June 28, 2017 and the interest which is calculated using 5% interest rate since November 2, 2012. HNSC proposes to appeal against the charge and the loss had been estimated and recorded.
- 4) The plaintiffs, Mr. Huang and Mr. Xi, claimed that the former employee of HNSC, Mr. Pong, had violated the law and caused the loss, and requested Mr. Peng and HNSC to jointly compensate. Taiwan Taipei District Court decided in favor of HNSC on April 29, 2016. On May 26, 2016, the plaintiffs second instance was accepted. On August 14, 2018, the court announce HNSC to win the case. HNSC received the appeal of Mr. Huang and Mr. Xi on September 13, 2018. The third trial of this case will be heard by the Supreme Court.
- 5) The plaintiff, Mr. Feng, former HNSC vice president, appealed against HNSC for pension payment differences and asked for \$2,394 as compensation, and the interest which is calculated using 5% interest rate since April 3, 2012. Taipei District Court ruled in favor of HNSC on October 13, 2017. Therefore, HNSC waits for Mr. Feng to file another appeal to Taiwan High Court. On October 9, 2018, HNSC was sentenced to pay Mr. Feng \$691, and the interest was calculated at 5% per annum from November 28, 2015 to the settlement date. Since the judgment of the High Court did not exceed \$1,500, HNSC may not appeal to the third instance. Therefore, the following related matters will depend on whether Mr. Feng appeals or not HNSC had already estimated and recognized the loss.

- 6) The plaintiff, Mr. Dong, was a former HNSC Minchuan Branch employee who was being laid off on January 19, 2018. The plaintiff filed a lawsuit related to salary payment, stating that the mutual labor contract still exists. The plaintiff stated that HNSC should paid him salary amounted to \$773 and bonus amounted to \$113, which was discounted due to performance not meeting company's expectation, from February 2018 to May 2020. Taiwan Kaohsiung District Court held a mediation at 3 p.m. on October 30, 2018, and the result was not established. Trial was held 2:30 p.m. on December 5, 2018. The court continue to hear the case at 3:30 p.m. on January 16, 2019. The case is currently pending by the court to inform the next court session.
- 7) The plaintiff, Mr. Huang, Mr. Shi and Mr. Huang appealed a lawsuit to Taiwan Kaohsiung District Court against Mr. Yu, Mr. Wu and HNSC ask for \$12,275 as compensation for investment loss, and the interest was calculated at 5% interest rate per annum from the delivery date of declaration to the settlement date. HNSC received court notice and declaration from Taiwan Kaohsiung District Court on October 30, 2018. HNSC was asked to sort out issues and file a reply before November 8, 2018. The case is pending by the court to inform the court session.

c. SCIC

1) SCIC as a lessee

The lease was operating lease and the lease terms were 1 to 5 years. At the end of the lease period, SCIC does not have the bargain price.

The irrevocable minimum future rental payments are as follows:

	December 31	
	2018	2017
Less than 1 year	\$ 17,731	\$ 19,961
1 year to 5 years	<u>20,666</u>	<u>29,253</u>
	<u>\$ 38,397</u>	<u>\$ 49,214</u>

2) SCIC as a lessor

SCIC rented out SCIC's investment properties as operating lease and the terms were 1 to 12 years. According to operating lease contracts, including the extending contracts, SCIC is entitled to adjust the rent based on market price. The lessee does not have bargain price at the end of the lease period.

The irrevocable minimum future rental payments are as follows:

	December 31	
	2018	2017
Less than 1 year	\$ 8,952	\$ 8,760
1 year to 5 years	15,358	19,483
More than 5 years	<u>1,882</u>	<u>4,646</u>
	<u>\$ 26,192</u>	<u>\$ 32,889</u>

3) Unrecognized contractual agreements

	December 31	
	2018	2017
Purchase of property, equipment and intangible assets	<u>\$ 6,857</u>	<u>\$ 7,535</u>

d. HNIT

HNIT leased office, parking lot and transportation equipment as operating lease and the lease terms were 1 to 3 years.

Minimum future operating lease payments are as follows:

	December 31	
	2018	2017
Less than 1 year	\$ 408	\$ 1,684
More than 1 year but less than 3 years	<u>308</u>	<u>1,648</u>
	<u>\$ 716</u>	<u>\$ 3,332</u>

e. HNVC

HNVC leased office spaces and operating vehicles as operating lease and lease terms were 1 to 4 years. The irrevocable minimum future lease payment was as follows:

	December 31	
	2018	2017
Less than 1 year	\$ 524	\$ 1,774
More than 1 year but less than 5 years	<u>25</u>	<u>549</u>
	<u>\$ 549</u>	<u>\$ 2,323</u>

f. HNAME

1) HNAME as a lessee

The lease was operating lease on operating office and transportation, and the lease terms were 3 to 5 years. At the end of the lease period, HNAME does not have the bargain price.

The irrevocable minimum future rental payments are as follows:

	December 31	
	2018	2017
Less than 1 year	\$ 1,011	\$ 1,162
1 year to 5 years	<u>218</u>	<u>972</u>
	<u>\$ 1,229</u>	<u>\$ 2,134</u>

2) HNAME as a lessor

HNAME rented out HNAME's investment properties as operating lease and the terms were 1 to 10 years. The lessee does not have bargain price at the end of the lease period.

The irrevocable minimum future rental payments are as follows:

	December 31	
	2018	2017
Less than 1 year	\$ 39,479	\$ 35,558
1 year to 5 years	77,605	54,960
More than 5 years	<u>4,628</u>	<u>6,537</u>
	<u>\$ 121,712</u>	<u>\$ 97,055</u>

51. OTHERS

According to the report of the Wall Street Journal on April 27, 2009 and the indictment presented by U.S. Securities and Exchange Commission (SEC) to United States Court, the assets under the names of Danny Pang, Private Equity Management Group, Inc. and Private Equity Management Group LLC (PEM Group) had been frozen by United States Court. PEM Group is the parent group of GVEC Resource II Inc., which issued structured notes and were invested by HNCB, and is now take over by the administrator of property (Receiver) assigned by SEC. HNCB had sold five structured notes issued by GVEC Resource II Inc. subordinate to PEM Group from July 2007 to February 2008. HNIT had managed the financial instruments issued by PEM Group. Total amount of those financial instruments mentioned above is US\$258,876.

On May 8, 2009, HNCB and HNIT decided to buy back those financial instruments from investors with the resolution of board of directors and then claimed for damage and compensation in order to protect their reputation and the rights of their clients. As of December 31, 2018, HNCB and HNIT had bought back \$5,801,339 and \$1,712,312, respectively (including outstanding premium which recognized as receivable). In order to protect shareholders' equity, HNCB's managing director of the board resolved on December 27, 2010 and December 21, 2010, and HNIT's board resolved on December 21, 2010, respectively to comply with United States Court and transfer US\$39,469 and US\$7,310 worth of Insurance Policy on the balance sheets. The accumulated allowance for HNCB and HNIT amounting to \$3,431,389 and \$1,350,124. HNCB and HNIT had submitted the follow-up scheme to the authorities as of January 3, 2011. HNCB and HNIT had established the Trustee jointly with other financial institutions to take the insurance policy transferred from the receiver and prolonged the insurance premium payment to maintain the validity of insurance policy.

52. HIERARCHY AND FAIR VALUE INFORMATION OF FINANCIAL INSTRUMENTS

The hierarchy information of fair value of financial instruments:

- a. The fair value of financial instruments of the Company and its subsidiaries are all measured at fair value on a recurring basis. The fair value hierarchy of the Company and its subsidiaries financial instruments were as follows:

Assets and Liabilities Items	December 31, 2018			
	Total	Level 1	Level 2	Level 3
<u>Measured at fair value on a recurring basis</u>				
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Financial assets mandatorily at fair value through profit or loss				
Investment in stocks	\$ 3,686,714	\$ 2,544,434	\$ 86,315	\$ 1,055,965
Investment in bonds	1,967,768	35,465	1,932,303	-
Others	77,082,196	1,212,421	75,598,728	271,047
Financial assets at fair value through other comprehensive income				
Investment in stocks	25,688,894	18,554,636	-	7,134,258
Investment in bonds	160,701,589	20,455,323	140,246,266	-
Others	5,057,190	-	5,057,190	-
Receivable at fair value through profit or loss				
Buy the overdue receivable	43,429	-	-	43,429
<u>Liabilities</u>				
Financial liabilities at fair value through profit or loss				
Held for trading financial liabilities	29,029	29,029	-	-
Financial liabilities designated at fair value through profit or loss	4,062,815	-	4,062,815	-
<u>Derivative financial instruments</u>				
<u>Assets</u>				
Financial assets at fair value through profit or loss	\$ 3,968,796	\$ 3,240	\$ 3,965,556	\$ -
<u>Liabilities</u>				
Financial liabilities at fair value through profit or loss	711,227	4,300	706,927	-

Assets and Liabilities Items	December 31, 2017			
	Total	Level 1	Level 2	Level 3
<u>Measured at fair value on a recurring basis</u>				
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Financial assets at fair value through profit or loss				
Held for trading financial assets				
Investment in stocks	\$ 2,916,214	\$ 2,916,214	\$ -	\$ -
Investment in bonds	972,265	14,523	957,742	-
Others	67,679,014	499,618	67,179,396	-
Financial assets designated at fair value through profit or loss				
Investment in bonds	3,732,751	35,000	3,697,751	-
Available-for-sale financial assets				
Investment in stocks	13,657,144	13,657,144	-	-
Investment in bonds	131,066,583	40,901,777	90,164,806	-
Others	4,948,021	1,146,322	3,801,699	-
<u>Liabilities</u>				
Financial liabilities at fair value through profit or loss				
Held for trading financial liabilities	271,541	271,541	-	-
Financial liabilities designated at fair value through profit or loss	5,705,802	-	5,705,802	-
<u>Derivative financial instruments</u>				
<u>Assets</u>				
Financial assets at fair value through profit or loss	761,747	275	761,472	-
Hedging derivative financial assets				
<u>Liabilities</u>				
Financial liabilities at fair value through profit or loss	1,998,377	-	1,998,377	-
Hedging derivative financial liabilities	4,082	-	4,082	-

Note 1: Level 1 financial instruments are traded in active market and have the identical price for the same financial instruments. "Active market" should match the following characteristics:

- 1) All financial instruments in the market are homogeneous;
- 2) Willing buyers and sellers exist in the market all the time;
- 3) The public can access the price information easily.

Note 2: Level two financial instruments categorized in this level have the prices that can be inferred from either direct observable inputs (etc. price) or indirect observable inputs (etc. inputs derived from price) other than the active market's prices. Examples of these inputs are:

- 1) Quoted prices from the similar products in the active market refers to the fair value can be derived from the current trading prices of similar products. It is also noted that whether they are similar products should be judged by the characteristics and trading rules. The fair value of financial instruments should comply with the observable transaction price of similar financial instruments. The fair value valuation in this circumstance may make some adjustment due to time lags, trading rule's differences, related parties' prices, and the correlation of price between itself and the similar goods.
- 2) Quoted prices for identical or similar financial instruments in inactive markets.
- 3) When measuring the fair value evaluation model, the input of model in this level should be observable (such as interest rates, yield curves and volatilities). The observable inputs mean that they can be attained from market and can reflect the expectation of market participants.
- 4) Inputs which can be derived from other observable prices or whose correlation can be verified through other observable market data.

Note 3: The fair prices of the products in this level are based on the inputs other than the direct market data. For example, historical volatility used in valuing options is an unobservable input, since it cannot represent the entire market participants' expectation toward future volatility.

b. Reconciliation of Level 3 items of financial assets

For the Year Ended December 31, 2018

Name	Effect of Application	Gains (Losses) on Valuation		Increase		Decrease		Ending Balance
		Profit and Loss	Other Comprehensive Income	Purchase/ Issued	Transfer to Level 3	Disposed/ Sold	Transfer Out of Level 3	
<u>Assets</u>								
Financial assets at fair value through profit or loss								
Unlisted stocks	\$ 1,011,016	\$ 59,158	\$ -	\$ 41,478	\$ -	\$ 55,687	\$ -	\$ 1,055,965
Overdue receivables	58,197	12,827	-	-	-	27,595	-	43,429
Equity investment	- (	7,453)	-	278,500	-	-	-	271,047
Financial assets at fair value through other comprehensive income								
Unlisted stocks	7,682,561	- (	302,563)	75,000	-	320,740	-	7,134,258

As of December 31, 2018, the valuation loss included in profit and loss for assets still held was \$233,650.

As of December 31, 2018, the valuation gain included in other comprehensive income for assets still held was \$3,130,122.

c. Reconciliation of Level 3 items of financial liabilities

For the Year Ended December 31, 2017

Name	Beginning Balance	Gains (Losses) on Valuation		Increase		Decrease		Ending Balance
		Profit and Loss	Other Comprehensive Income	Purchase/ Issued	Transfer to Level 3	Disposed/ Sold	Transfer Out of Level 3	
<u>Liabilities</u>								
Financial liabilities at fair value through profit or loss								
Held-for-trading financial liabilities								
Assets swap	\$ 29	\$(29)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

As of December 31, 2017, there isn't any valuation loss included in profit and loss for liabilities still held.

d. Quantitative information about the significant unobservable inputs (Level 3) used in the fair value measurement HNCB and its subsidiaries

As of December 31, 2018 and 2017, Level 3 items of financial assets and financial liabilities held by the Company and its subsidiaries are foreign exchange options and assets swap according to the quote by counter parties. The quantitative information about the unobservable inputs is as follows:

Name	Fair Value on December 31, 2018	Fair Value on December 31, 2017	Valuation Techniques	Significant Unobservable Inputs	Interval (Weighted-average)	Correlation Between Inputs and Fair Value
<u>Measured on a recurring basis</u>						
Financial assets at fair value through profit or loss						
Equity investment	\$ 190,000	\$ -	Sellers' quote (Monte Carlo Simulation Method)	Volatility	0%-30%	Positive correlation
Financial assets at fair value through other comprehensive income						
Unlisted stocks	5,681,765	-	Sellers' quote (Monte Carlo Simulation Method)	Volatility	0%-30%	Positive correlation

Note: The interval (weighted-average) of significant unobservable inputs is not fully captured in practice. Therefore the interval is not disclosed by the Company and its subsidiaries.

HNSC and its subsidiaries

Significant unobservable inputs are as follow:

Minority interest and liquidity were discounted. The discount rate was 10% respectively since companies which HNSC invested are government institutions, therefore minority interest would not bear much loss.

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Significant unobservable inputs are as below. When liquidity discount amount and minority interest discount amount decrease, the investments' fair value will increase.

	December 31	
	2018	2017
Liquidity discount	10%-20%	-
Minority interest discount	20%	-

HNAMC

Significant unobservable input is 5% discount rate.

HNIT

Significant unobservable inputs are as follow:

Minority interest and liquidity were discounted. The discount rate was 10% respectively since companies which HNIT invested are government institutions, therefore minority interest would not bear much loss.

e. Valuation processes for fair value measurements categorized within Level 3

HNCB and its subsidiaries

The fair values of foreign exchange options and assets swap held by HNCB and its subsidiaries were according to the quote by counter parties, related assessment are compiled as risk-control reports and inform the manager by month and report to the board of directors by quarter.

Evaluate unlisted shares' fair value based on the list which included unlisted shares HNCB held. Related assessment are compiled as risk-control report and inform the manager by month and the board of director by quarter.

HNSC and its subsidiaries

Domestic unlisted shares investments adopted balance sheet approach. The approach reflect entity or business wholesome value by evaluating its total value of investment's asset and liability.

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Domestic unlisted shares investments adopted balance sheet approach. The approach reflect entity or business wholesome value by evaluating its total value of investment's asset and liability.

HNAMC

The fair value of overdue receivable HNAMC bought are evaluated based on its collateral. Through evaluating collateral's disposal expense and the disposal period, and adopting appropriate discount rate, the present value of expected disposal gain can be calculated.

HNIT

Domestic unlisted shares investments adopted balance sheet approach. The approach reflect entity or business wholesome value by evaluating its total value of investment's asset and liability.

f. HNCB and its subsidiaries' sensitivity analysis of Level 3 fair value if reasonable possible alternative assumptions may be used.

HNCB and its subsidiaries evaluate the fair value of financial instruments reasonably. Nevertheless, the outcome of the evaluation may vary because of the adoption of different valuation models and parameters. For the Level 3 financial instruments as of December 31, 2018 and 2017, the sensitivity analysis based on assets category are as follow:

- 1) If assets swap increase or decrease by 1 percent based on its related transaction condition, the influence to the current net income.
- 2) Unlisted shares evaluation considers the influence of liquidity discount evaluation to other comprehensive income.
- 3) Equity investment evaluation considers the influence of liquidity discount evaluation to profit or loss.

Items	The Change in Fair Value Influence Current Net Income		The Change in Fair Value Influence Other Comprehensive Income	
	Favorable	Unfavorable	Favorable	Unfavorable
<u>December 31, 2018</u>				
<u>Assets</u>				
Financial assets at fair value through other comprehensive income - equity instruments				
Unlisted stocks	\$ -	\$ -	\$ 316,348	\$ (316,348)
<u>Liabilities</u>				
Financial liabilities at fair value through profit or loss				
Assets swap	76	(76)	-	-

Items	The Change in Fair Value Influence Current Net Income		The Change in Fair Value Influence Other Comprehensive Income	
	Favorable	Unfavorable	Favorable	Unfavorable
<u>December 31, 2017</u>				
<u>Liabilities</u>				
Financial liabilities at fair value through profit or loss				
Assets swap	\$ 5	\$ (5)	\$ -	\$ -

Favorable or unfavorable changes of HNCB and its subsidiaries refer to the fluctuation of fair value, which is calculated by different unobserved parameters.

If the fair value of financial instruments are affected by more than one parameter, the preceding table only reflects effect caused by a single parameter, and do not consider the correlation among parameters.

HNCB and its subsidiaries

Not measure in fair value:

a. Fair value of financial instruments

The book value of financial instruments not carried at fair value, excluding items in the table below, are reasonably similar to their fair value, therefore their fair value are not disclosed, for example: Cash and cash equivalents, due from the Central Bank and other banks, receivables, discounts and loans, refundable deposits, deposits from the Central Bank and banks, securities sold under repurchase agreements, payables and guarantee deposits received.

Items	Book Value	Fair Value
<u>December 31, 2018</u>		
Financial assets		
Financial assets at amortized cost	\$ 448,772,255	\$ 448,867,544
Non-financial assets		
Investment properties	8,598,698	29,796,233
Financial liabilities		
Bank debentures	41,700,000	43,306,543
<u>December 31, 2017</u>		
Financial assets		
Held-to-maturity financial assets	379,759,468	380,741,426
Other financial assets - bond investment with no active market	14,019,697	14,218,341
Non-financial assets		
Investment properties	8,588,488	26,535,505
Financial liabilities		
Bank debentures	43,550,000	42,003,354

b. Hierarchy information of fair value of financial instruments

Assets and Liabilities Items	December 31, 2018			
	Total	Level 1	Level 2	Level 3
Financial assets				
Financial assets at amortized cost	\$ 448,867,544	\$ 19,212,140	\$ 429,655,404	\$ -
Non-financial assets				
Investment properties	29,796,233	-	29,796,233	-
Financial liabilities				
Bank debentures	43,306,543	-	43,306,543	-

Assets and Liabilities Items	December 31, 2017			
	Total	Level 1	Level 2	Level 3
Financial assets				
Held-to-maturity financial assets	\$ 380,741,426	\$ 27,841,816	\$ 352,899,610	\$ -
Other financial assets - bond investment with no active market	14,218,341	-	14,218,341	-
Non-financial assets				
Investment properties	26,535,505	-	26,535,505	-
Financial liabilities				
Bank debentures	42,003,354	-	42,003,354	-

c. Valuation techniques

HNCB and its subsidiaries apply the following methods and assumptions to determine the fair values of financial instruments not carried at fair value:

- 1) The carrying amounts of the following short-term financial instruments approximate to their fair values because of their short-term maturity: Cash and cash equivalents, due from the Central Bank and other banks, receivables, refundable deposits, deposits from the Central Bank and banks, securities sold under repurchase agreements, payables and guarantee deposits received.

- 2) Discounts and loans (include nonperforming loans): The interest rate of HNCB and its subsidiaries' loan are determined by the base rate and the added/deducted margin, i.e. the floating rate which can represent market rate. Thus, it's reasonable to estimate the fair value using the carrying amount with the consideration to the possibility of the collection.

The fair value of the fixed rate mid-term and long-term loans should be determined by the discounted present value of the future cash flows. However, the mid-term and long-term loans is not significant in this item; thus, it's reasonable to estimate the fair value using the carrying amount in consideration of the possibility of collection.

- 3) Financial assets at amortized cost (2018), held-to-maturity financial assets (2017): Held-to-maturity financial assets with quoted price in an active market are using market price as fair value; held-to-maturity financial assets with no quoted price in an active market are estimated by valuation methods or counterparties' price.
- 4) Deposits and remittances: The evaluation of fair value are based on banking industry's characteristic. Deposits' mature within one year and measured by market rate (market value), are reasonable to assess fair value with its carrying value. Deposits with three years maturity are measured by discounted cash flow, and it is reasonable using carrying value to assess fair value.
- 5) Bank debenture: The fair value of bank debenture are determined by their expected future cash flow discounted at borrowing rate of debt instruments with equivalent term. The discount rates adopted by HNCB and its subsidiaries were from 0.9769% to 1.3336%.
- 6) Other financial assets - debt investments with no active market (2017): The fair value of debt investments with no active market is determined by the discounted cash flow approach. The discount rates of HNCB and its subsidiaries are identical to the return of financial instruments with the same terms and properties.
The terms and the properties include the credits condition of the debtor, the fixed interest bearing period, the remaining period of the principle and the currency of the payments, etc. The discount rates of HNCB and its subsidiaries range from 0.801% to 1.2872%.
- 7) Other financial assets - financial assets carried at cost (2017): The fair value of unquoted equity investments cannot be reliably measured because those investments do not have quoted price in an active market, the variability interval of fair value measurements is significant or the probability of the estimations in the variability interval cannot be reasonably assessed. Hence, the fair value is not disclosed.

HNSC and its subsidiaries

a. The information of fair value

- 1) Financial instruments not valued at fair value

The management of HNSC and its subsidiaries consider the carrying amount of financial assets and liabilities not valued at fair value could not be reliably measured.

2) Valuation techniques and inputs applied for the purpose of measuring Level 2 fair value measurement

Financial Instruments	Valuation Techniques and Inputs
Debt securities	Discounted cash flow. Future cash flows are discounted at a rate that reflects current borrowing interest rates of the bond issuers at the end of the reporting period.
Derivatives - interest swap contracts	Discounted cash flow. Future cash flows are discounted based on yield curve calculated through quoted price at the end of the reporting period.
Derivatives - currency swap contracts	Discounted cash flow. Future cash flows are estimated based on observable forward exchange rates at the end of the reporting period and contract forward rates, discounted at a rate that reflects the credit risk of various counterparties.
Emerging stock (non-active market)	Market approach. The company in same industry and similar finance situation which strike price of stock in active market corresponding price multiplier, converting the price of determined subject.

b. Categories of financial instruments

	December 31	
	2018	2017
<u>Financial assets</u>		
Financial assets at fair value through profit or loss		
Held for trading (Note 1)	\$ -	\$ 3,909,074
Mandatory at fair value through profit or loss	1,166,003	-
Loans and receivables (Note 2)	-	28,058,619
Available-for-sale financial assets (Note 3)	-	12,318,038
Financial assets of amortized cost (Note 4)	25,727,078	-
Financial assets at fair value through other comprehensive income		
Investments in equity instruments	1,889,438	-
Investments in debt instruments	8,042,504	-
<u>Financial liabilities</u>		
Financial liabilities at fair value through profit or loss		
Held for trading	49,752	288,563
Financial liabilities valued at amortized cost (Note 5)	25,747,635	33,094,541

Note 1: Balance include financial assets valued at cost categorized as held for trading.

Note 2: Balance for loans and receivables valued at amortized cost include the succeeding accounts: Cash and cash equivalents, margin loans receivable securities, purchased under agreements to resell marginal receivable, deposit paid to other securities lenders, refinancing deposit receivable, securities lending receivable customers margin account, marginal receivables for future exchanges, security borrowing collateral price, security borrowing margin, notes receivable and accounts receivable, other receivables, pledged deposits, collections for underwriting stock price and loans and receivables (excluding operation lease contracts refundable deposits deferred expenses and prepayments for equipment).

Note 3: Balance include financial assets valued at cost categorized as available-for-sale.

Note 4: Balance for loans and receivables valued at amortized cost include the succeeding accounts: Cash and cash equivalents, margin loans receivable securities, purchased under agreements to resell marginal receivable, deposit paid to other securities lenders, refinancing deposit receivable, securities lending receivable customers margin account, marginal receivables for future exchanges, security borrowing collateral price, security borrowing margin, notes receivable and accounts receivable, other receivables, pledged deposits, collections for underwriting stock price and other non-current financial assets (excluding operation lease contracts refundable deposits deferred expenses and prepayments for equipment).

Note 5: Balance for financial liabilities valued of amortized cost include the succeeding accounts: Short-term loans commercial paper payable, securities purchased under repurchase agreements, securities financing refundable deposits, deposits payable for securities financing, securities lending refundable deposits, future traders equity, notes and accounts payable, other payables (excluding employee benefit and tax), receipts under custody-collections from underwriting (recognized in other current liability), other long-term provisions and other non-current liabilities.

SCIC

a. The information of fair value

1) Financial instruments not valued at fair value

December 31, 2018

		Fair Value			
	Book Value	Level 1	Level 2	Level 3	Total
Financial assets at amortized cost (Note 1)					
Domestic bank debentures	\$ 99,073	\$ -	\$ 99,996	\$ -	\$ 99,996
Domestic government bonds	296,168	305,900	-	-	305,900
Foreign bank debentures	380,232	-	371,861	-	371,861
Foreign corporate bonds	1,054,748	-	997,741	-	997,741
Foreign government bonds	183,514	175,284	-	-	175,284
	\$ 2,013,735	\$ 481,184	\$ 1,469,598	\$ -	\$ 1,950,782

December 31, 2017

	Book Value	Fair Value			
		Level 1	Level 2	Level 3	Total
Bond investments in non-active markets	\$ 211,342	\$ -	\$ 217,449	\$ -	\$ 217,449
Investment held-to-maturity (Note 2)	1,156,142	105,124	1,058,886	-	1,164,010
	<u>\$ 1,367,484</u>	<u>\$ 105,124</u>	<u>\$ 1,276,335</u>	<u>\$ -</u>	<u>\$ 1,381,459</u>

Note 1: Included amortized cost financial assets as refundable deposits.

Note 2: Included held-to-maturity financial assets as refundable deposits.

The fair values of the financial assets and financial liabilities included in the Level 2 and Level 3 categories above have been determined in accordance with income approaches based on a discounted cash flow analysis, with the most significant unobservable inputs being the discount rate that reflects the credit risk of counterparties.

2) Valuation techniques and inputs applied for the purpose of measuring Level 2 fair value measurement

Financial Instruments	Valuation Techniques and Inputs
Derivatives - forward contracts and currency swap contracts	Future cash flows are estimated based on observable forward exchange rates at the end of the reporting period and contract forward rates, discounted at a rate that reflects the credit risk of various counterparties.

b. Categories of financial instruments

	December 31	
	2018	2017
<u>Financial assets</u>		
Financial assets at fair value through profit or loss		
Held for trading	\$ -	\$ 68,629
Mandatory at fair value through profit or loss	2,672,268	-
Loans and receivables (Note 1)	563,542	5,665,327
Held-to-maturity financial assets (Note 2)	-	1,156,142
Available-for-sale financial assets (Note 3)	-	6,433,676
Financial assets at amortized costs (Note 4)	6,633,697	-
Financial assets at fair value through other comprehensive income		
Equity instruments	29,994	-
Debt instruments	3,468,980	-
<u>Financial liabilities</u>		
Financial liabilities at fair value through profit or loss		
Held for trading	19,487	12,041
Financial liabilities at amortized cost (Note 5)	592,752	620,583

Note 1: Balances on December 31, 2017 include cash and cash equivalents, receivables, bond investments in inactive markets, other financial assets (deposits with three months or more from the original investment date), loans, indemnity refundable on reinsurance ceded, refundable reinsurance, refundable deposits (excluding available-for-sale held-to-maturity financial assets and available-for-sale financial assets as refundable deposits). Balance on December 31, 2018 includes indemnity refundable on reinsurance ceded and refundable reinsurance.

Note 2: Balances include held-to-maturity financial assets as refundable deposit.

Note 3: Balances include financial assets valued at cost categorized as available-for-sale and available-for-sale financial assets as refundable deposit.

Note 4: Balance includes cash and cash equivalents, receivables, financial assets amortized at cost, other financial assets (deposits with three months or more from the original investment date), loans and refundable deposits

Note 5: Balances include financial liabilities amortized at cost such as payables and guarantee deposits (excluding salary and incentive payable, insurance payable, compensated absence payable, pension payable and tax payable).

HNIT

a. The information of fair value

- Financial instruments not valued at fair value

The management of HNIT considers the carrying amount of financial assets and liabilities not valued at fair value approximates their fair value.

b. Categories of financial instruments

	December 31	
	2018	2017
<u>Financial assets</u>		
Loans and receivables (Note 1)	\$ -	\$ 474,387
Available-for-sale financial assets (Note 2)	-	35,170
Financial liabilities value at amortized cost (Note 3)	489,329	-
Mandatorily at fair value through profit or loss	4,156	-
Fair value through other comprehensive income - equity instruments	67,165	-
<u>Financial liabilities</u>		
Financial liabilities valued at amortized cost (Note 4)	382,507	389,583

Note 1: Balances include loans and receivables at amortized cost such as cash and cash equivalents, accounts receivable, other receivables and non-current assets (other receivables, net and refundable deposits).

Note 2: Balances include available-for-sale financial assets categorized as valued at cost.

Note 3: Balances includes financial assets at amortized cost such as cash and cash equivalents, accounts receivable, others receivables and non-current assets (other receivables, net and refundable deposits).

Note 4: Balances include financial liabilities amortized at cost such as short-term loans, short-term bill and other payables.

HNVC

a. The information of fair value

- Financial instruments not valued at fair value

The management of HNVC considers the carrying amount of financial assets and liabilities not valued at fair value approximates their fair value.

b. Categories of financial instruments

	December 31	
	2018	2017
<u>Financial assets</u>		
Fair value through profit or loss		
Mandatorily at fair value through profit or loss	\$ 1,106,031	\$ -
Loans and receivables (Note 1)	-	494,580
Available-for-sale financial assets (Note 2)	-	1,324,712
Financial assets at amortized cost (Note 3)	394,987	-
<u>Financial liabilities</u>		
Financial liabilities at amortized cost (Note 4)	89	94

Note 1: Balances include loans and receivables at amortized cost such as cash and cash equivalents, accounts receivable, other receivables and other receivables - related party and other financial assets - current and refundable deposit.

Note 2: Balances include available-for-sale financial assets and financial assets carried at cost.

Note 3: Balances include financial assets at amortized cost such as cash and cash equivalents, accounts receivable, other receivables, other receivables - related party, other financial assets and refundable deposit.

Note 4: Balance include financial liabilities at amortized cost such as other payables (excluding salary payable, employee benefit payable, incentive payable, pension payable, insurance payable and sales tax payable) and payable - related party.

HNAMC

a. The information of fair value

- Financial instruments not valued at fair value

The management of HNAMC considers the carrying amount of financial assets and liabilities not valued at fair value approximates their fair value.

b. Categories of financial instruments

	December 31	
	2018	2017
<u>Financial assets</u>		
Loans and receivables (Note 1)	\$ -	\$ 73,474
Financial assets at amortized cost (Note 2)	48,935	-
Fair value through other comprehensive income - equity instruments	25,000	-
Mandatorily at fair value through profit or loss	43,430	-
<u>Financial liabilities</u>		
Financial liabilities valued at amortized cost (Note 3)	2,410,504	1,086,355

Note 1: Balances include loans and receivables at amortized cost such as cash and cash equivalents, accounts receivable, receivable - related party, other receivables, long-term receivable and refundable deposit.

Note 2: Balances include financial assets at amortized cost such as cash and cash equivalents, part of receivables, receivables - related party, other receivables, long-term receivables and refundable deposit.

Note 3: Balances include financial liabilities amortized at cost such as short-term loans, net value of commercial paper payable, parts of other payables, other payables - related party, long-term loans, provisions and refundable deposit (other non-current liabilities).

53. FAIR VALUE HEDGE

The investment in foreign bonds could bear the risk of the changes in interest rate as a result of movements or fluctuations in the fair value. HNCB and its subsidiaries assessed the risk that could be significant and therefore signed interest rate swap contracts designated as fair value to hedge.

The Hedged Item	Designated as a Hedge Investment	
	Fair Value	
	December 31	
	2018	2017
Investment in foreign bonds		
Interest rate swap contracts	\$ _____	\$ (_____ 4,082)

54. FINANCIAL RISK MANAGEMENT

a. Hua Nan Financial Holdings Co., Ltd. (HNFH)

HNFH has set up the policies and related guidelines covering non-retail credit risk, retail credit risk, market risk, operational risk, and asset/liability management. In addition, HNFH has established a set of standards to identify, measure, control (including mitigate or hedge), monitor and manage risks, and applied the aforementioned rules to all members within the Company. Through the execution of risk mechanism monitored by Group Risk Committee and Group Asset and Liability Committee, all risks can be controlled at an acceptable level, while reflecting the Company and its subsidiaries' business targets and corporate value.

HNFH endeavors to integrate the various types of risks of its subsidiaries, and commence on measuring its integral risk exposures and capital by using economic capital. With the implementation of economic capital, HNFH can accurately measure the risk-adjusted return on capital and economic profits for each profit center and then optimize its capital allocation to ultimately maximize the shareholder's value.

b. Hua Nan Commercial Bank (HNCB)

1) Overview

The major risks confronted by HNCB and its subsidiaries include credit risk, market risk, liquidity risk, and operational risk regarding to on-balance and off-balance business.

To improve and reinforce the ability as well as the culture of risk management, HNCB and its subsidiaries have established related risk management policies approved by the board of directors and developed risk measurement instruments which can identify, estimate, monitor and control all types of risk reasonably.

2) Risk management framework

The board of directors is the top risk supervisor of HNCB and its subsidiaries and is responsible for the review of related policies and the approval of risk report etc.

After authorized by the board of directors, senior and related managers set up various committee including risk management, business loan audit, overdue loan review and asset management committee to establish mechanisms for risk managing and supervise the execution of risks management policies.

Audit division takes charge of inspecting and evaluating the feasibility as well as the effectiveness of internal control.

3) Credit risk

a) Sources and definitions of credit risk

Credit risk is the risk of default loss if a customer or counterparty fails to meet the contract because of the deterioration of their financial condition.

b) Policies and strategies

To ensure the sound development and establish consistent credit management culture, HNCB and its subsidiaries have stipulated "Hua Nan Commercial Bank Corporate Finance Risk Management Policy", "Hua Nan Commercial Bank Personal Finance Risk Management Policy", "Hua Nan International Leasing Co., Ltd.

Risk Management Policy” and “Hua Nan International Leasing Corporation Risk Management Policy” as the basis of credit risk regulations.

Credit risk management procedures and measurements are as follows:

i. Loan business (includes loan commitment and guarantee)

Loan business classification and credit quality level are shown as follows:

i) Classification

HNCB and its subsidiaries' loans are classified into 5 classes. Except for normal credits classified as the Class 1, the remaining unsound credit assets are classified as Class 2 “Assets that require special mention”, Class 3 “Assets that are substandard”, Class 4 “Assets that are doubtful” and Class 5 “Assets for which there is loss” based on the status on collaterals and the length of time overdue. To manage the problematic loans, HNCB and HNILC set up “Evaluation of Asset Classification Guidelines”, “Overdue Loans, Nonperforming Loans and Bad Debt Management Guidelines” and the subsidiaries established “Overdue Loans, Nonperforming Receivables and Bad Debt Management Guidelines”. All regulations are the basis to manage the problematic and overdue debts.

ii) Credit quality level

In order to measure clients' credit risks, HNCB and its subsidiaries established credit rating model and the personal finance scorecard on the basis of the statistic method and judgment of the professionals.

According to internal credit ratings, scorecard, and the possibility of long-term default on individual asset groups, HNCB and its subsidiaries classified the credit quality of the undue and unimpaired loans as well as receivables into 4 level. Level 1 has the lowest credit risk and the Level 4 has the highest one.

Based on the actual occurrence of default, the model and scorecard are examined and revised, if necessary, to ensure the effectiveness of the related risk measurement.

ii. Due from the Central Bank and others banks

HNCB and its subsidiaries will evaluate the counterparties' credit status and refer to the information issued by credit agencies. HNCB and its subsidiaries will set different credit limits based on different ratings.

iii. Debt investment and derivative financial instruments

HNCB and its subsidiaries manage and identify credit risks of debt investment through credit ratings by external institution, credit quality of the debt, regional conditions and counterparties' risks.

HNCB and its subsidiaries categorized the credit quality of debt investment instruments into 3 groups which are, the instruments beyond certain ratings assigned by authorized credit agencies, the instruments below the certain ratings assigned by authorized credit agencies and the instruments without ratings assigned by authorized credit agencies.

HNCB and its subsidiaries set the related regulations on the qualification of the counterparties and the credit exposures. The related regulations are as follows:

- i) The clients' credit limit should be approved within the limitation on credit risk according to the regulation on conducting the derivative instruments business.
- ii) The financial institutions with long-term credit ratings assigned by authorized credit agency's are granted the credit limit.
- iii) The derivative transactions between HNCB and its subsidiaries and the Central Bank as well as the transactions in the stock exchange market are exempted from the aforementioned regulations.

c) Credit risk hedging or mitigation policies

i. Collateral

To reduce the loss of credit risk, HNCB and its subsidiaries have set up several mechanisms, such as collateral valuation, the use of credit guarantee fund, the supervision of valuation method and after-loans management, to ensure that HNCB and its subsidiaries are able to dispose the collateral and mitigate the credit risk effectively.

Through the foundation of the system and the mechanism of management, HNCB continuously monitors the fluctuation in price of the collateral to ensure its effectiveness.

Additionally, HNCB stated related agreements on debt preservation and the rule of setting off etc. to ensure the enforcement of debt preservation and thereby reduce the credit risk.

The subsidiaries established the guidelines on loan business, loan examination and loan review to ensure the qualities of assets and thereby reduce the credit risk. To take credit risk into consideration, the subsidiaries require the clients to provide collateral. To address managing the assessment of collateral. The subsidiaries established the guiding principles of classification of assets that can served as collateral, collateral management, to ensure the enforcement of debt preservation.

ii. Credit risk limits and credit risk concentration control

HNCB and its subsidiaries have set the limitation on credit exposure to single counterparty, related parties groups, corporations industries and nations respectively. The limitation on credit exposures includes loan and other credit-risk-related businesses. To achieve decentralization of risk, HNCB supervise and review the feasibilities periodically.

To avoid over-concentration of risk, the subsidiaries' guidelines of risk supervision set the maximum credit limit toward the same institution, related party or related corporation to control the degree of risk concentration.

iii. Agreement of net settlement

HNCB and its subsidiaries often make gross settlement on transactions, sign net settlement contract with other counterparties or cancel every transactions and make net settlement when default occurs to mitigate credit risk.

iv. Other credit risk reinforcement

HNCB and its subsidiaries can offset borrower's deposits. Offset clause was established in HNCB and its subsidiaries' loan agreement, which was defined that borrower's deposit in HNCB and its subsidiaries can be offset borrower's liabilities to decrease credit risk.

v. Pledge of impaired financial assets - 2018

HNCB and its subsidiaries closely observed the value of financial assets' pledge and evaluated which financial assets' credit had impaired and needed to recognize allowance impairment. Financial assets which credit were impaired and pledge value, which eliminate potential loss, are as follow:

	Book Value	Allowance Impairment	Exposure	Collateral Fair Value
Receivables				
Credit card receivables	\$ 128,090	\$ 21,362	\$ 106,728	-
Others	5,910,384	3,484,347	2,426,037	-
Discounts and loans	17,647,556	4,274,535	13,373,021	20,527,741
	<u>\$ 23,686,030</u>	<u>\$ 7,780,244</u>	<u>\$ 15,905,786</u>	<u>\$ 20,527,741</u>

d) The determination since the initial recognition of the credit risk has increased significantly - 2018

i. Loan business

HNCB and its subsidiaries assess the change in the probability of default of discounts and loans, financing commitments of loans, lease receivable and receivable related to credit during the lifetime on each reporting date to determine if the credit risk has increased significantly since the initial recognition. In

order to make this assessment, HNCB and its subsidiaries classified loan business, which is according to internal credit risk management purpose, to its risk segmentation based on risk characteristics as debtors' internal evaluation, default condition and the domain which pledge situated in. After concerning the reasonable and supportable information that the credit risk has increased significantly since the initial recognition (including forward-looking information), each loan business' credit risks level are as follow:

Stage 1: Clients' loans and receivables do not meet the definition of stage 2 and stage 3.

Stage 2: Clients which do not belong in stage 3, however there is at least one loan or receivable which overdue date is 8 to 30 days.

Stage 3: Clients which meet the definition of e) Definition of financial asset default and credit impairment - 2018

ii. Investment position

HNCB and its subsidiaries adopt external credit rating scales to measure whether the credit risk after the initial recognition is significantly increased for debt instrument measured at amortized cost and debt instrument measured at fair value through other comprehensive income on each report date. If the credit rating is above the investment grade on record date and there has not been a significant increase in credit risk, then the bond is stage 1 and need to calculate 12-month ECLs. If the credit rating is below the investment grade on record date and there has been a significant increase in credit risk, then the bond is stage 2 and need to calculate lifetime ECLs. If the credit rating is Ca/CC on record date, the credit is impaired and the bond is stage 3 and need to calculate lifetime ECLs in stage 3.

e) Definition of financial asset default and credit impairment - 2018

i. Loan business

Loan business default definition of HNCB and its subsidiaries is the same as loan business credit risks impairment determination process. If qualify one or more condition below, HNCB and its subsidiaries determine such financial assets as default and with impaired credit risks:

- Overdue loans;
- Loans reclassified as nonperforming loans;
- Non-performing loans;
- Negotiable household which compromise due to debtor's significant financial difficulty
- Poverty-relief case
- Individual consultation/debt consultation/debt clearance/debt deferral
- Accounts receivable or loans to client after offsetting financial derivatives

The aforementioned default and credit impairment definition implied to credit assets held by HNCB and its subsidiaries, and should be in consistent with what internal credit risk management purpose defined related financial assets, and should be used in related impairment evaluation systems.

If loan business does not qualify the default and credit impairment definition, it should no longer be consider as default and credit impaired and its status should be identified as collectable.

ii. Investment position

The credit risk is considered increase significantly if the credit rating is below the investment grade on record date and above investment grade on initial purchasing date. Whereas the credit is considered impaired if it is Ca/CC on record date.

If liability investment instrument does not qualify the default and credit impairment definition, it should no longer be consider as default and credit impaired and its status should be identified as collectable.

f) Write-off policy - 2018

If one of the following situations occurred, non-performing loans as well as overdue receivables, after deducting recoverable amount, will be written off as bad debt:

- All or part of the creditor's right could not be enforced due to dissolution, escape, settlement, bankruptcy or other reasons of the debtors.

- The values of collateral and properties of the debtors are very low, compensation are not available after deducting the first mortgage, or it is unbeneficial that execution fee is close to or may exceed the bank's reimbursable amount.
- The collateral and the properties of the main and subordinate debtors are unsold after multiple discount auctions and not beneficial to the Bank.
- Overdue and nonperforming loans have not been recovered after more than 2 years from the maturity date.
- The minimum payable amount of debit card and credit card which are overdue for six months, should be written off in three months. Appropriate documents should be acquired to support such written off.

g) The amendment of financial assets' cash flow - 2018

HNCB and its subsidiaries may amend the contract cash flow of financial assets due to debtor's financial difficulty, enhancing the recovery rate of questionable borrowers, or maintaining customer relationship. The amendment of contract may include deferring contract period, amending the date of paying interesting, amending interest rate or exempting partial unpaid amount. The amendment of contract cash flow may cause HNCB and its subsidiaries derecognize current financial assets and recognize new financial assets in fair value.

If amending contract cash flow do not cause derecognition, HNCB and its subsidiaries compare the following issue and evaluate if the credit risk of financial assets has increase significantly:

- The risk of default on record date (based on amended contract clause)
- The risk of default on initial recognition (based on original non-amended contract clause)

h) Measurement of expected credit losses - 2018

- Loan business

HNCB and its subsidiaries divide loan business into corporate banking and customer banking. Corporate banking incudes domestic branch, OBU (domestic corporate banking) and oversea branch. Domestic corporate banking is divided into five group based on government agency, public enterprise, and credit line. Oversea branch of corporate banking are divided based on accounts. Customer banking are divided into six products, based on the type of loan, and two cards (debit and credit card). The following category are the credit risks' characteristic of corporate banking and customer banking:

Business Type	Category
Corporate banking	Domestic branch and OBU - divided by credit line in to five group
	Over branch
Customer banking	Divided into six groups by product
	Debit card
	Credit card

HNCB and its subsidiaries evaluate loss allowance of financial assets, which credit risk did not significantly increased after initial recognition, based on 12 month expected credit losses. Whereas evaluate loss allowance of financial assets, which credit risk significantly increased after initial recognition, based on lifetime expected credit losses.

To evaluate expected credit losses, HNCB and its subsidiaries multiply borrowers' future 12 month and lifetime probability of default (as "PD"), by the loss given default (as "LGD"), by the exposure at default (as "EAD"), and considered the effect of time value of money.

PD is the default percentage of a borrower. LGD is the loss ratio once a borrower default. The PD and LGD applied by HNCB and its subsidiaries for loan business impairment evaluation, are based on each portfolio's historical information calculated internally (etc. credit risks experience), and adjusted the historical information with current observable information and forward-looking macro economic information.

HNCB and its subsidiaries evaluate risk exposure amount based on remaining loan amount. HNCB and its subsidiaries calculate 12 months and lifetime ECLs of financing commitment based on "IFRS 9 Impairment Evaluation Methodology Guideline" issued by BAROC. Off-balance sheet exposure items are

calculated through credit conversion factor, regulated in “The description and form of calculating banks’ eligible capital and risk-weighted assets - credit risk standard approach”. Use credit conversion factor to calculate the portion financing commitment expected to use in 12 months after record date and lifetime, to calculate the default exposure amount of ECLs.

- Investment position

HNCB and its subsidiaries evaluate loss allowance of liability investment instruments, which credit risk did not significantly increased after initial recognition, based on 12 month expected credit losses. Whereas evaluate loss allowance of liability investment instruments, which credit risk significantly increased after initial recognition, based on lifetime expected credit losses.

ECLs are calculated by PD multiply by LGD and EAD.

i) Consideration of forward - looking estimation - 2018

- Loan business

HNCB and its subsidiaries apply Asymptotic Single Risk Factor (ASRF), because according to IFRS 9 it required effect of forward - looking estimation to calculate ECLs, to adjust forward - looking estimation by matching default percentage with macro economic index. Corporate banking apply GDP growth rate whereas customer banking apply unemployment rate as macro economic index. The rates are updated every half year. Related forward - looking estimation data are historical data of the past five years (consider as one business cycle). Macro economic data of future five years estimation are considered as an alert. If economic reversal point was found in advance, HNCB and its subsidiaries are able to respond to future impact in time.

- Investment position

Default percentage and default loss are calculated based on historical default rate and default loss rate, which are announced by external credit agencies. External credit agencies had considered forward - looking estimation while evaluating credit, therefore HNCB and its subsidiaries applied the evaluation result and matched with external credit migration matrix to acquire PD, and evaluated ECLs.

j) The changes of loan business’ book value and allowance loss of HNCB and its subsidiaries - 2018

Changes of discounts and loans allowance loss

	For the Year Ended December 31, 2018						
	12 Months ECL	Lifetime ECL (Collectively Assessed)	Lifetime ECL (Non-purchased or Originated Credit-impaired Financial Assets)	Lifetime ECL (Purchased or Originated Credit-impaired Financial Assets)	Impairment under IFRS 9	Differences in Impairments According to Law	Total
Balance, January 1	\$ 5,168,802	\$ 2,519,075	\$ 5,839,253	\$ 148,745	\$ 13,675,875	\$ 5,637,839	\$ 19,313,714
Changes of financial instruments that have been identified at the beginning of the year:							
To lifetime ECL	30,816	(817,592)	24,890	3,074	(758,812)	-	(758,812)
To credit impaired financial assets	(8,323)	(11,081)	(255,405)	(154)	(274,963)	-	(274,963)
To 12-month ECL	(442,428)	(869,740)	447,783	34,994	(829,391)	-	(829,391)
Derecognizing financial assets during the current period	(3,208,447)	(348,544)	(3,547,402)	(75,217)	(7,179,610)	-	(7,179,610)
Purchased or originated financial assets	3,546,311	98,391	1,618,498	35,476	5,298,676	-	5,298,676
Loss recognized based on the Regulations	-	-	-	-	-	4,942,535	4,942,535
Balance, December 31	\$ 5,086,731	\$ 570,509	\$ 4,127,617	\$ 146,918	\$ 9,931,775	\$ 10,580,374	\$ 20,512,149

Changes of discounts and loans book value

	For the Year Ended December 31, 2018				
	12 Months ECL	Lifetime ECL (Collectively Assessed)	Lifetime ECL (Non-purchased or Originated Credit-impaired Financial Assets)	Lifetime ECL (Purchased or Originated Credit-impaired Financial Assets)	Total
Balance, January 1	\$ 1,530,585,517	\$ 49,275,312	\$ 20,691,060	\$ 727,864	\$ 1,601,279,753
Changes of financial instruments that have been identified at the beginning of the year:					
To lifetime ECL	4,335,340	(1,661,878)	105,756	5,636	2,784,854
To credit impaired financial assets	(2,899,180)	(136,832)	(509,186)	(37,365)	(3,582,563)
To 12-month ECL	(74,510,683)	(5,338,579)	2,384,541	190,037	(77,274,684)
Derecognizing financial assets during the current period	(677,787,513)	(14,145,817)	(11,327,800)	(359,731)	(703,620,861)
Purchased or originated financial assets	<u>807,748,938</u>	<u>10,390,353</u>	<u>5,574,348</u>	<u>202,398</u>	<u>823,916,037</u>
Balance, December 31	<u>\$ 1,587,472,419</u>	<u>\$ 38,382,559</u>	<u>\$ 16,918,719</u>	<u>\$ 728,839</u>	<u>\$ 1,643,502,536</u>

Changes of receivable allowance loss

	For the Year Ended December 31, 2018						
	12 Months ECL	Lifetime ECL (Collectively Assessed)	Lifetime ECL (Non-purchased or Originated Credit-impaired Financial Assets)	Lifetime ECL (Purchased or Originated Credit-impaired Financial Assets)	Impairment under IFRS 9	Differences in Impairments According to Law	Total
Balance, January 1	\$ 61,411	\$ 12,930	\$ 3,402,771	\$ 22,993	\$ 3,500,105	\$ 58,645	\$ 3,558,750
Changes of financial instruments that have been identified at the beginning of the year:							
To lifetime ECL	(9)	19,935	88	516	20,530	-	20,530
To credit impaired financial assets	(104)	(1,539)	85,448	(7,358)	76,447	-	76,447
To 12-month ECL	1,742	434	1,387	11,146	14,709	-	14,709
Derecognizing financial assets during the current period	(51,606)	(4,068)	(25,008)	(5,366)	(86,048)	-	(86,048)
Purchased or originated financial assets	53,319	2,709	14,538	4,554	75,120	-	75,120
Loss recognized based on the Regulations	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,278</u>	<u>7,278</u>
Balance, December 31	<u>\$ 64,753</u>	<u>\$ 30,401</u>	<u>\$ 3,479,224</u>	<u>\$ 26,485</u>	<u>\$ 3,600,863</u>	<u>\$ 65,923</u>	<u>\$ 3,666,786</u>

Changes of receivable book value

	For the Year Ended December 31, 2018				
	12 Months ECL	Lifetime ECL (Collectively Assessed)	Lifetime ECL (Non-purchased or Originated Credit-impaired Financial Assets)	Lifetime ECL (Purchased or Originated Credit-impaired Financial Assets)	Total
Balance, January 1	\$ 14,816,629	\$ 6,826,378	\$ 5,687,836	\$ 125,507	\$ 27,456,350
Changes of financial instruments that have been identified at the beginning of the year:					
To lifetime ECL	(15,355)	(339,314)	333	2,855	(351,481)
To credit impaired financial assets	(68,031)	(11,764)	273,195	(26,054)	167,346
To 12-month ECL	(194,929)	14,766	6,570	41,791	(131,802)
Derecognizing financial assets during the current period	(6,279,160)	(42,295)	(106,379)	(15,741)	(6,443,575)
Purchased or originated financial assets	<u>7,080,957</u>	<u>135,152</u>	<u>37,298</u>	<u>11,263</u>	<u>7,264,670</u>
Balance, December 31	<u>\$ 15,340,111</u>	<u>\$ 6,582,923</u>	<u>\$ 5,898,853</u>	<u>\$ 139,621</u>	<u>\$ 27,961,508</u>



Changes of other financial assets allowance loss

	For the Year Ended December 31, 2018						
	12 Months ECL	Lifetime ECL (Collectively Assessed)	Lifetime ECL (Non-purchased or Originated Credit-impaired Financial Assets)	Lifetime ECL (Purchased or Originated Credit-impaired Financial Assets)	Impairment under IFRS 9	Differences in Impairments According to Law	Total
Balance, January 1	\$ 1,331	\$ -	\$ 1,155,988	\$ 2,349	\$ 1,159,668	\$ (20,368)	\$ 1,139,300
Changes of financial instruments that have been identified at the beginning of the year:							
To lifetime ECL	-	-	-	-	-	-	-
To credit impaired financial assets	-	-	(478)	(137)	(615)	-	(615)
To 12-month ECL	8,786	2,139	(14,132)	-	(3,207)	-	(3,207)
Derecognizing financial assets during the current period	(4,527)	(2,139)	(1,111,833)	(1,883)	(1,120,382)	-	(1,120,382)
Purchased or originated financial assets	772	2,139	12,554	3,823	19,288	-	19,288
Loss recognized based on the Regulations	-	-	-	-	-	19,270	19,270
Balance, December 31	\$ 6,362	\$ 2,139	\$ 42,099	\$ 4,152	\$ 54,752	\$ (1,098)	\$ 53,654

Changes of other financial assets book value

	For the Year Ended December 31, 2018				
	12 Months ECL	Lifetime ECL (Collectively Assessed)	Lifetime ECL (Non-purchased or Originated Credit-impaired Financial Assets)	Lifetime ECL (Purchased or Originated Credit-impaired Financial Assets)	Total
Balance, January 1	\$ 369,332	\$ -	\$ 1,330,741	\$ 6,229	\$ 1,706,302
Changes of financial instruments that have been identified at the beginning of the year:					
To lifetime ECL	-	-	-	-	-
To credit impaired financial assets	-	-	(551)	(490)	(1,041)
To 12-month ECL	(3,311)	-	(8,958)	-	(12,269)
Derecognizing financial assets during the current period	(186,722)	-	(1,175,677)	(3,377)	(1,365,776)
Purchased or originated financial assets	228,967	-	65,647	9,049	303,663
Balance, December 31	\$ 408,266	\$ -	\$ 211,202	\$ 11,411	\$ 630,879

Changes of commitment and guarantee liability provisions

	For the Year Ended December 31, 2018						
	12 Months ECL	Lifetime ECL (Collectively Assessed)	Lifetime ECL (Non-purchased or Originated Credit-impaired Financial Assets)	Lifetime ECL (Purchased or originated Credit-impaired Financial Assets)	Impairment under IFRS 9	Differences in Impairments According to Law	Total
Balance, January 1	\$ 1,242,059	\$ 230,102	\$ 220,481	\$ 8,316	\$ 1,700,958	\$ 373,357	\$ 2,074,315
Changes of financial instruments that have been identified at the beginning of the year:							
To lifetime ECL	2,049	(170,113)	(3,147)	149	(171,062)	-	(171,062)
To credit impaired financial assets	1,079	24	(19,673)	398	(18,172)	-	(18,172)
To 12-month ECL	(25,948)	(46,816)	16,394	2,571	(53,799)	-	(53,799)
Derecognizing financial assets during the current period	(679,323)	(3,646)	(134,340)	(2,579)	(819,888)	-	(819,888)
Purchased or originated financial assets	729,002	6,996	21,719	534	758,251	-	758,251
Loss recognized based on the Regulations	-	-	-	-	-	227,087	227,087
Balance, December 31	\$ 1,268,918	\$ 16,547	\$ 101,434	\$ 9,389	\$ 1,396,288	\$ 600,444	\$ 1,996,732

k) The maximum credit exposure of the financial instruments

- Maximum credit exposures of assets, excluding collaterals and other credit enhancement instruments, on consolidated balance sheet are almost equivalent to its carrying amount.
- HNCB and its subsidiaries' maximum credit exposures (excluding collaterals) off balance sheet are shown as follows:

Off-balance Sheet Items	The Maximum Credit Exposure	
	December 31, 2018	December 31, 2017
Undrawn loan commitment	\$ 150,289,304	\$ 111,434,634
Undrawn credit card commitment	95,642,222	91,757,870
Standby letters of credit	26,943,628	27,154,086
Guarantees issued	40,722,624	34,523,430
Total	\$ 313,597,778	\$ 264,870,020

Because the payments of these loan business and financial instruments would not be disbursed before maturity, therefore, the amounts of these contracts do not represent future outflows, namely that the demand of future cash is lower than the amounts stated in contract. If the credit line is reached and the collateral is of little value, the credit risk equals the contract amounts, the greatest possible losses.

The table below analyzes the collaterals held as security, master netting agreements and other credit enhancements, and their financial effect in respect of the financial assets recognized in the Company and its subsidiaries' consolidated balance sheet:

December 31, 2018

	Maximum Exposure to Credit Risk Mitigated by			
	Collateral	Master Netting Arrangement	Other Credit Enhancements	Total
<u>Balance sheet items</u>				
Receivables				
Credit cards business	\$ -	\$ -	\$ 8,166,961	\$ 8,166,961
Others	-	-	208,931,532	208,931,532
Discounts and loans	1,169,546,964	-	473,955,572	1,643,502,536
Financial assets at fair value through other comprehensive income				
Bond investments	2,200,010	-	146,990,095	149,190,105
Others	-	-	5,057,190	5,057,190
Amortized costs - debt instruments				
Bond investments	6,202,127	-	108,778,328	114,980,455
Others	-	-	333,810,919	333,810,919
<u>Off-balance sheet items</u>				
Undrawn loan commitment	73,532	-	150,215,772	150,289,304
Standby letters of credit	11,899,471	-	15,044,157	26,943,628
Guarantees issued	20,030,458	-	20,692,166	40,722,624

December 31, 2017

	Maximum Exposure to Credit Risk Mitigated by			
	Collateral	Master Netting Arrangement	Other Credit Enhancements	Total
<u>Balance sheet items</u>				
Receivables				
Credit cards business	\$ -	\$ -	\$ 7,734,990	\$ 7,734,990
Others	-	-	235,036,384	235,036,384
Discounts and loans	1,151,302,699	-	449,977,054	1,601,279,753
Available-for-sale financial assets				
Bond investments	-	-	116,106,578	116,106,578
Others	-	-	14,902,818	14,902,818
Held-to-maturity financial assets				
Bond investments	1,301,091	-	98,995,090	100,296,181
Others	-	-	279,463,287	279,463,287
Other financial assets				
Bond investments	1,499,687	-	12,520,010	14,019,697
Others	-	-	3,432,062	3,432,062
<u>Off-balance sheet items</u>				
Undrawn loan commitment	52,868	-	111,381,766	111,434,634
Standby letters of credit	11,878,011	-	15,276,075	27,154,086
Guarantees issued	19,146,402	-	15,377,028	34,523,430

iii. Total book value of the maximum credit risk exposures discounted and loans - 2018

Categories of Financial Assets	December 31, 2018			
	Stage 1	Stage 2	Stage 3	Total
	12-month Expected Credit Losses	Duration Period Credit Losses	Duration Period Credit Losses	
Ratings				
Corporate finance	\$ 977,814,318	\$ 35,782,616	\$ 12,499,474	\$ 1,026,096,408
Personal finance	609,658,100	2,599,942	5,141,646	617,399,688
Total book value	\$ 1,587,472,418	\$ 38,382,558	\$ 17,641,120	\$ 1,643,496,096

iv. Amount that does not apply impairment of financial instruments of the maximum credit risk exposure - 2018

	December 31, 2018
Financial assets at fair value through profit or loss	
Bonds	\$ 1,652,454
Derivative financial instruments	3,841,967
Others	76,262,595

l) Credit risk concentration of HNCB and its subsidiaries

To manage credit assets portfolio, enhance the assets quality as well as the efficiency of utility of capital, and thereby prevent material effect from negative credit events, HNCB and its subsidiaries stipulate various credit limits and monitor the appropriateness periodically.

i. By industry

Industries	December 31, 2018		December 31, 2017	
	Amount	%	Amount	%
Private enterprise	\$ 752,423,427	46	\$ 731,463,540	46
Natural person	615,842,155	37	598,240,539	37
Foreign institution	231,259,383	14	220,039,615	14
Government agency	28,214,822	2	35,485,584	2
Public enterprise	12,000,000	1	8,600,000	1
Non-profit organization	719,574	-	753,415	-
Financial institutions	600,000	-	600,000	-
Total	\$ 1,641,059,361	100	\$ 1,595,182,693	100

ii. By region

According to the country risk statistics of transnational debt rights (excluding Taiwan), the proportions of total overseas exposure in Asia, America, Europe and others are 47%, 26%, 16% and 11%, respectively. Europe has relatively low proportion because of asset allocation responding to European debt crisis. In compliance with the conservatism principles, HNCB and its subsidiaries invest in subject above the investment grade with lower country risk as the guideline of expanding business. Currently, the country risk exposure in all region is within sustainable limits of HNCB and its subsidiaries.

iii. By collateral

Industries	December 31, 2018		December 31, 2017	
	Amount	%	Amount	%
Credit	\$ 497,072,136	29	\$ 468,850,381	29
Secured				
Stocks	26,271,583	2	25,254,854	1
Liabilities	35,935,618	2	36,888,922	2
Real estate	1,006,825,757	60	982,748,470	60
Movables	39,975,535	2	46,947,031	3
Receivables	14,094,516	1	10,363,051	1
Guarantees	48,911,770	3	50,002,205	3
Others	19,586,745	1	19,981,244	1
Total	\$ 1,688,673,660	100	\$ 1,641,036,158	100

m) Credit quality and impairment assessment of financial assets - 2017

At December 31, 2017, some financial assets such as cash and cash equivalents, due from Central Bank and other banks, financial assets at fair value through profit or loss, and refundable deposits are regarded as very low credit risk owing to the good credit rating of counterparties.

Except for the analysis mentioned above, other analyses of financial assets are summarized as follows:

i. Discounts, loans and receivables

December 31, 2017	Neither Past Due Nor Impaired					Past Due Not Impaired (B)	Impaired (C)	Total (A)+(B)+(C)	Loss Recognized (D)		Net Total (A)+(B)+(C)-(D)
	Level 1	Level 2	Level 3	Level 4	Subtotal (A)				With Objective Evidence of Impairment	With No Objective Evidence of Impairment	
Receivables											
Credit card business	\$ 6,166,875	\$ 369,662	\$ 352,580	\$ 719,734	\$ 7,608,851	\$ 16,485	\$ 109,654	\$ 7,734,990	\$ 18,326	\$ 15,970	\$ 7,700,694
Discounts and loans	913,191,637	596,423,347	54,721,302	22,143,922	1,586,480,208	-	22,695,522	1,609,175,730	15,429,682	5,061,922	1,588,684,126

Note: Neither past due nor impaired were ordered by credit risk. Level 1 had the lowest risk while Level 4 had the highest risk.

December 31, 2017	Neither Past Due Nor Impaired				Past Due Not Impaired (B)	Impaired (C)	Total (A)+(B)+(C)	Loss Recognized (D)		Net Total (A)+(B)+(C)-(D)
	Excellent	Good	Acceptable	Subtotal (A)				With Objective Evidence of Impairment	With No Objective Evidence of Impairment	
Receivables										
Others	\$ 245,074,127	\$ 986,462	\$ 1,669,740	\$ 247,730,329	\$ -	\$ 5,801,357	\$ 253,531,686	\$ 3,404,473	\$ 56,159	\$ 250,071,054

ii. Credit quality analysis for neither past due nor impaired discounts and loans by client type are as follows:

December 31, 2017	Neither Past Due Nor Impaired					Total
	Level 1	Level 2	Level 3	Level 4		
Consumer banking						
Mortgage	\$ 415,990,757	\$ 112,144,061	\$ -	\$ -	\$ -	\$ 528,134,818
Cash card	-	-	-	9,296	-	9,296
Consumer loans	2,525,027	12,759,668	-	-	-	15,284,695
Others	-	52,323,137	-	-	-	52,323,137
Corporate banking	494,675,853	419,196,481	54,721,302	22,134,626	-	990,728,262
Total	\$ 913,191,637	\$ 596,423,347	\$ 54,721,302	\$ 22,143,922	\$ -	\$ 1,586,480,208

iii. Credit quality analysis for marketable securities

December 31, 2017	Neither Past Due Nor Impaired				Past Due Not Impaired (B)	Impaired (C)	Total (A)+(B)+(C)	Loss Recognized (D)	Net Total (A)+(B)+(C)-(D)
	The Instruments Beyond Certain Ratings Assigned by Authorized Credit Agencies (Note)	The Instruments Below Certain Ratings Assigned by Authorized Credit Agencies	The Instruments Without Certain Ratings Assigned by Authorized Credit Agencies	Subtotal (A)					
Available-for-sale financial assets									
Investment in bonds	\$ 116,106,578	\$ -	\$ -	\$ 116,106,578	\$ -	\$ -	\$ 116,106,578	\$ -	\$ 116,106,578
Investment in stocks	9,685,229	984,861	-	10,670,090	-	-	10,670,090	-	10,670,090
Others	3,801,699	-	431,029	4,232,728	-	-	4,232,728	-	4,232,728
Held-to-maturity financial assets									
Negotiable certificates of deposits	278,216,517	-	-	278,216,517	-	-	278,216,517	-	278,216,517
Investment in bonds	100,296,181	-	-	100,296,181	-	-	100,296,181	-	100,296,181
Others	1,246,770	-	-	1,246,770	-	-	1,246,770	-	1,246,770
Other financial assets									
Investment in stocks	-	-	3,428,641	3,428,641	-	3,421	3,432,062	3,421	3,428,641
Investment in bonds	14,019,697	-	-	14,019,697	-	-	14,019,697	-	14,019,697

Note: The Banking Act provides that investments beyond certain rating assigned by authorized credit agency have one of the following characteristics:

- By Standard & Poor's, short-term credit ratings reach at least A-3 level or long-term credit ratings reach at least BBB-.
- By Moody's Investors Service, short-term credit ratings reach at least P-3 level or long-term credit ratings reach at least Baa3.
- By Fitch, Inc. short-term credit ratings reach at least F3 level or long-term credit ratings reach at least BBB-.
- By Taiwan Ratings, short-term credit ratings reach at least twA-3 level or long-term credit ratings reach at least twBBB-.
- By Fitch Ratings Taiwan, short-term credit ratings reach at least F3 (twN) level or long-term credit ratings reach at least BBB- (twN).
- By Moody's Ratings, short-term credit ratings reach at least TW-3 level or long-term credit ratings reach at least Baa3.tw.

n) Aging analysis for overdue but not yet impaired financial assets of HNCB and its subsidiaries - 2017

Delayed procedures by borrowers and other administrative reasons could result in financial assets overdue but not yet impaired. According to HNCB and its subsidiaries' internal risk management policies, financial assets overdue within 90 days are not considered impairment loss unless other evidences provided.

Aging analysis for overdue but not yet impaired financial assets was as follows:

Items	December 31, 2017			
	Overdue One to Two Months	Overdue Two to Three Months	Overdue Above Three Months	Total
Receivables				
Credit card business	\$ 16,485	\$ -	\$ -	16,485

Note 1: "Overdue but not yet impaired" with no objective evidence of impairment and overdue reasonable period was evaluated by IAS 39 "impairment loss of loans and receivables".

Note 2: "Overdue reasonable period" refer to loans whose repayment of principal or interest have been overdue less than one month.

- i. Overdue one to two months refer to loans whose repayment of principal or interest have been overdue one to two months.
- ii. Overdue two to three months refer to loans whose repayment of principal or interest have been overdue two to three months.
- iii. Overdue above three months refer to loans whose repayment of principal or interest have been overdue exceeding three months.

o) Analysis of impairment for financial assets of HNCB and its subsidiaries - 2017

Analysis of impairment for discounts and loans and receivables was summarized as follows:

Items			Discounts and Loans	Allowance for Credit Losses
			December 31, 2017	December 31, 2017
With objective evidence of impairment	Individual assessment	Corporate banking	\$ 11,797,688	\$ 4,423,007
		Consumer banking	218,130	8,746
	Combined assessment	Corporate banking	5,667,510	2,017,792
		Consumer banking	5,121,848	709,744
With no objective evidence of impairment	Combined assessment	Corporate banking	990,728,261	4,672,036
		Consumer banking	603,377,283	405,856

Items			Receivables	Allowance for Credit Losses
			December 31, 2017	December 31, 2017
With objective evidence of impairment	Individual assessment	Corporate banking	\$ 223,374	\$ 32,241
		Consumer banking	5,562,053	3,364,902
	Combined assessment	Collectively assessed by business nature	3,713	2,903
		Assessed by aging	793	699
With no objective evidence of impairment	Combined assessment	Zero risk	230,933,373	-
		Lower risk evaluated by general agency	15,127,221	-
		Assessed by aging	1,681,159	56,159

4) Liquidity risk

a) Source and definition of liquidity risk

Liquidity risk refers to HNCB and its subsidiaries that could not provide sufficient funding to meet its obligations for on a reasonable price which cause earnings or capital losses. Sources of liquidity risk include unexpected changes or decrement of funds and the indiscretion or incapacity of handling the changes of the market, resulting in the condition that cannot liquidate assets promptly.

b) Strategies of HNCB and its subsidiaries' liquidity risk management

The goal of liquidity risk management is to maintain stability of liquidity under the premise that the cost of capital and return of assets would be both considered.

HNCB and its subsidiaries have stipulated rules consisting of identification measurement and supervision of risk, etc. To control the extent of exposure, HNCB and its subsidiaries have established supervision mechanism and set liquidity ratio or cash flow for reference of estimation on liquidity cushion. Moreover, certain rules are set to handle urgent liquidity crisis.

The information addressing the liquidity risk management will be reported to "Assets and Liabilities Committee" and boards of directors periodically. Also the information will be independently reviewed by internal auditor.

c) Maturity analysis of non-derivative financial liabilities

Cash outflow analyses of HNCB and its subsidiaries' non-derivative financial assets and liabilities are summarized as follows. Since the holding period of non-derivative financial assets and liabilities in financial assets and liabilities at fair value through profit or loss is short-termed, they are categorized into the shortest term group. The amounts disclosed in the following table are based on undiscounted contract cash flow; hence, parts of disclosed amounts of some items will not match the related items in consolidated balance sheet.

December 31, 2018	0-30 Days	31-90 Days	91-180 Days	181 Days to 1 Year	Over 1 Year	Total
<u>Main capital inflow on maturity</u>						
Cash and cash equivalents	\$ 49,465,614	\$ 13,225,989	\$ 5,005,450	\$ 2,793,550	\$ -	\$ 70,490,603
Due from the Central Bank and other banks	210,404,941	152,935,002	33,739,346	8,442,837	32,233,357	437,755,483
Financial assets mandatorily at fair value through profit or loss	76,262,614	-	-	466,025	1,193,750	77,922,389
Loans (excluding nonperforming loans)	221,781,322	191,055,474	153,006,443	132,036,777	943,182,643	1,641,062,659
Financial assets at fair value through other comprehensive income	1,148,250	2,243,459	2,076,833	3,998,577	162,983,922	172,451,041
Amortized cost - debt instruments	209,754,748	27,135,759	12,283,676	49,581,020	149,530,581	448,285,784
Other capital inflow	1,439,845	1,296,577	741,523	424,612	439,296	4,341,853
Subtotal	<u>770,257,334</u>	<u>387,892,260</u>	<u>206,853,271</u>	<u>197,743,398</u>	<u>1,289,563,549</u>	<u>2,852,309,812</u>
<u>Main capital outflow on maturity</u>						
Deposits from the Central Bank and banks	201,545,231	169,328,341	27,475,543	1,159,199	16,959,157	416,467,471
Financial liabilities designated as at fair values through profit or loss	-	-	-	4,000,000	-	4,000,000
Deposits	247,673,862	269,019,226	220,499,067	292,475,138	1,127,734,395	2,157,401,688
Securities sold under repurchase agreements	10,018,458	4,913,129	2,588,221	96,995	-	17,616,803
Bank debentures	-	-	-	4,300,000	37,400,000	41,700,000
Other capital outflow	7,309,760	3,141,963	2,706,630	943,216	141,115	14,242,684
Subtotal	<u>466,547,311</u>	<u>446,402,659</u>	<u>253,269,461</u>	<u>302,974,548</u>	<u>1,182,234,667</u>	<u>2,651,428,646</u>
Gap	<u>\$ 303,710,023</u>	<u>\$ (58,510,399)</u>	<u>\$ (46,416,190)</u>	<u>\$ (105,231,150)</u>	<u>\$ 107,328,882</u>	<u>\$ 200,881,166</u>

December 31, 2017	0-30 Days	31-90 Days	91-180 Days	181 Days to 1 Year	Over 1 Year	Total
<u>Main capital inflow on maturity</u>						
Cash and cash equivalents	\$ 75,069,761	\$ -	\$ -	\$ -	\$ -	\$ 75,069,761
Due from the Central Bank and other banks	195,302,656	123,453,664	18,551,772	8,077,993	29,324,914	374,710,999
Financial assets designated as at fair value through profit or loss	67,738,455	445,361	192,920	1,629,484	1,364,260	71,370,480
Loans (excluding nonperforming loans)	172,934,101	201,715,604	162,730,869	162,862,275	894,957,647	1,595,200,496
Available-for-sale financial assets	328,416	1,975,187	2,857,991	2,993,241	121,022,348	129,177,183
Held-to-maturity financial assets	219,984,559	7,043,799	22,568,000	37,786,135	92,373,645	379,756,138
Other capital inflow	1,264,966	1,001,410	628,242	122,900	17,601,778	20,619,296
Subtotal	<u>732,622,914</u>	<u>335,635,025</u>	<u>207,529,794</u>	<u>213,472,028</u>	<u>1,156,644,592</u>	<u>2,645,904,353</u>
<u>Main capital outflow on maturity</u>						
Deposits from the Central Bank and banks	137,412,483	115,301,140	11,093,248	307,228	13,775,150	277,889,249
Financial liabilities designated as at fair values through profit or loss	1,500,000	-	-	-	4,000,000	5,500,000
Deposits	238,464,578	288,373,419	216,962,070	298,679,502	1,070,172,125	2,112,651,694
Securities sold under repurchase agreements	13,953,715	3,548,532	2,665,486	96,754	-	20,264,487
Bank debentures	-	-	-	6,050,000	37,500,000	43,550,000
Other capital outflow	3,399,106	2,125,164	2,081,997	1,058,398	212,491	8,877,156
Subtotal	<u>394,729,882</u>	<u>409,348,255</u>	<u>232,802,801</u>	<u>306,191,882</u>	<u>1,125,659,766</u>	<u>2,468,732,586</u>
Gap	<u>\$ 337,893,032</u>	<u>\$(73,713,230)</u>	<u>\$(25,273,007)</u>	<u>\$(92,719,854)</u>	<u>\$ 30,984,826</u>	<u>\$ 177,171,767</u>

Demand deposit included in deposits on the table was allocated to each time zone according to historical experience of HNCB and its subsidiaries.

d) Maturity analysis of derivative financial assets and liabilities

Derivative instruments consist of forward contracts, currency swap contracts, non-deliverable forward contracts, exchange rate option, interest rate swap contracts, cross-currency swap contracts, and interest rate option. The amounts of forward contracts, currency swap contracts and cross-currency swap contracts are based on contractual cash flow, and the others are based on fair value.

Maturity analysis of derivative financial assets and liabilities was as follows:

December 31, 2018	0-30 Days	31-90 Days	91-180 Days	181 Days to 1 Year	Over 1 Year	Total
<u>Derivative financial liabilities at fair value through profit or loss</u>						
Cash outflow	\$ 110,157,402	\$ 71,625,780	\$ 45,770,191	\$ 42,067,038	\$ 88,705	\$ 269,709,116
Cash inflow	112,142,724	73,159,633	46,128,400	42,784,352	118,085	274,333,194
<u>Derivative instrument for hedging</u>						
Cash outflow						
Total cash outflow	\$ 110,157,402	\$ 71,625,780	\$ 45,770,191	\$ 42,067,038	\$ 88,705	\$ 269,709,116
Total cash inflow	\$ 112,142,724	\$ 73,159,633	\$ 46,128,400	\$ 42,784,352	\$ 118,085	\$ 274,333,194

December 31, 2017	0-30 Days	31-90 Days	91-180 Days	181 Days to 1 Year	Over 1 Year	Total
<u>Derivative financial liabilities at fair value through profit or loss</u>						
Cash outflow	\$ 73,552,933	\$ 77,555,626	\$ 30,573,499	\$ 9,173,107	\$ 42,392	\$ 190,897,557
Cash inflow	72,959,224	77,113,837	30,601,035	9,147,220	170,144	189,991,460
<u>Derivative instrument for hedging</u>						
Cash outflow	63	-	-	4,019	-	4,082
Total cash outflow	\$ 73,552,996	\$ 77,555,626	\$ 30,573,499	\$ 9,177,126	\$ 42,392	\$ 190,901,639
Total cash inflow	\$ 72,959,224	\$ 77,113,837	\$ 30,601,035	\$ 9,147,220	\$ 170,144	\$ 189,991,460

e) The maturity analysis of off-balance sheet items

The maturity analysis of off-balance sheet items shows irrevocable undrawn credit card commitment, undrawn loan commitment, standby letters of credit and guarantee issued amounts. The amounts in the table below were prepared on contractual cash flow basis; therefore, some disclosed amounts will not match with the consolidated balance sheet.

December 31, 2018	0-30 Days	31-90 Days	91-180 Days	181 Days to 1 Year	Over 1 Year	Total
Undrawn credit card commitment	\$ 71,203	\$ 1,328,883	\$ 3,266,331	\$ 20,010,219	\$ 70,965,586	\$ 95,642,222
Undrawn loan commitment	101,973	3,303	-	150,050,128	133,900	150,289,304
Standby letters of credit	7,582,142	15,563,287	2,393,065	1,115,970	289,164	26,943,628
Guarantee issued	6,489,030	4,633,221	4,406,559	6,296,140	18,897,674	40,722,624
Total	\$ 14,244,348	\$ 21,528,694	\$ 10,065,955	\$ 177,472,457	\$ 90,286,324	\$ 313,597,778

December 31, 2017	0-30 Days	31-90 Days	91-180 Days	181 Days to 1 Year	Over 1 Year	Total
Undrawn credit card commitment	\$ 106,836	\$ 1,074,915	\$ 1,336,164	\$ 5,120,293	\$ 84,119,662	\$ 91,757,870
Undrawn loan commitment	1,192,418	-	2,581	50,063,165	60,176,470	111,434,634
Standby letters of credit	6,156,459	16,847,260	2,595,965	1,239,593	314,809	27,154,086
Guarantee issued	3,362,873	5,117,319	4,191,276	6,782,250	15,069,712	34,523,430
Total	\$ 10,818,586	\$ 23,039,494	\$ 8,125,986	\$ 63,205,301	\$ 159,680,653	\$ 264,870,020

f) Maturity analysis of lease commitments

The lease commitments of HNCB and its subsidiaries are operating lease commitments.

Operating lease commitment is the minimum lease payment when HNCB and its subsidiaries are lessee or lessor with non-cancelling condition.

Maturity analysis of operating lease commitments is summarized as follows:

December 31, 2018	Less Than 1 Year	1-5 Years	Over 5 Years	Total
Operating lease commitments				
Operating lease expense (lessee)	\$ 574,133	\$ 1,246,743	\$ 182,038	\$ 2,002,914
Operating lease income (lessor)	492,019	931,589	833,968	2,257,576
Total	\$ 82,114	\$ 315,154	\$ (651,930)	\$ (254,662)

December 31, 2017	Less Than 1 Year	1-5 Years	Over 5 Years	Total
Operating lease commitments				
Operating lease expense (lessee)	\$ 599,240	\$ 1,384,819	\$ 258,760	\$ 2,242,819
Operating lease income (lessor)	340,392	768,558	928,659	2,037,609
Total	\$ 258,848	\$ 616,261	\$ (669,899)	\$ 205,210

5) Market risk

a) Source and definition of market risk

Market risk is the risk of potential decrease in values of trading position due to changes in market risk factors, such as interest rate, foreign exchange rate, price of equity securities, fluctuation or other factors.

b) Management structure and plan of market risk

To manage the market risk of the financial instrument transactions, HNCB and its subsidiaries implement market risk limit control scheme and regularly conduct the measurement, analysis, reporting and disclosure of the exposure amounts of the market risk factors faced by HNCB's financial instrument transactions. Moreover, HNCB and its subsidiaries implemented mechanism for control of market risk to manage financial market risk appropriately.

c) Market risk management

To manage market risk, HNCB and its subsidiaries set up limits on holding positions, losses of all financial instruments and value at risk (VaR) based on current year's budget. HNCB and its subsidiaries have insignificant market risk since gain or loss on change of market interest rate or foreign exchange rate is offset by those of hedged items or other assets or liabilities.

i. Value at risk

HNCB and its subsidiaries employ VaR to measure the investment portfolio of trading book and banking book. Banking book comprises available-for-sale financial assets and financial assets at fair value through profit or loss.

VaR is the statistics of potential losses on holding positions arising from unfavorable market condition changes. Within a 99% confidence interval, VaR refers to the greatest potential loss in one day namely that there is one percent chance to incur the losses greater than VaR. VaR model assumes that HNCB and its subsidiaries hold the positions at least one day (one month) before the positions can be settled and that the market fluctuation in one day is similar to that in the past.

HNCB and its subsidiaries calculated VaR of their positions using historical simulation method. Based on the data in the past year to assess historical market fluctuations, the outcome will be used to monitor and examine the correctness of the assumptions and parameters. The aforementioned method can not prevent the loss resulted from significant market fluctuations.

VaR information of trading book is shown below:

Trading Book Portfolio	For the Year Ended December 31					
	2018			2017		
	Average	Highest	Lowest	Average	Highest	Lowest
Exchange rate risk	\$ 17,527	\$ 49,939	\$ 5,904	\$ 18,147	\$ 27,293	\$ 9,316
Interest rate risk	16,877	44,551	5,310	21,531	56,125	6,399
Equity risk	20,641	38,306	8,569	19,575	34,570	2,246
Diversified risk	27,509	71,327	11,160	28,983	58,685	14,651

VaR information of banking book is shown below:

Banking Book Portfolio	For the Year Ended December 31					
	2018			2017		
	Average	Highest	Lowest	Average	Highest	Lowest
Exchange rate risk	\$ 1,069,004	\$ 2,625,772	\$ 823,624	\$ 1,190,699	\$ 2,473,798	\$ 914,235
Interest rate risk	550,666	858,109	428,030	1,516,716	2,205,132	449,347
Equity risk	707,279	1,175,216	354,454	252,263	394,151	167,890
Diversified risk	1,347,298	2,612,101	872,959	1,552,870	3,329,769	854,618

Limitation of VaR:

- Historical data may not be the best estimates of future risk factors, and cannot capture the extremely unfavorable market trend.
- VaR cannot capture the market risk position that can not be convertible or be hedged.
- The loss calculated by using 99% confidence level can not reflect the potential loss that is calculated using over 99% confidence level. Take the trading book for example, trading book can neither assure that the loss of financial instruments would not surpass VaR, nor confirm that the loss in each 99 day would not surpass VaR.

ii. Stress test

Stress testing is used to measure the greatest potential losses of the portfolio of risk assets under the worst scenario. HNCB and its subsidiaries perform stress testing assuming the situation in which changes in interest rate + 200 bps, decreases in securities 40%, changes in exchange rate of USD or EUR + 6%, and changes in exchange rate of other currency + 10% and then report the outcome to the management and Risk Management Committee.



d) Information of exchange rate risks

	December 31, 2018		
	Foreign Currencies	Exchange Rate	New Taiwan Dollars
<u>Financial assets</u>			
<u>Monetary items</u>			
AUD	\$ 521,087	21.6550	\$ 11,284,131
CAD	81,849	22.5800	1,848,158
CNY	10,158,823	4.4690	45,399,779
EUR	214,490	35.1800	7,545,757
GBP	207,513	38.9000	8,072,244
HKD	3,689,377	3.9230	14,473,428
JPY	27,668,839	0.2774	7,675,336
NZD	66,936	20.6300	1,380,889
SGD	69,350	22.4400	1,556,203
USD	9,195,846	30.7350	282,634,327
VND	1,991,163,098	0.0013	2,636,427
ZAR	1,922,046	2.1200	4,074,737
PHP	2,075,465	0.5849	1,213,940
<u>Nonmonetary items</u>			
AUD	810,244	21.6550	17,545,829
CNY	728,507	4.4690	3,255,696
SGD	30,915	22.4400	693,723
USD	3,589,630	30.7350	110,327,289
<u>Financial liabilities</u>			
<u>Monetary items</u>			
AUD	\$ 1,144,796	21.6550	\$ 24,790,562
CAD	84,553	22.5800	1,909,206
CHF	6,745	31.1650	210,218
CNY	9,102,753	4.4690	40,680,205
EUR	416,086	35.1800	14,637,906
GBP	170,171	38.9000	6,619,659
HKD	2,911,918	3.9230	11,423,456
JPY	56,819,510	0.2774	15,761,732
NZD	67,568	20.6300	1,393,925
SGD	28,463	22.4400	638,706
USD	16,937,655	30.7350	520,578,816
VND	1,992,700,555	0.0013	2,638,463
ZAR	2,366,359	2.1200	5,016,682
<u>Nonmonetary item</u>			
USD	4,109	30.7350	126,287

	December 31, 2017		
	Foreign Currencies	Exchange Rate	New Taiwan Dollars
<u>Financial assets</u>			
<u>Monetary items</u>			
AUD	\$ 1,219,409	23.1350	\$ 28,211,033
CAD	76,340	23.6300	1,803,912
CNY	10,759,990	4.5490	48,947,196
EUR	283,643	35.4500	10,055,140
GBP	158,833	39.9300	6,342,189
HKD	3,866,628	3.7960	14,677,718
JPY	35,524,504	0.2633	9,353,602
NZD	11,779	21.0700	248,184
SGD	105,119	22.2000	2,333,645
USD	13,836,948	29.6800	410,680,617
VND	1,620,367,941	0.0013	2,144,445
ZAR	1,664,648	2.3900	3,978,509
PHP	2,043,380	0.5938	1,213,359
<u>Nonmonetary item</u>			
USD	21,017	29.6800	623,775
<u>Financial liabilities</u>			
<u>Monetary items</u>			
AUD	\$ 995,956	23.1350	\$ 23,041,441
CAD	74,115	23.6300	1,751,340
CNY	9,177,083	4.5490	41,746,550
EUR	485,651	35.4500	17,216,340
GBP	146,866	39.9300	5,864,347
HKD	3,194,977	3.7960	12,128,134
JPY	54,384,846	0.2633	14,319,530
NZD	70,134	21.0700	1,477,715
SGD	31,958	22.2000	709,470
USD	16,214,050	29.6800	481,232,997
VND	1,621,221,174	0.0013	2,145,574
<u>Nonmonetary item</u>			
USD	5,932	29.6800	176,076

6) Transfers of financial assets

The transferred financial assets of HNCB and its subsidiaries that do not qualify for derecognition in the daily operation are mainly securities sold under repurchase agreements.

The transaction transfers the contractual rights to receive the cash flows of the financial assets but HNCB and its subsidiaries retains the liabilities to repurchase the transferred financial assets at fixed price in the future period.

HNCB and its subsidiaries can not use, sell, or pledge these transferred financial assets within the validity period of the transaction. However, HNCB and its subsidiaries still bear the interest rate risk and credit risk thus, HNCB and its subsidiaries do not derecognize it.

Analysis of financial assets and related liabilities not completely meet derecognizing condition is shown in following table:

Category of Financial Asset	December 31, 2018				
	Transferred Financial Assets - Book Value	Related Financial Liabilities - Book Value	Transferred Financial Assets - Fair Value	Related Financial Liabilities - Fair Value	Net Position - Fair Value
Transactions under repurchase agreements					
Financial assets at fair value through profit or loss	\$ 3,696,740	\$ 3,695,773	\$ 3,696,740	\$ 3,695,772	\$ 968
Financial assets at fair value through other comprehensive income	3,482,348	3,066,803	3,296,314	3,066,803	229,511
Amortized cost - debt instruments	32,115,190	31,685,404	32,198,495	31,685,404	513,091

Category of Financial Asset	December 31, 2017				
	Transferred Financial Assets - Book Value	Related Financial Liabilities - Book Value	Transferred Financial Assets - Fair Value	Related Financial Liabilities - Fair Value	Net Position - Fair Value
Transactions under repurchase agreements					
Financial assets at fair value through profit or loss	\$ 3,248,297	\$ 3,247,231	\$ 3,248,297	\$ 3,247,231	\$ 1,066
Held-to-maturity financial assets	25,484,755	25,928,161	25,794,169	25,928,161	(133,992)

7) Offsetting of financial assets and financial liabilities

HNCB and its subsidiaries did not hold financial instruments which meet Section 42 of FSC endorsed IAS 32, and then offset them on the balance sheet.

HNCB and its subsidiaries engages in transactions with net settlement contracts or similar agreements with counterparties instead meeting offsetting condition in IFRSs. Above executable net settlement contracts or similar agreements allowed net settlement of financial assets and financial liabilities by the choice of both parties. If one party defaulted, the other one may choose to net settlement.

The netting information of financial assets and financial liabilities is set out below:

December 31, 2018

Financial Assets	Recognized Financial Assets - Gross Amount (a)	Netted Financial Liabilities Recognized on the Balance Sheet - Gross Amount (b)	Recognized Financial Assets - Net Amount (c)=(a)-(b)	Related Amount Not Netted on the Balance Sheet (d)		Net Amount (e)=(c)-(d)
				Financial Instruments (Note)	Cash Received as Collaterals	
Derivative instruments	\$ 3,841,967	\$ -	\$ 3,841,967	\$ 353,239	\$ -	\$ 3,488,728

Financial Liabilities	Recognized Financial Liabilities - Gross Amount (a)	Netted Financial Assets Recognized on the Balance Sheet - Gross Amount (b)	Recognized Financial Liabilities - Net Amount (c)=(a)-(b)	Related Amount Not Netted on the Balance Sheet (d)		Net Amount (e)=(c)-(d)
				Financial Instruments (Note)	Cash Collaterals Pledged	
Derivative instruments	\$ 671,017	\$ -	\$ 671,017	\$ 353,239	\$ -	\$ 317,778
Securities sold under repurchase agreements	38,447,979	-	38,447,979	39,294,278	291,265	(1,137,564)

December 31, 2017

Financial Assets	Recognized Financial Assets - Gross Amount (a)	Netted Financial Liabilities Recognized on the Balance Sheet - Gross Amount (b)	Recognized Financial Assets - Net Amount (c)=(a)-(b)	Related Amount Not Netted on the Balance Sheet (d)		Net Amount (e)=(c)-(d)
				Financial Instruments (Note)	Cash Received as Collaterals	
Derivative instruments	\$ 716,363	\$ -	\$ 716,363	\$ 146,702	\$ -	\$ 569,661

Financial Liabilities	Recognized Financial Liabilities - Gross Amount (a)	Netted Financial Assets Recognized on the Balance Sheet - Gross Amount (b)	Recognized Financial Liabilities - Net Amount (c)=(a)-(b)	Related Amount Not Netted on the Balance Sheet (d)		Net Amount (e)=(c)-(d)
				Financial Instruments (Note)	Cash Collaterals Pledged	
Derivative instruments	\$ 1,969,314	\$ -	\$ 1,969,314	\$ 146,702	\$ -	\$ 1,822,612
Securities sold under repurchase agreements	29,175,392	-	29,175,392	28,733,052	41,849	400,491

Note: Including netting settlement agreement and non-cash financial collaterals.

8) Reclassification information (2017)

On July 1, 2008, HNCB and its subsidiaries reclassified their financial assets. The fair values at the reclassification date were as follows:

	Before Reclassifications	After Reclassifications
Financial assets at fair value through profit or loss - held for trading	\$ 6,418,826	\$ -
Available-for-sale financial assets	-	6,418,826
	<u>\$ 6,418,826</u>	<u>\$ 6,418,826</u>

In view of HNCB's intention of not selling the abovementioned held-for-trading financial assets within a short period of time as a result of the economic instability and deterioration of the world's financial markets that occurred in the third quarter of 2008, HNCB reclassified these held for trading financial assets to available-for-sale financial assets.

As of December 31, 2017, the carrying amounts and fair values of the reclassified financial assets were as follows:

	December 31, 2017	
	Carrying Value	Fair Value
Available-for-sale financial assets	\$ 6,113,633	\$ 6,113,633

The gain or loss recorded for the reclassified financial assets excluding those that had been derecognized before December 31, 2017 for the year ended and the pro forma gain or loss assuming no reclassifications had been made were as follows:

	For the Year Ended December 31, 2017	
	Recognized in Profit and Loss	Pro Forma Information Assuming No Reclassifi- cations
Available-for-sale financial assets	\$ -	\$ 172,873

c. HNSC and its subsidiaries

- The goal and policy of financial risk management

The main financial instrument of HNSC and its subsidiaries include equity securities, bonds and notes and financial derivatives etc.

The risk control division of HNSC and its subsidiaries provides services to other business divisions, coordinates domestic and international market operations, supervises and manages financial - related risk of HNSC and its subsidiaries by assessing the degrees of risks and by performing in depth exposed risk analysis of internal risk reports. Those risks include market risk (including exchange rate risk, interest rate risk and other price risk), credit rate risk and liquidity risk.

To lessen the impact of risk, HNSC and its subsidiaries hedges through investing in financial derivative instruments. The portfolios of financial derivative instrument meet the guidelines set forth by the policies of the board of directors of HNSC and its subsidiaries. The guideline principles also include exchange rate risk, interest rate risk, credit rate risk, the portfolio of financial derivatives and non-derivatives and investment rules in remaining current capital. Internal audit personnel would continuously review the conduct and level of risk exposure in the guideline. HNSC and its subsidiaries do not conduct financial instrument transactions (including derivatives) as means to speculate.

The risk division reports to the board of directors bi-annually.

1) Market risk

Through transaction activities, the main financial risk borne by HNSC and its subsidiaries are foreign currency exchange risk and interest rate risk illustrated as follows:

- Foreign currency exchange risk: The exchange risk raised from hedging foreign exchange swap to mitigate investments in foreign securities;
- Interest rate risk: The risk raised from hedging interest swap to mitigate the risk from increasing interest rates.

The management and measurement method addressing market risk exposure of HNSC and its subsidiaries remain unchanged.

HNSC and its subsidiaries conduct VaR analysis along with sensitivity analysis to measure the exposure of market risk.

VaR analysis

VaR analysis is the evaluation method used to estimate the potential losses of income before tax in the specific holding period based on certain confidence level. It is also a statistical method based on probability. The VaR analysis method addresses the risk diversification effect on market fluctuations, the recognition of netting parts and the correlations between products and markets. The risk could be consistently measured between all of the markets and products and the outcome of the measured risk level could sum up to a single risk value. The daily risk level using the 99% confidence level which reflects losses due from market risks has a 99% chance to not surpass the reported risk level.

The risk analysis methods used to calculate daily risk level include historical method, variance-covariance method and Monte Carlo Simulation method.

(In Thousands of New Taiwan Dollars)

Historic Risk Value (Daily Risk Level in 99% Confidence Level)	For the Year Ended December 31, 2018			December 31	
	Average	Min	Max	2018	2017
Equity risk	\$ 38,172	\$ 22,408	\$ 76,183	\$ 27,745	\$ 29,122
Interest risk	9,694	2,310	22,621	2,418	22,060
Exchange rate risk	6,939	3,510	13,100	3,619	12,591
Volatility risk	2,976	199	11,439	4,000	21,437
Risk diversification	(19,311)			(7,680)	(45,536)
Sum of risk level after risk diversification	\$ 38,470			\$ 30,102	\$ 39,674

Through VaR analysis, HNSC and its subsidiaries monitor the daily exchange rate and interest rate risk daily. On the other hand, sensitivity analysis evaluates possible impact of a reasonably possible change in interest rates or exchange rates per annum. Longer time frames of sensitivity analysis could assist HNSC and its subsidiaries in performing VaR analysis and assessing the market risk exposure. Detailed descriptions of exchange rates and interest rates sensitivity analysis are further described in point i. and ii. below.

a) Exchange rates risk

Several business divisions of HNSC and its subsidiaries engage in foreign currency based security transactions which exposes them to exchange rate fluctuation risks. The policies managing these exposed risks are within reasonable extent. HNSC and its subsidiaries use foreign exchange swap to manage these risks.

Sensitivity analysis

The exchange rate risk of HNSC and its subsidiaries are mainly impacted by changes in USD and CNY currency rates.

The following table illustrates the sensitivity analysis holding that an increment increase of 3% in relevant foreign currencies to NTD 3% is the sensitivity rate used in internal management reports. Furthermore, it also represents the evaluation of reasonable changes in foreign exchange rates of the management. The scope of sensitivity analysis includes equity securities, bonds, notes and foreign based financial derivatives. A positive figure below indicates the decrease in market value of the Company when other foreign currencies appreciates 3%. By contrast, when other foreign currencies depreciates 3%, the vice versa effect would increase the market value of the Company by the positive amount.

(In Thousands of New Taiwan Dollars)

	The Impact of 3% Foreign Currency Depreciation	
	December 31	
	2018	2017
Total profit or loss	\$(16,158)*	\$(52,775)*
Equity market	-*	6*
Foreign market	(2,397)*	(5,281)*
Interest market	(13,761)*	(47,500)*

* Mainly originates from outstanding and non-cash flow hedge foreign currency based equity security, bonds, notes and financial derivatives on balance sheet date.

Exchange rate risk concentration information

	December 31, 2018		
	Foreign Currencies	Exchange Rate	New Taiwan Dollars
Financial assets			
USD	\$ 71,857	30.72	\$ 2,207,080
HKD	11,049	3.92	43,323
EUR	75,185	35.20	2,646,493
JPY	1,801,925	0.28	501,296
Financial liabilities			
USD	39,828	30.72	1,223,325
JPY	1,801,049	0.28	501,052
EUR	75,089	35.20	2,643,130

	December 31, 2017		
	Foreign Currencies	Exchange Rate	New Taiwan Dollars
Financial assets			
USD	\$ 101,048	29.76	\$ 3,007,191
HKD	5,976	3.81	22,752
EUR	22,101	35.57	786,121
CNY	2,258	4.57	10,309
Financial liabilities			
USD	68,812	29.76	2,047,857
HKD	4,469	3.81	17,013
EUR	22,094	35.57	785,897

b) Interest rate risk

Since HNSC and its subsidiaries use fixed and floating interest rates to borrow capital, they are exposed to interest rate risks. In order to manage interest rate risks, HNSC and its subsidiaries maintain a certain combinations of fixed and floating interests rate assets as well as retaining interest rate swap contracts. To ensure that the most cost-effective hedging strategy is used, HNSC and its subsidiaries regularly evaluate hedge activities to keep the consistency in interest rate view point and predetermined risk preference.

The book value of interest rate exposed to financial assets and liabilities on balance sheet date of HNSC and its subsidiaries are described in the following table below:

	December 31	
	2018	2017
Interest rate risk of fair value		
Financial assets (Note 1)	\$ 9,835,998	\$ 14,026,892
Financial liabilities (Note 2)	16,380	17,022
Interest rate risk of cash flow		
Financial assets	853,730	837,076

Note 1: Includes all bonds and interest swap contracts.

Note 2: Includes interest swap contracts.

Sensitivity analysis

i. Interest rate risk of fair value

The following sensitivity analyses are determined by the financial derivatives and non-financial derivatives invested by HNSC and its subsidiaries. An increment of 100 base points is the fluctuation rate used in internal management reports. Further, it also represents the evaluation of reasonable changes in interest rates of the management.

As of December 31, 2018, were interest rates to increase by 100 base points, holding other variables constant, the market value of the HNSC and its subsidiaries as a whole were to decrease by \$322,148 due to the exposed interest rate risk from investing in interest rate swap contracts, bonds and notes. As of December 31, 2017, under the same circumstances, the HNSC and its subsidiaries as a whole would decrease by \$606,897 due to the exposed interest rate risk from interest rate swap contracts and investing in bonds and notes.

ii. Interest rate risk with cash-flow

Were market interest rate to increase/decrease by 100 base points and other variables remained constant, the income before tax were to increase/decrease by \$8,537 and \$8,371 for the years ended December 31, 2018 and 2017 due to the exposed risk of deposits interest rate risk.

iii. Other risk

Other risk refers to the equity price risk occurred in investing listed equity securities, which are traded as equity instruments in the Taiwan Stock Exchange and the Taipei Exchange. To offset yearly losses, monthly losses and to control risk levels, HNSC and its subsidiaries set limitations per annum.

Sensitivity analysis

The following sensitivity analysis was conducted by the exposed risk of equity price on balance sheet date.

Were equity price to drop by 15%, the market value as a whole were to decrease by \$78,304 in measured at fair value through profit or loss and \$141,069 in investments through other comprehensive income due to fair value fluctuations on December 31, 2018.

Were equity price to drop by 15%, the market value as a whole were to decrease by \$306,887 in held-for trading investments and \$88,144 in available-for-sale investments due to fair value fluctuations on December 31, 2017.

2) Credit risk

Credit risk refers to the risk occurred in financial losses of default contracts from the counterparty. The biggest exposed credit risk of possible defaults of the counterparty resulting in financial losses of HNSC and its subsidiaries on balance sheet date arises from:

The book value of financial assets recognized on consolidated balance sheets.

The concentration of credit risks is limited due to the broad and independent customer base of HNSC and its subsidiaries.

The policy adopted by HNSC and its subsidiaries is to acquire adequate amount of collateral to lessen the risk of financial losses from arrears and to use other obtainable public financial information and interparty transaction records to evaluate client credit rating. HNSC and its subsidiaries would continuously to monitor the exposed credit risk and the counterparty credit rating.

3) Liquidity risk

HNSC and its subsidiaries manage and maintain adequate amount of cash and cash equivalents to finance business operations and to lessen the impact of cash flow fluctuations. The management of HNSC and its subsidiaries supervises the usage of financing facilities to ensure the obedience of loan agreement terms.

Bank loan is an important source of liquidity to HNSC and its subsidiaries. The undrawn banking facilities on December 31, 2018 and 2017 refer to the Table (ii) finance facilities.

a) Table of liquidity and interest rate risk

The following Table illustrates the contractual maturity analysis of agreed upon repayment period non-derivative financial liabilities. The information is disclosed according to the earliest possible requested repayment date and undiscounted cash flow of financial liabilities.

December 31, 2018

	Interest Rate Interval (%)	Less than One Month	One to Three Months	Three Months to One Year	One Year to Five Years	More than Five Years
<u>Non-derivative financial liabilities</u>						
Liabilities with no interest	-	\$ 6,634,949	\$ -	\$ 531,315	\$ 188,850	\$ 155,277
Floating interest rate instruments	0.08	2,690,185	-	-	-	-
Fixed interest rate instruments	0.05-2.9	9,521,577	846,045	5,715,789	345,126	-
		<u>\$ 18,846,711</u>	<u>\$ 846,045</u>	<u>\$ 6,247,104</u>	<u>\$ 533,976</u>	<u>\$ 155,277</u>

December 31, 2017

	Interest Rate Interval (%)	Less than One Month	One to Three Months	Three Months to One Year	One Year to Five Years	More than Five Years
<u>Non-derivative financial liabilities</u>						
Liabilities with no interest	-	\$ 8,415,446	\$ -	\$ 507,060	\$ 154,246	\$ 138,945
Floating interest rate instruments	0.08	2,099,795	-	-	-	-
Fixed interest rate instruments	0.05-2.5	16,062,506	920,314	5,248,322	397,301	-
		<u>\$ 26,577,747</u>	<u>\$ 920,314</u>	<u>\$ 5,755,382</u>	<u>\$ 551,547</u>	<u>\$ 138,945</u>

The following Table illustrates the liquidity analysis of net delivery financial derivatives based on the contractual net cash inflow and outflow of HNSC and its subsidiaries.

December 31, 2018

	Request Immediate Payment or Less than One Month	One to Three Months	Three Months to One Year	One Year to Five Years	More than Five Years
<u>Net delivery</u>					
Interest rate swap	\$ (345)	\$ (485)	\$ (2,432)	\$ (6,162)	\$ -
Exchange rate swap	(57)	-	-	-	-
Net cash outflow	\$ (402)	\$ (485)	\$ (2,432)	\$ (6,162)	\$ -

December 31, 2017

	Request Immediate Payment or Less than One Month	One to Three Months	Three Months to One Year	One Year to Five Years	More than Five Years
Net delivery					
Interest rate swap	\$ (866)	\$ (65)	\$ (2,286)	\$ (9,228)	\$ -
Exchange rate swap	501	-	-	-	-
Net cash outflow	\$ (365)	\$ (65)	\$ (2,286)	\$ (9,228)	\$ -

b) Finance facilities

	December 31	
	2018	2017
Nonguaranteed bank facilities		
Drawn amount	\$ 230,000	\$ 6,800,000
Undrawn amount	18,884,050	5,407,700
	<u>\$ 19,114,050</u>	<u>\$ 12,207,700</u>
Guaranteed bank facilities		
Drawn amount	\$ 985,000	\$ 25,000
Undrawn amount	3,247,000	3,767,650
	<u>\$ 4,232,000</u>	<u>\$ 3,792,650</u>

d. SCIC

- The goal and policy of the financial risk management

To improve and enhance the risk management culture and capability of SCIC, SCIC has set up related risk management policy resolved by the board of directors addressing various risk such as market risk, exchange rate risk and credit risk. SCIC has also developed various risk measurement tools and management mechanisms to achieve effective identification, measurement, control and supervision of risk management.

1) The organization structure of risk management

- The board of directors: The board of directors is the ultimate organization responsible for the overall risk management of SCIC. It is also responsible for the approval of the related risk management policy and the reporting of various important risk management policies.
- SCIC Risk Control Committee (subordinate to the board of directors): The SCIC risk control committee is responsible for the risk management policy, framework, organization function as well as the qualitative and quantitative of management deliberation. The committee reports to the board of directors periodically to reflect the execution status of risk management, making necessary recommendations for improvements.
- The Risk Management Division: The risk management division is responsible for the establishment, supervision and execution of the various risk control mechanisms and reports to the SCIC Risk Control Committee quarterly.

2) Market risk

a) The definition and source of market risk

Market risk arises from market changes (such as those referring to interest rates, exchange rates, equity securities, credit level differences, related correlations or the degree of fluctuations) which may cause the negative impact of the decrease in value of a financial instrument.

b) The management structure and planning of market risk

To address the market risk management, SCIC has set up the goal of risk management, position limits, offset limits and risk level limits passed by the board of directors. Furthermore, SCIC periodically measures, analyzes, prepares financial statements and discloses the exposure levels affected by the market risk factors. SCIC also implements the mechanism of market risk limit control to appropriately reflect and fulfill the risk management of SCIC.

c) The management of market risk

SCIC conducts various financial instrument trading operations based on yearly budget constraints with market risk control position limitations, offset limitations and risk level limitations. Please refer to point (i) below. On the other hand, SCIC regularly discloses foreign exchange fluctuation risks and exchange rate fluctuation risks. Please refer to point (ii), (iii) and (iv) below:

i. The risk value

SCIC uses VaR (Value at Risk, VaR) to evaluate the investment portfolio of trading and non-trading books. The aforementioned non-trading book investment portfolio refers to available-for-sale financial assets.

VaR estimates the potential losses due to negative changes in markets. It also indicates the highest endurable potential loss of SCIC in a 99% confidence interval; however, there is still a 1% possibility for actual losses to be bigger than VaR estimations.

SCIC evaluates the risk level in self-owned assets based on historical simulation method, which collects historical past data over the past year to assess the market volatility. The calculated result will be used to regularly monitor and test the accuracy of the used parameters and assumptions.

Unit: Thousand Dollars

	December 31, 2018	December 31, 2017
Risk level of trading book	\$ 76	\$ 59
Risk level of non-trading book	94,156	72,886

ii. Exchange rate risk

The book value of foreign currency assets and liabilities are recognized on balance sheet date. The currency of the forward foreign exchange contracts should be the same as the instrument hedged. To maximize the effectiveness of hedging, the currency of forward foreign exchange contracts must be in coordinate with the derivatives and hedged contract terms.

Sensitivity analysis

The following table illustrates the sensitivity analysis of SCIC when NTD to foreign currencies exchange rate increase or decrease by 1%. Sensitivity analysis includes outstanding foreign bank deposits and financial assets, adjusted to a 1% exchange rate change on period end. The scope of sensitivity analysis includes foreign bank deposits, financial assets. The negative value in the below table indicates the decrease in amounts of net income and equity when NTD to other currency appreciates by 1%. Vice versa, the positive value illustrates the effect to net income, and equity when NTD to foreign currency depreciates by 1%.

Unit: Thousand Dollars

	Impact of USD	
	2018	2017
Net income before tax	\$ (13,580)	\$ (1,153)

	Impact of CNY	
	2018	2017
Net income before tax	\$ (919)	\$ (1,619)

	Impact of EUR	
	2018	2017
Net income before tax	\$ (95)	\$ (220)

The source of the risk are from outstanding and non-cash flow hedged foreign deposits and financial instruments of SCIC on balance sheet date.

The current period USD sensitivity level of SCIC decreases due to increase USD derivative financial assets or liabilities for hedging. The current period CNY sensitivity level of SCIC decreases due to decrease CNY financial assets. The current period EUR sensitivity level of SCIC decreases due to decrease EUR financial assets.

Concentration of exchange rate risk

Unit: Foreign/NTD Currency in Thousands.

December 31, 2018

	Foreign Currencies	Exchange Rate	Book Value
<u>Financial assets</u>			
Monetary items			
USD	\$ 95,702	30.72	\$ 2,939,953
CNY	40,974	4.47	183,157
EUR	52,309	35.20	1,841,269
<u>Financial liabilities</u>			
Monetary items			
USD	1,328	30.72	40,793
CNY	422	4.47	1,887

December 31, 2017

	Foreign Currencies	Exchange Rate	Book Value
<u>Financial assets</u>			
Monetary items			
USD	\$ 113,478	29.76	\$ 3,377,119
CNY	35,469	4.57	162,092
<u>Financial liabilities</u>			
Monetary items			
USD	371	29.76	11,046
CNY	51	4.57	235

iii. Interest rate risk

The book value of SCIC's interest rate risk-exposed financial assets on balance sheet date is as follows:

Unit: Thousand Dollars

	December 31	
	2018	2017
Interest rate risk with fair value		
Financial assets	\$ 8,203,279	\$ 8,359,616
Interest rate risk with cash flow		
Financial assets	1,387,981	1,322,052

Sensitivity analysis

The following sensitivity analysis is conducted based on the interest rate risk exposure of non-derivatives on balance sheet date. The assumption of analytical method for floating interest rate liabilities is that all liabilities within the reporting period are outstanding. The internal marginal interest rate of SCIC for management reporting is an increase/decrease of 1 base point.

The marginal interest rate also indicates the assessment of the reasonably possible range of interest rate changes.

Were interest rate to increase/decrease by 1 base point, holding other variables constant, the income before tax was to increase/decrease \$139 of SCIC for the year ended December 31, 2018 due to the interest rate risk exposure of bank deposits.

Were interest rate to increase/decrease by 1 base point, holding other variables constant, the income before tax was to increase/decrease \$132 of SCIC for the year ended December 31, 2017 due to the interest rate risk exposure of bank deposits.

iv. Other risk

Other risk refers to the equity price risk exposure in securities investments of SCIC.

Sensitivity analysis

The following sensitivity analysis is conducted on the equity price risk exposure on balance sheet date.

Were equity price to increase/decrease by 1%, the income before tax were to increase/decrease by \$442; other comprehensive income were to increase/decrease by \$24,378 for the year ended December 31, 2018.

Were equity price to increase/decrease by 1%, the income before tax were to increase/decrease by \$289 in the held for trading investments due to fair value fluctuations; other comprehensive income were to increase/decrease by \$24,415 in the available-for-sale financial assets due to fair value fluctuations for the year ended December 31, 2017.

The current period sensitivity level of price risk have little difference with the previous period.

3) Credit risk

Credit risk refers to the risk occurred in financial losses of default contracts of the counterparty.

Before trading transactions, the credit risk management division carefully evaluates and regularly examines the credit ratings of the counterparty, issuer and guarantee institution are in line with the regulation and SCIC management policy. To fully disclose the credit rating and the estimation of risk concentration level, the division also regularly assesses the credit ratings of the counterparty, issuer, guarantee institution after trading transactions.

Moreover, SCIC assesses the collectable values of premiums receivable to ensure the provision for impairment loss of non-collectable receivable are reasonable on balance sheet date.

After assessing the credit level of SCIC, SCIC considers the current period credit risk level is within reasonable limits.

4) Liquidity risk

Table of liquidity and interest rate risk of non-derivatives financial liabilities

The board of directors is the ultimate responsible for liquidity risk management of SCIC. SCIC has established appropriate management structure of liquidity risk to response to management demand of liquidity. To manage liquidity risk, SCIC monitors expected and actual cash flow and plan similar expiration of financial asset to settle liabilities.

The following table illustrates the aging analysis of non-derivatives financial liabilities remaining contracts of agreed repayments. The information is disclosed based on the earliest possible requested repayment date and undiscounted cash flow of financial liabilities including the cash flow of interests and principal.

For floating interest rate paid cash flow, the undiscounted interest amount is derived from yield curve on balance sheet date.

December 31, 2018

	Within Three Months	Three Months to One Year	One Year to Five Years	Over Five Years
Non-derivatives financial liabilities				
Liabilities with no interest	\$ 165,380	\$ 411,036	\$ 16,156	\$ 180

December 31, 2017

	Within Three Months	Three Months to One Year	One Year to Five Years	Over Five Years
Non-derivatives financial liabilities				
Liabilities with no interest	\$ 156,465	\$ 452,746	\$ 10,912	\$ 460

Table of liquidity and interest rate risk of derivative financial liabilities

The liquidity analysis of derivative financial instruments of net delivery financial derivatives based on undiscounted net cash inflow and outflow; gross delivery financial derivatives based on undiscounted cash inflow and outflow.

December 31, 2018

	Less than Three Months	Three Months to One Year	One Year to Five Years	More than Five Years
Net delivery				
Foreign exchange forward contract	\$ 3,765	\$ 1,901	\$ -	\$ -
Gross delivery				
Currency swap				
Inflow	\$ 2,589,070	\$ 1,625,588	\$ -	\$ -
Outflow	(2,521,585)	(1,601,687)	-	-
	\$ 67,485	\$ 23,901	\$ -	\$ -

December 31, 2017

	Less than Three Months	Three Months to One Year	One Year to Five Years	More than Five Years
Net delivery				
Foreign exchange forward contract	\$ 2,782	\$ 18,481	\$ -	\$ -
Gross delivery				
Currency swap				
Inflow	\$ 1,540,784	\$ 1,351,525	\$ -	\$ -
Outflow	(1,535,126)	(1,350,728)	-	-
	\$ 5,658	\$ 797	\$ -	\$ -

e. HNIT

- The goal and policy of financial risk management

The primary financial instruments of HNIT include accounts receivable, other financial assets and loans. The financial risk management division of HNIT provides services to other business divisions, with the level of risk exposure and broad analysis of internal supervision and HNIT risk management reporting of financial risks relating to operations. The financial risks include market risks (including interest rate risk), credit risk and liquidity risk.

1) Market risk

The main financial risk endured from the operations of HNIT is interest rate risk.

Interest rate risk

The book value of interest rate risk exposed financial assets and financial liabilities on balance sheet date is as following:

	December 31	
	2018	2017
Interest rate risk with cash flow		
Financial assets	\$ 88,692	\$ 94,475
Financial liabilities	299,962	300,000

Sensitivity analysis

The following sensitivity analysis is based on the interest rate risk exposure of non-derivatives on balance sheet date. For floating rate liabilities, the assumption of analysis method is that the liabilities are outstanding on balance sheet date. An interest rate change of 20 base point is the sensitivity rate used in internal management reports. Further, it also represents the evaluation of reasonable changes in interest rates of the management.

Were interest rate to increase/decrease 20 base points, holding other variables constant, the income before tax of HNIT were to increase/decrease \$423 and \$411 for the years ended December 31, 2018 and 2017 due to the interest rate risk exposure derived from bank deposits and floating rate loans.

2) Credit risk

Credit risk refers to the risk occurred in financial losses of default contracts from the counterparty. The biggest exposed credit risk of possible defaults of the counterparty resulting in financial losses of HNIT on balance sheet date arises from the recognized book value of financial assets.

To lessen the level of credit risks, the management of HNIT would review the possible collectable amount of receivables on balance sheet dates to ensure the provision for impairment loss of unrecoverable receivables are reasonable.

3) Liquidity risk

HNIT manages and maintains adequate amount of cash and cash equivalents to finance business operations and to lessen the impact of cash flow fluctuations. The management of HNIT supervises the usage of financing facilities to ensure the obedience of loan agreement terms.

Bank borrowings is an important liquidity source for HNIT. Please refer to the following illustration of ii for the undrawn financing facilities on December 31, 2018 and 2017.

a) Table of the liquidity and interest rate risk of non-derivative financial liabilities.

The aging analysis of non-derivative financial liabilities is disclosed in accordance with the earliest possible repayment date and undiscounted cash flow of financial liabilities (including the principal and estimated interest). Therefore, the requested immediate payment of bank borrowings are disclosed on the earliest period of the following table, leaving out the probability of immediate execution right of the bank. The aging analysis of other non-derivative financial liabilities is disclosed in accordance with the agreed repayment date.

December 31, 2018

	Requested Immediate Payment or Less than One Month	One to Three Months	Three Months to One Year
<u>Non-derivative financial liabilities</u>			
Liabilities with no interest	\$ 12,616	\$ 7,726	\$ 62,203
Floating interest instrument	<u>199,962</u>	<u>100,000</u>	<u>-</u>
	<u>\$ 212,578</u>	<u>\$ 107,726</u>	<u>\$ 62,203</u>

December 31, 2017

	Requested Immediate Payment or Less than One Month	One to Three Months	Three Months to One Year
<u>Non-derivative financial liabilities</u>			
Liabilities with no interest	\$ 30,002	\$ 411	\$ 59,171
Floating interest instrument	<u>-</u>	<u>300,000</u>	<u>-</u>
	<u>\$ 30,002</u>	<u>\$ 300,411</u>	<u>\$ 59,171</u>

b) Financing facilities

	December 31	
	2018	2017
Unsecured bank overdraft facility		
Drawn amount	\$ 300,000	\$ 300,000
Undrawn amount	300,000	100,000
	\$ 600,000	\$ 400,000

f. HNVC

1) The goal and policy of financial risk management

The primary financial instruments of HNVC include accounts receivable, other financial assets and loans. The financial risk management division of HNVC provides services to other business divisions, with the level of risk exposure and broad analysis of internal supervision and HNVC risk management reporting of financial risks relating to operations. The financial risks include market risks (including interest rate risk), credit risk and liquidity risk.

a) Market risk

The main financial risk endured from the operations of HNVC is exchange rates risk, interest rate risk and other price risk (refer to the following tables).

The managements and measurements of the financial instruments risk exposure unchanged.

i. Exchange rates risk

The book value of foreign-currency based assets on balance sheet date is as following:

	December 31	
	2018	2017
Assets		
USD	\$ 12,159	\$ 3,369

Sensitivity analysis

The exchange rate risk of HNVC is mainly impacted by change in USD listed above.

The following table illustrates sensitivity analysis based on an increment increase of 1% in functional currency to related foreign currency 1% is the sensitivity rate used in internal management reports. Further it also represents the evaluation of reasonable changes in foreign exchange rates of the management. The scope of sensitivity analysis only includes outstanding foreign monetary items. A positive figure below indicants the amount decrease in income before tax before tax when functional currency decrease 1% the amount decrease in income before tax before tax when functional currency decrease 1%.

	For the Year Ended December 31	
	2018	2017
<u>Profit and loss</u>		
Currency assets		
USD	\$ 122	\$ 34

ii. Interest rate risk

The book value of interest rate risk exposed financial assets and financial liabilities on balance sheet date is as following:

	December 31	
	2018	2017
Interest rate risk of fair value		
Financial assets	\$ 357,103	\$ 390,000
Interest rate risk cash flow		
Financial assets	36,251	99,757

Sensitivity analysis

The following sensitivity analysis is based on the interest rate risk exposure of non-derivatives on balance sheet date. An interest rate change of 1% is the sensitivity rate used in internal management reports. Further, it also represents the evaluation of reasonable changes in interest rates of the management.

Were interest rate to increase/decrease 1%, holding other variables constant, the income before tax of HNIT were to increase/decrease \$363 and \$998 for the years ended December 31, 2018 and 2017 due to the interest rate risk exposure derived from financial assets.

- iii. Other risk refers to the equity price risk accrued in investing listed equity securities. To manage the risk, the management of HNVC holds investment portfolio with different risks.

The book value of interest rate risk exposed financial assets and financial liabilities on balance sheet date is as following:

Sensitivity analysis

The following sensitivity analysis was conducted on the exposed risk of equity price on the balance sheet date.

Were equity price to rise/drop 1%, the net income before tax were to increase/decrease by \$11,060 in the financial assets at fair value through profit or loss due to fair value rise/drop for the year ended December 31, 2017.

Were equity price to rise/drop 1%, the other income before tax were to increase/decrease by \$892 in the financial assets of available-for-sale investments due to fair value fluctuations for the year ended December 31, 2017.

b) Credit risk

Credit risk refers to the risk occurred in financial losses of default contracts of the counterparty.

The biggest exposed credit risk of possible defaults of the counterparty resulting in financial losses of HNVC on balance sheet date arises from the recognized book value of financial assets.

The maximum credit exposures of each financial instruments HNVC holds are same as their book value.

c) Liquidity risk

HNVC manage and amination adequate amount of cash and cash equivalents to finance business operations and to lesser the impact of cash flow fluctuations.

The following table illustrates the aging analysis of non-derivatives financial liabilities remaining contracts of agreed repayments. The information is disclosed based on the earliest possible requested repayment date and undiscounted cash flow of financial liabilities including the cash flow of interests and principal.

December 31, 2018

	Within Three Months	Three Months to Six Months
<u>Non-derivatives financial liabilities</u>		
Liabilities with no interest	\$ 49	\$ 40

December 31, 2017

	Within Three Months	Three Months to Six Months
<u>Non-derivatives financial liabilities</u>		
Liabilities with no interest	\$ 54	\$ 40

g. HNAME

- The goal and policy of financial risk management

The primary financial instruments of HNAME include accounts receivable, other financial assets and loans. The financial risk management division of HNAME provides services to other business divisions, with the level of risk exposure and broad analysis of internal supervision and HNAME risk management reporting of financial risks relating to operations. The financial risks include market risks (including interest rate risk), credit risk and liquidity risk.

Market risk

1) Interest rate risk

The book value of interest rate risk exposed financial assets and financial liabilities on balance sheet date is as following:

	December 31	
	2018	2017
Interest rate risk of fair value		
Financial assets	\$ 1,398,554	\$ 706,514
Interest rate risk of cash flow		
Financial assets	42,511	5,195
Financial liabilities	900,000	368,000

Sensitivity analysis

The following sensitivity analysis is based on the interest rate risk exposure of non-derivatives on balance sheet date. For floating rate liabilities, the assumption of analysis method is that the liabilities are outstanding on balance sheet date. An interest rate change of 10 base point is the sensitivity rate used in internal management reports. Further, it also represents the evaluation of reasonable changes in interest rates of the management.

Were interest rate to increase/decrease 10 base points, holding other variables constant, the income before tax of HNAME were to increase/decrease \$857 and \$363 for the years ended December 31, 2018 and 2017 due to the interest rate risk exposure derived from bank deposits and floating rate loans.

The decrease in sensitivity of HNAME this year is due to the increase in floating rate loans.

2) Credit risk

Credit risk refers to the risk occurred in financial losses of default contracts from the counterparty. The biggest exposed credit risk of possible defaults of the counterparty resulting in financial losses of HNAME on balance sheet date arises from the recognized book value of financial assets.

The policy of HNAME holds is to conduct transactions only with high credit rating counterparty, and receives sufficient of collateral to lessen the risks of financial loss derived from defaults.

To lessen the level of credit risks, the management of HNAME assigns specific responsibility team to be in charge of the determination of credit line, credit approval and other supervisory program to ensure that recovery of overdue receivables has taken appropriate action. The management of HNAME also reviews the possible collectable amount of receivables on balance sheet dates to ensure the provision for impairment loss of unrecoverable receivables are reasonable. By the conduct, the management of HNAME considers the credit risk has been reduced considerably.

3) Liquidity risk

HNAME manages and maintains adequate amount of cash and cash equivalents to finance business operations and to lessen the impact of cash flow fluctuations. The management of HNAME supervises the usage of financing facilities to ensure the obedience of loan agreement terms.

Bank borrowings is an important liquidity source for HNAME. Please refer to the following illustration of ii for the undrawn financing facilities on December 31, 2018 and 2017.

a) Table of the liquidity and interest rate risk of non-derivative financial liabilities.

The aging analysis of non-derivative financial liabilities is disclosed in accordance with the earliest possible repayment date and undiscounted cash flow of financial liabilities (including the principal and estimated interest). Therefore, the requested immediate payment of bank borrowings are disclosed on the earliest period of the following table, leaving out the probability of immediate execution right of the bank. The aging analysis of other non-derivative financial liabilities is disclosed in accordance with the agreed repayment date.

December 31, 2018

	Requested Immediate Payment or Less than One Month	One to Three Months	Three Months to One Year	One Year to Five Years
<u>Non-derivative financial liabilities</u>				
Liabilities with no interest	\$ 210	\$ 3,051	\$ -	\$ 108,689
Floating interest instrument	821	401,230	4,664	508,081
Fixed interest instrument	<u>1,319</u>	<u>1,400,909</u>	<u>-</u>	<u>-</u>
	<u>\$ 2,350</u>	<u>\$ 1,805,190</u>	<u>\$ 4,664</u>	<u>\$ 616,770</u>

December 31, 2017

	Requested Immediate Payment or Less than One Month	One to Three Months	Three Months to One Year	One Year to Five Years
<u>Non-derivative financial liabilities</u>				
Liabilities with no interest	\$ 72	\$ 4,145	\$ -	\$ 7,624
Floating interest instrument	352	68,694	562	300,000
Fixed interest instrument	<u>527</u>	<u>707,244</u>	<u>-</u>	<u>-</u>
	<u>\$ 951</u>	<u>\$ 780,083</u>	<u>\$ 562</u>	<u>\$ 307,624</u>

b) Financing facilities

	December 31	
	2018	2017
Unsecured bank overdraft facility		
Drawn amount	\$ 2,300,000	\$ 1,075,000
Undrawn amount	<u>3,050,000</u>	<u>4,075,000</u>
	<u>\$ 5,350,000</u>	<u>\$ 5,150,000</u>

55. CAPITAL MANAGEMENT AND CAPITAL ADEQUACY

Principle of Capital Management

To maintain sufficient eligible capital and withstand the possible losses, the Company and its subsidiaries not only meet the minimum requirements set by the authorities but assess the extent of capital adequacy through advanced simulation as well as subsequent supervision and analysis, given the business scheme, risk status and composition of eligible capital thus, the Company and its subsidiaries are capable of developing countermeasures in a timely manner.

Group's Capital Adequacy Rate

(In Thousands of New Taiwan Dollars; %)

December 31, 2018				
Companies	Items	Percentage of Ownership	The Group's Net Eligible Capital	The Group's Statutory Capital Requirement
Financial Holdings Co Ltd		100%	\$ 180,131,396	\$ 205,993,753
Commercial Bank Ltd		100%	213,507,676	153,365,357
Securities Corp		100%	8,499,094	2,811,258
Insurance Corp		100%	5,051,923	1,874,670
Investment Trust Corp		100%	1,542,482	775,920
Others		100%	1,602,054	2,243,033
Deduction			215,236,822	204,742,800
Total			(A) 195,097,803	(B) 162,321,191
Group capital adequacy ratio (C) = (A) ÷ (B)				120.19%

(In Thousands of New Taiwan Dollars; %)

December 31, 2017				
Companies	Items	Percentage of Ownership	The Group's Net Eligible Capital	The Group's Statutory Capital Requirement
Financial Holdings Co Ltd		100%	\$ 166,188,102	\$ 196,042,152
Commercial Bank Ltd		100%	209,321,593	135,846,850
Securities Corp		100%	9,084,201	3,884,495
Insurance Corp		100%	5,025,353	1,850,842
Investment Trust Corp		100%	1,811,060	909,865
Others		100%	1,671,471	1,605,676
Deduction			207,731,891	194,972,401
Total			(A) 185,369,889	(B) 145,167,479
Group capital adequacy ratio (C) = (A) ÷ (B)				127.69%

Financial Holding Company's Net Eligible Capital

(In Thousands of New Taiwan Dollars)

December 31, 2018	
Item	Amount
Common stock	\$ 115,436,133
Unaccumulated preferred stocks which meet Tier 1 capital requirement and unaccumulated subordinated debts with no maturity date	-
Other preferred stocks and subordinated debts	5,980,000
Stock dividends to be distributed	-
Capital surplus	17,758,986
Legal reserve	14,860,042
Special reserve	6,492,093
Unappropriated earnings	15,829,364
Equity adjustments	3,778,863
Less: Goodwill and intangible assets	(1,277)
Less: Deferred assets	(2,808)
Less: Treasury stock	-
Total net eligible capital	180,131,396

(In Thousands of New Taiwan Dollars)

December 31, 2017	
Item	Amount
Common stock	\$ 110,465,199
Unaccumulated preferred stocks which meet Tier 1 capital requirement and unaccumulated subordinated debts with no maturity date	-
Other preferred stocks and subordinated debts	1,960,000
Stock dividends to be distributed	-
Capital surplus	17,758,986
Legal reserve	13,658,494
Special reserve	6,492,093
Unappropriated earnings	15,363,375
Equity adjustments	494,436
Less: Goodwill and intangible assets	(1,673)
Less: Deferred assets	(2,808)
Less: Treasury stock	-
Total net eligible capital	166,188,102

56. INFORMATION REGARDING THE TRUST BUSINESS UNDER THE TRUST LAW

The balance sheets, income statements and trust properties of trust accounts were as follows:

Balance Sheets of Trust Accounts

	December 31	
	2018	2017
Trust assets		
Bank deposits	\$ 7,980,976	\$ 6,349,244
Bonds	6,101,387	3,594,890
Stocks	12,169,159	14,375,151
Mutual funds	171,092,574	164,926,187
Real estate	19,135,231	17,523,729
Custodial securities	319,040,794	263,810,124
Total trust assets	\$ 535,520,121	\$ 470,579,325
Trust liabilities		
Other liabilities	\$ 45	\$ 41
Custodial securities payable	319,040,794	263,810,124
Trust capital		
Monetary trust	186,135,989	175,416,616
Securities trust	9,332,762	12,314,472
Real estate trust	19,865,140	18,121,047
Accumulated deficit	(168,548)	(360,839)
Net income	1,313,939	1,277,864
Total trust liabilities	\$ 535,520,121	\$ 470,579,325

Note: Trust accounts including OBU's foreign currency mutual funds that Invested in foreign securities amounted to \$2,541,932 as of December 31, 2018. Additionally, foreign currency mutual funds that invested in domestic securities amounted to \$218,622 as of December 31, 2018.

Trust accounts including OBU's foreign currency mutual funds that Invested in foreign securities amounted to \$2,751,208 as of December 31, 2017. Additionally, foreign currency mutual funds that invested in domestic securities amounted to \$236,668 as of December 31, 2017.

Trust Properties of Trust Accounts

	December 31	
	2018	2017
<u>Investment portfolio</u>		
Bank deposits	\$ 7,980,976	\$ 6,349,244
Bonds	6,101,387	3,594,890
Stocks	12,169,159	14,375,151
Mutual funds	171,092,574	164,926,187
Real estate		
Land	18,122,091	15,890,978
Building	4,591	7,169
Construction in progress	1,008,549	1,625,582
Custodial securities	319,040,794	263,810,124
Collective investment trust fund account net assets	-	-
	<u>\$ 535,520,121</u>	<u>\$ 470,579,325</u>

Trust Income Statements

Item	For the Year Ended December 31	
	2018	2017
Trust income		
Interest income	\$ 64,532	\$ 62,465
Rental income	4,337	121
Cash dividends	560,540	499,662
Realized investment income - bonds	25,072	5,868
Realized investment income - stocks	67,362	276,325
Realized investment income - mutual funds	1,009	4,541
Income apportion from beneficiary certificates	7,720	6,091
Cash dividends from capital surplus	71	799
Other income	<u>650,471</u>	<u>490,516</u>
Total trust income	<u>1,381,114</u>	<u>1,346,388</u>
Trust expense		
Administrative expenses	26,366	24,979
Inspection expense	2,085	2,185
Signing bonus and planning fees	-	125
Tax expenses	9,881	12,888
Health insurance fees	3,280	4,064
Realized investment loss - bonds	7,464	-
Realized investment loss - stocks	220	4,686
Realized investment loss - mutual funds	3,652	2,816
Income tax expense	204	171
Other expenses	14,023	16,610
Total trust expenses	<u>67,175</u>	<u>68,524</u>
Net income	<u>\$ 1,313,939</u>	<u>\$ 1,277,864</u>



57. PUBLIC ANNOUNCEMENTS PRESCRIBED IN ARTICLE 46 OF THE FINANCIAL HOLDING COMPANY ACT: Table 16.

58. COLLABORATIVE MARKETING

HNCB, HNSC, SCIC, HNIT, HNVC, HNAME and HNFC signed an agreement and the term of the agreement was from January 2018 to December 2018 (based on agreement regulation 9, the term stated that the agreement would extend a year automatically). The scope of the collaboration includes sharing their workplace, human resource and business information. The calculation of related proportionate expense and remuneration was based on “The Instruction of the Distribution pm Collaboration Marketing Fees Between HNFH’s Subsidiaries” and “The Instruction of the Distribution on Commission Service Expense and Related Fees”.

In addition, HNCB also signed into a commission agreement with SCIC in March 2005. The calculation of related commission and remuneration was stated in the agreements.

In July 2005, HNCB, HNFH, HNSC, SCIC, HNIT, HNVC and HNAME signed an agreement to the use of information equipment, including system planning, development, management, and expense allocation.

Accordingly, for the years ended December 31, 2018 and 2017, HNCB paid HNSC and its subsidiaries \$101,255 and \$97,912 for business promotion and infrastructures sharing. For the years ended December 31, 2018 and 2017, HNCB was paid \$29,394 and \$30,556 from HNSC, \$88,947 and \$90,444 from SCIC, SCIC was paid \$254 and \$222 from HNCB under the agreement, \$14,152 and \$17,775 from HNIT, \$295 and \$287 from HNVC, \$432 and \$558 from HNAME.

59. SEGMENT INFORMATION

	For the Year Ended December 31, 2018				
	Bank Division	Securities Division	Insurance Division	Other Divisions	Consolidation
Net interest revenue (expense)	\$ 26,223,570	\$ 486,645	\$ 165,927	\$(315,92)	\$ 26,560,219
Other non-interest income, net	14,304,148	2,638,749	2,107,741	391,627	19,442,265
Net revenues	40,527,718	3,125,394	2,273,668	75,704	46,002,484
Allowance for doubtful accounts, commitments and guarantees	(3,355,134)	(176,310)	(1,063)	(753)	(3,533,260)
Change in provisions for insurance liabilities, net	-	-	(23,475)	-	(23,475)
Operating expenses	(21,287,550)	(2,395,077)	(1,338,823)	(753,090)	(25,774,540)
Net profit (loss) before income tax from continuing operations	15,885,034	554,007	910,307	(678,139)	16,671,209
Income tax (expense) revenue	(1,732,336)	(176,674)	(137,183)	(3,581)	(2,049,774)
Net profit (loss) from continuing operations	\$ 14,152,698	\$ 377,333	\$ 773,124	\$(681,720)	\$ 14,621,435

	For the Year Ended December 31, 2017				
	Bank Division	Securities Division	Insurance Division	Other Divisions	Consolidation
Net interest revenue (expense)	\$ 26,562,191	\$ 421,559	\$ 177,803	\$(222,811)	\$ 26,938,742
Other non-interest income, net	10,058,343	2,646,611	2,277,308	299,544	15,281,806
Net revenues	36,620,534	3,068,170	2,455,111	76,733	42,220,548
(Allowance for) reversal of allowance for doubtful accounts and guarantees	(4,927,522)	(705)	14,382	(36,515)	(4,950,360)
Change in provisions for insurance liabilities, net	-	-	(237,716)	-	(237,716)
Operating expenses	(18,795,590)	(2,318,959)	(1,406,374)	(702,181)	(23,223,104)
Net profit (loss) before income tax from continuing operations	12,897,422	748,506	825,403	(661,963)	13,809,368
Income tax expense	(1,578,729)	(112,427)	(98,710)	(3,934)	(1,793,800)
Net profit (loss) from continuing operations	\$ 11,318,693	\$ 636,079	\$ 726,693	\$(665,897)	\$ 12,015,568

60. FINANCIAL STATEMENTS OF HUA NAN FINANCIAL HOLDINGS CO., LTD.

Hua Nan Financial Holdings Co., Ltd.

Balance Sheets

December 31, 2018 and 2017

(In Thousands of New Taiwan Dollars)

	2018	2017
Assets		
Cash and cash equivalents	\$ 422,127	\$ 275,722
Financial assets at fair value through other comprehensive income	874,254	-
Receivables, net	329,475	329,453
Current tax assets	1,086,735	425,151
Investments accounted for using equity method, net	204,742,800	194,972,401
Other financial assets, net	-	681,431
Property and equipment, net	47,224	58,867
Intangible assets, net	1,277	1,673
Deferred tax assets	2,808	2,808
Total	\$ 207,506,700	\$ 196,747,506
Liabilities		
Commercial paper payable, net	\$ 13,885,360	\$ 20,987,156
Payables	1,613,780	1,329,938
Current tax liabilities	922,734	263,838
Bonds payable	16,889,023	9,898,450
Provision	40,042	35,261
Other liabilities	280	280
Total liabilities	33,351,219	32,514,923
Equity		
Share capital		
Ordinary shares	115,436,133	110,465,199
Capital surplus	17,758,986	17,758,986
Retained earnings		
Legal reserve	14,860,042	13,658,494
Special reserve	6,492,093	6,492,093
Unappropriated earnings	15,829,364	15,363,375
Total retained earnings	37,181,499	35,513,962
Other equity		
Exchange differences on translating the financial statements of foreign operations	(109,568)	(542,124)
Unrealized gain on available-for-sale financial assets	-	1,014,968
Unrealized gain on investments in equity instruments measured at fair value through other comprehensive income	4,591,269	-
Unrealized loss on investments in debt instruments measured at fair value through other comprehensive income	(679,088)	-
Changes in the fair value attributable to changes in the credit risk of financial liabilities designated as at fair value through profit or loss	10,347	21,592
Loss on overlay approach measured at fair value through other comprehensive income	(34,097)	-
Total other equity	3,778,863	494,436
Total equity	174,155,481	164,232,583
Total	\$ 207,506,700	\$ 196,747,506

Hua Nan Financial Holdings Co., Ltd.
Statements of Comprehensive Income
For the Years Ended December 31, 2018 and 2017

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

	2018	2017	Percentage Increase (Decrease)%
REVENUES			
Interest revenue	\$ 6,408	\$ 7,247	(12)
Interest expense	(307,912)	(213,184)	44
Share of profit of subsidiaries and associates	15,433,564	12,662,017	22
Other non-interest income, net	<u>51,827</u>	<u>47,164</u>	10
Total revenues	<u>15,183,887</u>	<u>12,503,244</u>	21
OPERATING EXPENSES			
Employee benefits	(337,058)	(274,490)	23
Depreciation and amortization	(13,401)	(3,163)	324
Others	<u>(212,109)</u>	<u>(210,109)</u>	1
Total operating expenses	<u>(562,568)</u>	<u>(487,762)</u>	15
NET PROFIT BEFORE INCOME TAX	14,621,319	12,015,482	22
INCOME TAX EXPENSE	<u>-</u>	<u>-</u>	-
NET PROFIT FOR THE YEAR	<u>14,621,319</u>	<u>12,015,482</u>	22
OTHER COMPREHENSIVE INCOME			
Items that will not be reclassified subsequently to profit or loss:			
Remeasurement of defined benefit plans	(1,333)	(4,417)	(70)
Share of other comprehensive loss of subsidiaries and associates accounted for using the equity method	(601,865)	(426,092)	41
Unrealized loss on investment in equity instruments measured at fair value through other comprehensive income	(107,401)	-	-
Income tax of items that will not be reclassified subsequently to profit or loss	145,273	68,930	111
Items that may be reclassified subsequently to profit or loss:			
Share of other comprehensive (loss) income of subsidiaries and associates accounted for using the equity method	(872,874)	969,073	(190)
Income tax relating to items that may be reclassified subsequently to profit or loss	<u>39,589</u>	<u>(7,776)</u>	609
Total other comprehensive (loss) income for the year	<u>(1,398,611)</u>	<u>599,718</u>	(333)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>\$ 13,222,708</u>	<u>\$ 12,615,200</u>	5
EARNINGS PER SHARE			
Basic and diluted	<u>\$ 1.27</u>	<u>\$ 1.04</u>	22

HUA NAN FINANCIAL HOLDINGS CO., LTD.
STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	Share Capital	Capital Surplus					Retained Earnings	
	Capital Stock	Share Premium	Treasury Stock	Donated Assets	Others	Total	Legal Reserve	Special Reserve
BALANCE AT JANUARY 1, 2017	\$ 105,204,951	\$ 17,702,376	\$ 52,349	\$ 2,936	\$ 1,325	\$ 17,758,986	\$ 12,249,821	\$ 6,492,093
Appropriation of 2016 earnings								
Legal reserve	-	-	-	-	-	-	1,408,673	-
Cash dividends	-	-	-	-	-	-	-	-
Stock dividends	5,260,248	-	-	-	-	-	-	-
Net profit for the year ended December 31, 2017	-	-	-	-	-	-	-	-
Other comprehensive (loss) income for the year ended December 31, 2017	-	-	-	-	-	-	-	-
Total comprehensive income (loss) for the year ended December 31, 2017	-	-	-	-	-	-	-	-
BALANCE AT DECEMBER 31, 2017	110,465,199	17,702,376	52,349	2,936	1,325	17,758,986	13,658,494	6,492,093
Effect of application	-	-	-	-	-	-	-	-
BALANCE AT JANUARY 1, 2018 AS RESTATED	110,465,199	17,702,376	52,349	2,936	1,325	17,758,986	13,658,494	6,492,093
Appropriation of 2017 earnings								
Legal reserve	-	-	-	-	-	-	1,201,548	-
Cash dividends	-	-	-	-	-	-	-	-
Stock dividends	4,970,934	-	-	-	-	-	-	-
Net profit for the year ended December 31, 2018	-	-	-	-	-	-	-	-
Other comprehensive (loss) income for the year ended December 31, 2018	-	-	-	-	-	-	-	-
Total comprehensive income (loss) for the year ended December 31, 2018	-	-	-	-	-	-	-	-
Disposal of equity instruments at fair value through other comprehensive income	-	-	-	-	-	-	-	-
BALANCE AT DECEMBER 31, 2018	\$ 115,436,133	\$ 17,702,376	\$ 52,349	\$ 2,936	\$ 1,325	\$ 17,758,986	\$ 14,860,042	\$ 6,492,093

(In Thousands of New Taiwan Dollars)

Retained Earnings		Other Equity						
Unappropriated Earnings	Total	Exchange Differences on Translating Foreign Operations	Unrealized (Loss) Gain on Available-for-sale Financial Assets	Unrealized Gain (loss) on Investment in Equity Instruments Measured at Fair Value Through Other Comprehensive Income	Unrealized Gains (loss) on Investments in Debt Instruments Measured at Fair Value Through Other Comprehensive Income	Changes in the Fair Value Attributable to Changes in the Credit Risk of Financial Liabilities Designated as at Fair Value Through Profit or Loss	Reclassification of Other Comprehensive Income due to The Adoption of Overlay Approach	Total
\$ 17,722,221	\$ 36,464,135	\$ 1,108,525	\$ (1,596,978)	\$ -	\$ -	\$ 42,111	\$ -	\$ 158,981,730
(1,408,673)	-	-	-	-	-	-	-	-
(7,364,347)	(7,364,347)	-	-	-	-	-	- (7,364,347)	-
(5,260,248)	(5,260,248)	-	-	-	-	-	-	-
12,015,482	12,015,482	-	-	-	-	-	-	12,015,482
(341,060)	(341,060)	(1,650,649)	2,611,946	-	-	(20,519)	-	599,718
11,674,422	11,674,422	(1,650,649)	2,611,946	-	-	(20,519)	-	12,615,200
15,363,375	35,513,962	(542,124)	1,014,968	-	-	21,592	-	164,232,583
(1,857,703)	(1,857,703)	-	(1,014,968)	4,543,465	463,753	-	88,903	2,223,450
13,505,672	33,656,259	(542,124)	-	4,543,465	463,753	21,592	88,903	166,456,033
(1,201,548)	-	-	-	-	-	-	-	-
(5,523,260)	(5,523,260)	-	-	-	-	-	- (5,523,260)	-
(4,970,934)	(4,970,934)	-	-	-	-	-	-	-
14,621,319	14,621,319	-	-	-	-	-	-	14,621,319
(312,949)	(312,949)	432,556	-	(241,132)	(1,142,841)	(11,245)	(123,000)	(1,398,611)
14,308,370	14,308,370	432,556	-	(241,132)	(1,142,841)	(11,245)	(123,000)	13,222,708
(288,936)	(288,936)	-	-	288,936	-	-	-	-
\$ 15,829,364	\$ 37,181,499	\$ (109,568)	\$ -	\$ 4,591,269	\$ (679,088)	\$ 10,347	\$ (34,097)	\$ 174,155,481

Hua Nan Financial Holdings Co., Ltd.
Statements of Cash Flows
For the Years Ended December 31, 2018 and 2017

(In Thousands of New Taiwan Dollars)

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Net profit before income tax	\$ 14,621,319	\$ 12,015,482
Adjustments for		
Depreciation expense	12,548	2,298
Amortization expense	853	865
Interest expense	307,912	213,184
Interest revenue	(6,408)	(7,247)
Dividend income	(58,513)	(57,076)
Share of profit of subsidiaries and associates accounted for using the equity method	(15,433,564)	(12,662,017)
Changes in operating assets and liabilities		
Decrease in receivable	-	245,640
Increase (decrease) in payables	174,874	(603)
Increase (decrease) in provisions	3,448	(7,017)
Interest received	6,386	7,247
Dividend received	6,380,027	9,616,962
Interest paid	(228,694)	(216,590)
Income tax paid	(679)	(793)
Net cash generated from operating activities	<u>5,779,509</u>	<u>9,150,335</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of financial assets at fair value through other comprehensive income	(25,000)	-
Acquisition of investments accounted for using equity method	-	(9,108,000)
Acquisition of property and equipment	(905)	(56,542)
Acquisition of intangible assets	(457)	(160)
Decrease in other assets	<u>-</u>	<u>1,386</u>
Net cash used in investing activities	<u>(26,362)</u>	<u>(9,163,316)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
(Decrease) increase in commercial paper payables	(7,100,000)	7,296,594
Proceeds from corporate debentures	12,000,000	-
Repayments of corporate debentures	(5,000,000)	-
Cash dividends paid	<u>(5,506,742)</u>	<u>(7,341,687)</u>
Net cash used in financing activities	<u>(5,606,742)</u>	<u>(45,093)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	146,405	(58,074)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	<u>275,722</u>	<u>333,796</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	<u>\$ 422,127</u>	<u>\$ 275,722</u>



61. SUBSIDIARIES' CONDENSED FINANCIAL STATEMENTS

a. Condensed balance sheets

Hua Nan Commercial Bank, Ltd.

Condensed Balance Sheets

December 31, 2018 and 2017

(In Thousands of New Taiwan Dollars)

Assets	2018	2017
Cash and cash equivalents	\$ 46,773,964	\$ 56,572,792
Due from the Central Bank and other banks	156,720,416	185,191,799
Financial assets at fair value through profit or loss	81,757,016	72,107,437
Financial assets at fair value through other comprehensive income		
Investments in debt instruments measured at amortized, net	177,050,338	-
Derivative financial assets for hedging, net	448,772,255	-
Receivables, net	-	-
Current tax assets	23,354,473	23,119,734
Discounts and loans, net	250,408	317,135
Available-for-sale financial assets, net	1,623,095,331	1,582,117,008
Held-to-maturity financial assets, net	-	131,009,396
Investments accounted for using equity method, net	-	379,759,468
Other financial assets, net	1,462,912	1,428,601
Property and equipment, net	20,785,736	32,105,699
Investment properties, net	28,701,082	28,984,701
Intangible assets, net	8,619,748	8,609,525
Deferred tax assets	549,423	331,687
Other assets, net	3,028,919	2,240,425
	<u>1,225,335</u>	<u>1,362,700</u>
Total	\$ 2,622,147,356	\$ 2,505,258,107

Liabilities	2018	2017
Deposits from the Central Bank and banks	\$ 132,267,041	\$ 84,127,060
Financial liabilities at fair value through profit or loss	4,733,832	7,675,116
Derivative financial liabilities for hedging, net	-	4,082
Securities sold under repurchase agreements	38,447,979	29,175,392
Payables	30,784,344	30,150,925
Current tax liabilities	1,435,835	876,521
Deposits and remittances	2,158,472,842	2,113,826,695
Bank debentures	41,700,000	43,550,000
Other financial liabilities	11,223,576	6,846,016
Provisions	7,721,159	6,258,125
Deferred tax liabilities	6,021,653	6,021,955
Other liabilities	4,681,953	2,022,871
Total liabilities	<u>2,437,490,214</u>	<u>2,330,534,758</u>
Equity		
Share capital		
Common shares	<u>79,992,000</u>	<u>77,716,000</u>
Capital surplus	<u>37,762,777</u>	<u>37,762,777</u>
Retained earnings		
Legal reserve	43,220,683	39,811,703
Special reserve	6,447,863	6,391,047
Unappropriated earnings	<u>13,978,179</u>	<u>12,657,061</u>
Total retained earnings	<u>63,646,725</u>	<u>58,859,811</u>
Other equity		
Exchange differences on translating the financial statements of foreign operations	(84,138)	(492,141)
Unrealized gain on available-for-sale financial assets	-	855,310
Unrealized gain on investments in equity instruments measured at fair value through other comprehensive income	3,942,581	-
Unrealized loss on investments in debt instruments measured at fair value through other comprehensive income	(613,150)	-
Changes in the fair value attributable to changes in the credit risk of financial liabilities designated as at fair value through profit or loss	10,347	21,592
Total other equity	<u>3,255,640</u>	<u>384,761</u>
Total equity	<u>184,657,142</u>	<u>174,723,349</u>
Total	\$ 2,622,147,356	\$ 2,505,258,107

Hua Nan Securities Co., Ltd.

Condensed Balance Sheets

December 31, 2018 and 2017

(In Thousands of New Taiwan Dollars)

Assets	2018	2017
Current assets	\$ 31,223,539	\$ 39,675,475
Investments	2,153,264	1,834,912
Property and equipment, net	1,406,053	1,408,817
Intangible assets	147,283	166,060
Other assets, net	<u>1,183,580</u>	<u>1,105,738</u>
Total	<u>\$ 36,113,719</u>	<u>\$ 44,191,002</u>

Liabilities	2018	2017
Current liabilities	\$ 23,501,181	\$ 31,698,254
Non-current liabilities	<u>343,050</u>	<u>291,933</u>
Total liabilities	<u>23,844,231</u>	<u>31,990,187</u>
Equity		
Share capital	8,111,743	8,111,743
Capital surplus	494,998	494,998
Retained earnings	3,220,459	3,514,240
Other equity	<u>442,288</u>	<u>79,834</u>
Total equity	<u>12,269,488</u>	<u>12,200,815</u>
Total	<u>\$ 36,113,719</u>	<u>\$ 44,191,002</u>

South China Insurance Co., Ltd.
Condensed Balance Sheets
December 31, 2018 and 2017

(In Thousands of New Taiwan Dollars)

Assets	2018	2017
Cash and cash equivalents	\$ 1,649,142	\$ 1,742,311
Receivables, net	389,583	344,552
Investments	10,430,985	10,379,460
Reinsurance contracts assets, net	4,030,604	4,005,896
Property and equipment, net	894,604	898,671
Intangible assets	39,143	43,172
Deferred tax assets	129,746	91,708
Other assets, net	<u>434,324</u>	<u>406,517</u>
Total	<u>\$ 17,998,131</u>	<u>\$ 17,912,287</u>

Liabilities	2018	2017
Payables	\$ 774,925	\$ 836,710
Current tax liabilities	51,844	70,242
Financial liabilities at fair value through profit or loss	19,487	12,041
Reserves of insurance industry	11,737,106	11,712,507
Provisions	306,817	294,761
Deferred tax liabilities	95,676	81,113
Other liabilities	<u>63,120</u>	<u>61,685</u>
Total liabilities	<u>13,048,975</u>	<u>13,069,059</u>
Equity		
Share capital	2,001,386	2,001,386
Capital surplus	5,278	5,278
Retained earnings	3,087,110	2,750,225
Other equity	<u>(144,618)</u>	<u>86,339</u>
Total equity	<u>4,949,156</u>	<u>4,843,228</u>
Total	<u>\$ 17,998,131</u>	<u>\$ 17,912,287</u>

Hua Nan Investment Trust Corp.
Condensed Balance Sheets
December 31, 2018 and 2017

(In Thousands of New Taiwan Dollars)

Assets	2018	2017
Current assets	\$ 113,578	\$ 119,211
Investments	67,165	35,171
Property and equipment	121,985	121,618
Intangible assets	1,716	1,560
Other assets	<u>625,896</u>	<u>603,120</u>
Total	<u>\$ 930,340</u>	<u>\$ 880,680</u>

Liabilities	2018	2017
Current liabilities	\$ 410,269	\$ 421,828
Non-current liabilities	<u>1,441</u>	<u>2,200</u>
Total liabilities	<u>411,710</u>	<u>424,028</u>
Equity		
Share capital	308,399	308,399
Capital surplus	3,113	3,113
Retained earnings	153,931	145,004
Other equity	<u>53,187</u>	<u>136</u>
Total equity	<u>518,630</u>	<u>456,652</u>
Total	<u>\$ 930,340</u>	<u>\$ 880,680</u>

Hua Nan Venture Capital Co., Ltd.

Condensed Balance Sheets

December 31, 2018 and 2017

(In Thousands of New Taiwan Dollars)

Assets	2018	2017
Current assets	\$ 443,942	\$ 583,931
Non-current assets	<u>1,108,016</u>	<u>1,235,985</u>
Total	<u>\$ 1,551,958</u>	<u>\$ 1,819,916</u>

Liabilities	2018	2017
Current liabilities	\$ 4,406	\$ 4,072
Non-current liabilities	<u>5,070</u>	<u>4,784</u>
Total liabilities	<u>9,476</u>	<u>8,856</u>
Equity		
Share capital	2,000,000	2,000,000
Accumulated deficits	(457,518)	(132,306)
Other equity	<u>-</u>	<u>(56,634)</u>
Total equity	<u>1,542,482</u>	<u>1,811,060</u>
Total	<u>\$ 1,551,958</u>	<u>\$ 1,819,916</u>

(In Thousands of New Taiwan Dollars)

Liabilities	2018	2017
Current liabilities	\$ 1,860,936	\$ 806,200
Long-term liabilities	500,000	300,000
Other liabilities	<u>111,365</u>	<u>10,216</u>
Total liabilities	<u>2,472,301</u>	<u>1,116,416</u>
Equity		
Share capital	1,000,000	1,000,000
Capital surplus	892	892
Retained earnings	<u>82,532</u>	<u>213,927</u>
Total equity	<u>1,083,424</u>	<u>1,214,819</u>
Total	<u>\$ 3,555,725</u>	<u>\$ 2,331,235</u>

290

b. Condensed statements of comprehensive income

Hua Nan Commercial Bank, Ltd.

Condensed Statements of Comprehensive Income

For the Years Ended December 31, 2018 and 2017

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

	2018	2017
Net interest	\$ 26,120,711	\$ 26,448,916
Other non-interest income, net	<u>14,622,647</u>	<u>10,317,710</u>
Total net revenues	40,743,358	36,766,626
Allowance for doubtful accounts, commitments and guarantees	(3,351,857)	(4,919,121)
Operating expenses	<u>(21,356,357)</u>	<u>(18,916,421)</u>
Net profit before income tax	16,035,144	12,931,084
Income tax expense	<u>(1,728,406)</u>	<u>(1,567,816)</u>
Net profit for the year	14,306,738	11,363,268
Other comprehensive (loss) income	<u>(880,844)</u>	<u>398,379</u>
Total comprehensive income for the year	<u>\$ 13,425,894</u>	<u>\$ 11,761,647</u>
Earnings per share	<u>\$ 1.79</u>	<u>\$ 1.48</u>

Hua Nan Securities Co., Ltd.

Condensed Statements of Comprehensive Income

For the Years Ended December 31, 2018 and 2017

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

	2018	2017
Revenues	\$ 2,934,370	\$ 2,953,771
Expenses	(2,523,194)	(2,423,992)
Non-operating income	<u>211,040</u>	<u>305,255</u>
Net profit before income tax	622,216	835,034
Income tax expense	<u>(166,129)</u>	<u>(105,508)</u>
Net profit for the year	456,087	729,526
Other comprehensive (loss) income	<u>(140,377)</u>	<u>179,663</u>
Total comprehensive income for the year	<u>\$ 315,710</u>	<u>\$ 909,189</u>
Earnings per share	<u>\$ 0.56</u>	<u>\$ 0.90</u>

South China Insurance Co., Ltd.
Condensed Statements of Comprehensive Income
For the Years Ended December 31, 2018 and 2017

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

	2018	2017
Operating income	\$ 7,012,032	\$ 6,963,667
Operating cost	(4,751,213)	(4,701,482)
Operating expenses	(1,481,299)	(1,503,139)
Net operating income	779,520	759,046
Non-operating revenue and expense	(7,102)	10,923
Net profit before income tax	772,418	769,969
Income tax expense	(137,183)	(98,710)
Net profit for the year	635,235	671,259
Other comprehensive (loss) income	(273,788)	13,008
Total comprehensive income for the year	<u>\$ 361,447</u>	<u>\$ 684,267</u>
Earnings per share	<u>\$ 3.17</u>	<u>\$ 3.35</u>

Hua Nan Investment Trust Corp.
Condensed Statements of Comprehensive Income
For the Years Ended December 31, 2018 and 2017

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

	2018	2017
Operating income	\$ 167,539	\$ 180,549
Operating expenses	(153,118)	(164,040)
Net operating income	14,421	16,509
Non-operating revenue and expense	2,013	(325)
Net profit before income tax	16,434	16,184
Income tax expense	(2,523)	(4,170)
Net profit for the year	13,911	12,014
Other comprehensive income (loss)	5,260	(278)
Total comprehensive income for the year	<u>\$ 19,171</u>	<u>\$ 11,736</u>
Earnings per share	<u>\$ 0.45</u>	<u>\$ 0.39</u>

Hua Nan Venture Capital Co., Ltd.
Condensed Statements of Comprehensive Income
For the Years Ended December 31, 2018 and 2017

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

	2018	2017
Revenues	\$ 135,444	\$ 90,559
Expenses and expenditures	(122,687)	(84,158)
Net loss before income tax	12,757	6,401
Income tax benefit	(78)	-
Net loss for the year	12,679	6,401
Other comprehensive income	22	14,099
Total comprehensive loss for the year	\$ 12,701	\$ 20,500
Earnings per share	\$ 0.06	\$ 0.03

Hua Nan Assets Management Co., Ltd.
Condensed Statements of Comprehensive Income
For the Years Ended December 31, 2018 and 2017

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

	2018	2017
Operating income	\$ 137,485	\$ 372,647
Operating expenses	(111,920)	(157,048)
Net operating income	25,565	215,599
Non-operating revenue and expense	(15,671)	(58,764)
Net profit before income tax	9,894	156,835
Income tax (expense) benefit	(980)	236
Net profit for the year	8,914	157,071
Other comprehensive loss	(151)	(737)
Total comprehensive income for the year	\$ 8,763	\$ 156,334
Earnings per share	\$ 0.09	\$ 1.57

62. SUBSIDIARIES' PROFITABILITY, ASSET QUALITY, CONCENTRATION OF CREDIT EXTENSIONS, ANALYSIS OF DUE DATES OF ASSETS AND LIABILITIES AND INTEREST RATE SENSITIVITY INFORMATION

a. Profitability

1) Hua Nan Financial Holdings Corp.

Unit: %

Items		December 31, 2018	December 31, 2017
Return on total assets	Before income tax	7.19	6.31
	After income tax	7.19	6.31
Return on equity	Before income tax	8.59	7.43
	After income tax	8.59	7.43
Profit margin		96.31	96.10

2) Hua Nan Financial Holdings Corp. and its subsidiaries

Unit: %

Items		December 31, 2018	December 31, 2017
Return on total assets	Before income tax	0.63	0.54
	After income tax	0.56	0.47
Return on equity	Before income tax	9.79	8.54
	After income tax	8.59	7.43
Profit margin		31.78	28.46

3) Hua Nan Commercial Bank, Ltd.

Unit: %

Items		December 31, 2018	December 31, 2017
Return on total assets	Before income tax	0.63	0.52
	After income tax	0.56	0.46
Return on equity	Before income tax	8.88	7.66
	After income tax	7.92	6.73
Profit margin		35.11	30.91

4) Hua Nan Securities Co., Ltd.

Unit: %

Items		December 31, 2018	December 31, 2017
Return on total assets	Before income tax	1.54	2.16
	After income tax	1.13	1.89
Return on equity	Before income tax	5.01	7.10
	After income tax	3.67	6.20
Profit margin		15.54	24.70

5) South China Insurance Co., Ltd.

Unit: %

Items		December 31, 2018	December 31, 2017
Return on total assets	Before income tax	4.30	4.36
	After income tax	3.54	3.80
Return on equity	Before income tax	15.78	16.61
	After income tax	12.98	14.48
Profit margin		9.06	9.64

Note 1: Return on total assets = Income before (after) income tax/Average total assets.

Note 2: Return on equity = Income before (after) income tax/Average equity.

Note 3: Profit margin = Income after income tax/Total net revenues.

Note 4: Income before (after) income tax represented the amount accumulated from January to the year.

b. Asset quality

Hua Nan Commercial Bank, Ltd.

Items			December 31, 2018				
			Overdue Amounts (Note 1)	Total Loans	Overdue Ratio (Note 2)	Allowance For Impairment Loss	Coverage Ratio (Note 3)
Corporate banking	Secured		\$ 937,053	\$ 451,071,587	0.21%	\$ 5,671,790	605.28%
	Unsecured		555,827	574,654,831	0.10%	6,997,337	1,258.91%
Consumer banking	Mortgage (Note 4)		761,753	518,232,986	0.15%	6,499,476	853.23%
	Cash card		-	33,185	-	62,170	-
	Small amount of credit loans (Note 5)		49,793	15,851,539	0.31%	217,096	436.00%
	Others (Note 6)	Secured	46,190	77,949,782	0.06%	973,575	2,107.76%
		Unsecured	52,751	5,708,626	0.92%	90,705	171.95%
	Total			2,403,367	1,643,502,536	0.15%	20,512,149	853.48%
			Overdue Amounts	Receivables Balance	Overdue Ratio	Allowance Amounts	Coverage Ratio
Credit card			5,984	8,166,961	0.07%	43,567	728.06%
Receivable factoring-without recourse (Notes 7 and 8)			-	498,300	-	7,114	-

Items			December 31, 2017				
			Overdue Amounts (Note 1)	Total Loans	Overdue Ratio (Note 2)	Allowance For Impairment Loss	Coverage Ratio (Note 3)
Corporate banking	Secured		\$ 2,720,153	\$ 455,898,717	0.60%	\$ 5,234,437	192.43%
	Unsecured		1,193,269	544,629,460	0.22%	6,724,446	563.53%
Consumer banking	Mortgage (Note 4)		1,195,489	504,987,785	0.24%	6,092,711	509.64%
	Cash card		-	45,304	-	64,943	-
	Small amount of credit loans (Note 5)		97,692	15,666,881	0.62%	220,141	225.34%
	Others (Note 6)	Secured	190,324	73,436,252	0.26%	892,488	468.93%
		Unsecured	46,544	6,615,354	0.70%	84,548	181.65%
	Total			5,443,471	1,601,279,753	0.34%	19,313,714	354.81%
			Overdue Amounts	Receivables Balance	Overdue Ratio	Allowance Amounts	Coverage Ratio
Credit card			3,478	7,734,990	0.04%	34,296	986.08%
Receivable factoring-without recourse (Notes 7 and 8)			-	541,253	-	6,988	-

Note 1: The amounts recognized as overdue amounts are in compliance with the "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/Non-accrual Loans". The amounts included in overdue amounts for credit cards are in compliance with the Banking Bureau (4) Letter No. 0944000378 dated July 6, 2005.

Note 2: Overdue ratio = Overdue amounts/Total loans. Overdue ratio of credit cards = Overdue amounts of credit cards/Balance of accounts receivable.

Note 3: Coverage ratio for loans = Allowance amounts of loans/Overdue loans. Coverage ratio for accounts receivable of credit cards = Allowance amounts for accounts receivable of credit cards/Overdue amounts of credit cards.

Note 4: For mortgage loans, the borrower provides his/her (or spouse's or minor child's) house as collateral in full and mortgages it to the financial institution for the purpose of obtaining funds to purchase or add improvements to own house.

Note 5: Small amount of credit loans apply to the norms of the Banking Bureau (4) Letter No. 09440010950 dated December 19, 2005, excluding credit card and cash card services.

Note 6: Other consumer loan is specified as secured or unsecured consumer loans other than mortgage loans, cash card services and small amount of credit loans, and excluding credit card services.

Note 7: Pursuant to the Banking Bureau (5) Letter No. 094000494 dated July 19, 2005, the amount of receivable factoring-without recourse will be recognized as overdue amounts within three months after the factor or insurance company resolves not to compensate the loss.

Note 8: Included nonperforming loans transferred from other than loans.

c. Overdue loans and accounts receivable that are exempted from being reported as past-due items

Hua Nan Commercial Bank, Ltd

Item	December 31, 2018		December 31, 2017	
	Overdue Loans That Are Exempted from Being Reported as Past-due Items	Accounts Receivable That Are Exempted from Being Reported as Past-due Items	Overdue Loans That Are Exempted from Being Reported as Past-due Items	Accounts Receivable That Are Exempted from Being Reported as Past-due Items
Amount that are exempted from being reported after negotiations (Note 1)	\$ 7,947	\$ 8,628	\$ 10,681	\$ 11,200
Amount that are exempted from being reported according to the law of consumer liquidate (Note 2)	52,824	85,346	44,886	71,792
Total	\$ 60,771	\$ 93,974	\$ 55,567	\$ 82,992

Note 1: The disclosure of exempted NPLs and exempted overdue receivables resulting from debt consultation and loan agreements is based on the Banking Bureau letter dated April 25, 2006 (Ref. No. 09510001270).

Note 2: The disclosure of exempted NPLs and exempted overdue receivables resulting from consumer debt clearance is based on the Banking Bureau letter dated September 15, 2008 (Ref. No. 09700318940).

d. Concentration of credit extensions

Hua Nan Commercial Bank, Ltd.

Year	December 31, 2018		
Rank (Note 1)	Industry of the Corporation or Group (Note 2)	Total Amount of Credit, Endorsement or Other Transactions (Note 3)	Percentage of the Bank's Equity (%)
1	A Group of retail sale in general merchandise stores	\$ 29,059,802	15.74
2	B Group of smelting and refining of iron and steel	24,869,391	13.47
3	C Group of aviation transportation	21,733,330	11.77
4	D Group of railway transportation	19,173,338	10.38
5	E Group of real estate development	14,525,000	7.87
6	F Group of magnetic and optical media manufacturing	10,684,090	5.79
7	G Group of engineering service and related technique consulting	10,414,521	5.64
8	H Group of other financial intermediation	9,667,300	5.24
9	I Group of tires manufacturing	8,983,767	4.87
10	J Group of wholesaling computers, personnel equipment and software	8,477,639	4.59

Year	December 31, 2017		
Rank (Note 1)	Industry of the Corporation or Group (Note 2)	Total Amount of Credit, Endorsement or Other Transactions (Note 3)	Percentage of the Bank's Equity (%)
1	A Group of refining steel	\$ 27,630,853	15.81
2	B Group of retail sale in general merchandise stores	26,334,921	15.07
3	C Group of aviation transportation	21,797,339	12.48
4	D Company of railway transportation	19,867,338	11.37
5	E Group of real estate development	15,598,000	8.93
6	F Group of other financial intermediation	10,296,700	5.89
7	G Group of tires manufacturing	9,284,638	5.31
8	H Group of engineering service and related technique consulting	9,117,450	5.22
9	I Group of refining steel	9,074,116	5.19
10	J Group of aviation transportation	8,565,208	4.90

Note 1: The list shows rankings by total amount of credit, endorsement or other transactions but excludes government-owned or state-run enterprises. If the borrower is a member of a group enterprise, the total amount of credit, endorsement or other transactions of the entire group enterprise must be listed and disclosed by code and line of industry. The industry of the Company and its subsidiaries enterprise should be presented as the industry of the member firm with the highest risk exposure. The lines of industry should be described in accordance with the Standard Industrial Classification System of the Republic of China published by the Directorate-General of Budget, Accounting and Statistics under the Executive Yuan.

Note 2: Group enterprise refers to a group of corporate entities defined by Article 6 of "Supplementary Provisions to the Taiwan Stock Exchange Corporation Rules for Review of Securities Listings."

Note 3: Total loans balances are the sum of balances of all types of loans (including import negotiation, export negotiation, bills discounted, overdraft, short-term loans, secured short-term loans, margin loans receivable, medium-term unsecured loans, secured medium-term loans, unsecured long-term loans, secured long-term loans and nonperforming loans), remittance purchased, receivables factoring without recourse, acceptance receivable and guarantees.

e. Maturity analysis of assets and liabilities

Hua Nan Commercial Bank, Ltd.

Maturity Analysis of Assets and Liabilities

	December 31, 2018						
	Total	0-10 Days	11-30 Days	31-90 Days	91-180 Days	181 Days to 1 Year	Over 1 Year
Main capital inflow on maturity	\$ 2,180,618,788	\$ 295,917,611	\$ 276,690,460	\$ 208,195,471	\$ 149,931,735	\$ 182,423,870	\$ 1,067,459,641
Main capital outflow on maturity	2,803,910,859	121,795,910	185,344,131	306,857,358	301,882,366	497,367,269	1,390,663,825
Gap	\$(623,292,071)	\$ 174,121,701	\$ 91,346,329	\$(98,661,887)	\$(151,950,631)	\$(314,943,399)	\$(323,204,184)

	December 31, 2017						
	Total	0-10 Days	11-30 Days	31-90 Days	91-180 Days	181 Days to 1 Year	Over 1 Year
Main capital inflow on maturity	\$ 2,037,459,754	\$ 295,171,222	\$ 221,320,406	\$ 194,716,373	\$ 157,274,214	\$ 177,500,649	\$ 991,476,890
Main capital outflow on maturity	2,481,424,480	74,960,943	173,053,404	301,466,659	260,195,143	419,186,921	1,252,561,410
Gap	\$(443,964,726)	\$ 220,210,279	\$ 48,267,002	\$(106,750,286)	\$(102,920,929)	\$(241,686,272)	\$(261,084,520)

Note: The amounts listed above represent the funds denominated in New Taiwan dollars only (i.e., excluding foreign currency) for HNCB branches.

Maturity Analysis of Assets and Liabilities

(In Thousands of U.S. Dollars)

	December 31, 2018					
	Total	11-30 Days	31-90 Days	91-180 Days	181 Days to 1 Year	Over 1 Year
Main capital inflow on maturity	\$ 27,613,451	\$ 8,140,738	\$ 7,204,169	\$ 3,048,634	\$ 1,743,180	\$ 7,476,730
Main capital outflow on maturity	30,281,328	9,740,617	8,460,033	3,604,574	2,397,117	6,078,987
Gap	\$(2,667,877)	\$(1,599,879)	\$(1,255,864)	\$(555,940)	\$(653,937)	\$ 1,397,743

	December 31, 2017					
	Total	11-30 Days	31-90 Days	91-180 Days	181 Days to 1 Year	Over 1 Year
Main capital inflow on maturity	\$ 24,148,364	\$ 7,760,397	\$ 6,581,019	\$ 2,017,162	\$ 866,831	\$ 6,922,955
Main capital outflow on maturity	27,261,848	7,924,597	7,243,821	3,044,230	2,501,849	6,547,351
Gap	\$(3,113,484)	\$(164,200)	\$(662,802)	\$(1,027,068)	\$(1,635,018)	\$ 375,604

f. Interest rate sensitivity information

Hua Nan Commercial Bank, Ltd.

Interest Rate Sensitivity (New Taiwan Dollars)

December 31, 2018

(In Thousands of New Taiwan Dollars, %)

Items	1 to 90 Days (Included)	91 to 180 Days (Included)	181 Days to One Year (Included)	Over One Year	Total
Interest-sensitive assets	\$ 1,632,385,768	\$ 51,246,901	\$ 123,135,763	\$ 223,055,689	\$ 2,029,824,121
Interest-sensitive liabilities	1,631,164,160	101,209,719	123,966,468	43,082,628	1,899,422,975
Interest-sensitive gap	1,221,608	(49,962,818)	(830,705)	179,973,061	130,401,146
Net assets					166,381,193
Ratio of interest-sensitive assets to liabilities (%)					106.87%
Ratio of interest-sensitive gap to net assets (%)					78.37%

December 31, 2017

(In Thousands of New Taiwan Dollars, %)

Items	1 to 90 Days (Included)	91 to 180 Days (Included)	181 Days to One Year (Included)	Over One Year	Total
Interest-sensitive assets	\$ 1,559,374,050	\$ 60,603,673	\$ 109,069,026	\$ 162,841,537	\$ 1,891,888,286
Interest-sensitive liabilities	1,529,006,600	89,170,048	96,299,739	47,154,533	1,761,630,920
Interest-sensitive gap	30,367,450	(28,566,375)	12,769,287	115,687,004	130,257,366
Net assets					160,080,541
Ratio of interest-sensitive assets to liabilities (%)					107.39%
Ratio of interest-sensitive gap to net assets (%)					81.37%

Note 1: The above amounts include only New Taiwan dollars held by head office and domestic branches of the HNCB and exclude contingent assets and contingent liabilities.

Note 2: Interest sensitive assets and liabilities refer to interest-earning assets and interest-bearing liabilities whose revenues or costs are affected by interest rate changes.

Note 3: Interest sensitivity gap = Interest sensitive assets - Interest sensitive liabilities.

Note 4: Ratio of interest sensitive assets to liabilities = Interest sensitive assets/Interest sensitive liabilities (in New Taiwan dollars).

Interest Rate Sensitivity (USD)

December 31, 2018

(In Thousands of U.S. Dollars, %)

Items	1 to 90 Days (Included)	91 to 180 Days (Included)	181 Days to One Year (Included)	Over One Year	Total
Interest-sensitive assets	\$ 21,813,012	\$ 3,520,034	\$ 1,443,865	\$ 12,101	\$ 26,789,012
Interest-sensitive liabilities	22,096,436	2,471,988	1,298,480	4,448	25,871,352
Interest-sensitive gap	(283,424)	1,048,046	145,385	7,653	917,660
Net assets					793,594
Ratio of interest-sensitive assets to liabilities (%)					103.55%
Ratio of interest-sensitive gap to net assets (%)					115.63%

December 31, 2017

(In Thousands of U.S. Dollars, %)

Items	1 to 90 Days (Included)	91 to 180 Days (Included)	181 Days to One Year (Included)	Over One Year	Total
Interest-sensitive assets	\$ 20,072,774	\$ 2,592,389	\$ 423,588	\$ 16,061	\$ 23,104,812
Interest-sensitive liabilities	19,610,394	1,824,103	1,009,608	3,032	22,447,137
Interest-sensitive gap	462,380	768,286	(586,020)	13,029	657,675
Net assets					716,002
Ratio of interest-sensitive assets to liabilities (%)					102.93%
Ratio of interest-sensitive gap to net assets (%)					91.85%

Note 1: The above amounts include only USD held by head office, domestic branches, OBU and overseas branches of the HNCB and exclude contingent assets and contingent liabilities.

Note 2: Interest sensitive assets and liabilities refer to interest-earning assets and interest-bearing liabilities whose revenues or costs are affected by interest rate changes.

Note 3: Interest sensitive gap = Interest sensitive assets - Interest sensitive liabilities.

Note 4: Ratio of interest sensitive assets to liabilities = Interest sensitive assets/Interest sensitive liabilities (in U.S. dollars)

63. SEPARATELY DISCLOSED ITEMS

a. Information about significant transactions

- 1) Accumulated acquisition and disposal of same investee's marketable security over NT\$300 million or 10% of the issued capital: None.
- 2) Acquisition of individual real estate over NT\$300 million or 10% of the issued capital: None.
- 3) Disposal of individual real estate over NT\$300 million or 10% of the issued capital: None.
- 4) Allowance for service fee to related parties over NT\$5 million: None.
- 5) Receivables from related parties over NT\$300 million or 10% of the issued capital: Table 5.
- 6) Sale of nonperforming loans by subsidiaries: Table 6.
- 7) Securitized instruments and related information which are approved in accordance with the Statute for financial assets securitization and the statute for real estate securitization of subsidiaries: None.
- 8) Other significant transactions which may affect decisions of the users of the financial statements: None.

b. Information on the Subsidiaries

- 1) Financing provided to others: Table 3 (Note).
- 2) Endorsement/guarantee provided: Table 4 (Note).
- 3) Acquisition and disposal of investee share over NT\$300 million or 10% of the paid in capital: None.
- 4) Marketable securities held: Table 2 (Note).
- 5) Information on subsidiaries derivative instruments transactions: Notes 52, 53 and 54.

Note: Subsidiaries belong in finance, insurance and securities industries are exempted from disclosures.

c. The related information and proportionate share in investees: Table 1.

d. Information on investment in Mainland China: Table 10.

e. Business relationships and significant transactions between the Company and its subsidiaries: Table 15.

f. The Company's shares held by subsidiaries: None.

64. DEPARTMENT INFORMATION

The Company and its subsidiaries' main business is to invest and administer their investee's business; therefore, adopts the information provided by subsidiaries as the references to allocate resources and evaluates performances. Each operating department's accounting policies are identical to the Note 4 "Summary of Significant Accounting Policies." The Company and its subsidiaries should report the departments as follows:

Bank department: The commercial bank business operated by HNCB.

Other operating departments: Other investments such as HNLC and its subsidiaries, HNSC and its subsidiaries, SCIC, HNIT, HNVC and HNAMC, etc.

a. Department Income and Operation Results

	For the Year Ended December 31, 2018		
	Bank	Other Operating Departments	Total
Net interest	\$ 26,120,711	\$ 439,508	\$ 26,560,219
Other non-interest income, net	<u>14,622,647</u>	<u>4,819,618</u>	<u>19,442,265</u>
Total net revenues	40,743,358	5,259,126	46,002,484
Allowance for doubtful accounts, commitments and guarantees	(3,351,857)	(181,403)	(3,533,260)
Change in provisions for insurance liabilities, net	-	(23,475)	(23,475)
Operating expenses	<u>(21,356,357)</u>	<u>(4,418,183)</u>	<u>(25,774,540)</u>
Net profit before income tax	16,035,144	636,065	16,671,209
Income tax expense	<u>(1,728,406)</u>	<u>(321,368)</u>	<u>(2,049,774)</u>
Net profit for the year	<u>\$ 14,306,738</u>	<u>\$ 314,697</u>	<u>\$ 14,621,435</u>

	For the Year Ended December 31, 2017		
	Bank	Other Operating Departments	Total
Net interest	\$ 26,448,916	\$ 489,826	\$ 26,938,742
Other non-interest income, net	<u>10,317,710</u>	<u>4,964,096</u>	<u>15,281,806</u>
Total net revenues	36,766,626	5,453,922	42,220,548
Allowance for doubtful accounts and guarantees	(4,919,121)	(31,239)	(4,950,360)
Change in provisions for insurance liabilities, net	-	(237,716)	(237,716)
Operating expenses	<u>(18,916,421)</u>	<u>(4,306,683)</u>	<u>(23,223,104)</u>
Net profit before income tax	12,931,084	878,284	13,809,368
Income tax expense	<u>(1,567,816)</u>	<u>(225,984)</u>	<u>(1,793,800)</u>
Net profit for the year	<u>\$ 11,363,268</u>	<u>\$ 652,300</u>	<u>\$ 12,015,568</u>

b. Geographical information

The Company and its subsidiaries' net revenues from external customers presented by geographical location are as follows:

	For the Year Ended December 31	
	2018	2017
Taiwan	\$ 41,728,762	\$ 38,611,647
Others	<u>4,273,722</u>	<u>3,608,901</u>
	<u>\$ 46,002,484</u>	<u>\$ 42,220,548</u>

c. Information about major customers: There is no revenue from any external customer exceeding 10% of the Company and its subsidiaries' revenues.



TABLE 1

HUA NAN FINANCIAL HOLDINGS CO., LTD. AND SUBSIDIARIES
INFORMATION AND PROPORTIONATE SHARE IN INVESTEEES
FOR THE YEAR ENDED DECEMBER 31, 2018

(In Thousands of New Taiwan Dollars)

Investor	Investees' Names	Investees' Location	Principal Business Activities	Percentage of Ownership (%) at the End of Current Period	Carrying Amount	Investment Gain (Loss) Recognized by the Company for Current Period (Note 2)	Consolidated Investment				Note
							Shares	Pro Forma Shares	Total		
									Shares	Percentage of Ownership (%)	
Hua Nan Financial Holdings Co., Ltd.	Financial industry										
	Hua Nan Commercial Bank, Ltd.	Taipei	Banking	100.00	\$ 184,657,142	\$ 14,306,738	7,999,200,000	-	7,999,200,000	100.00	Note 1
	Hua Nan Securities Co., Ltd.	Taipei	Security	100.00	12,269,488	456,087	811,174,346	-	811,174,346	100.00	Note 1
	South China Insurance Co., Ltd.	Taipei	Insurance	100.00	4,949,156	635,235	200,138,625	-	200,138,625	100.00	Note 1
	Hua Nan Investment Trust Corp.	Taipei	Securities issuance and investment	100.00	518,630	13,911	30,839,927	-	30,839,927	100.00	Note 1
	Hua Nan Venture Capital Co., Ltd.	Taipei	Venture capital investments	100.00	1,542,482	12,679	200,000,000	-	200,000,000	100.00	Note 1
	Hua Nan Assets Management Co., Ltd.	Taipei	Acquisition of delinquent loans, evaluation, auction, and management	100.00	805,902	8,914	100,000,000	-	100,000,000	100.00	Note 1
	Taiwan Depository and Clearing Corp.	Taipei	Securities depository and clearing service	0.25	49,216	-	2,451,903	-	2,451,903	0.66	
	Non-financial industry										
	Taipei Financial Center Corp.	Taipei	Real estate development, sales and rental	2.90	886,370	-	42,630,000	-	42,630,000	2.90	
	Taiwan Urban Regeneration & Financial Service Co., Ltd.	Taipei	Parking garage business, residence and buildings lease construction and development, and public works construction and investment	5.00	25,000	-	10,000,000	-	10,000,000	20.00	

Note 1: Current recognition of investment gains or losses for the year ended December 31, 2018 have been audited and stated in financial statements.

Note 2: Investment gain (loss) refers to gain (loss) on investment accounted for using equity method and gain on financial assets carried at costs.

TABLE 2

HUA NAN FINANCIAL HOLDINGS CO., LTD.
MARKETABLE SECURITIES HELD BY INVESTEES
DECEMBER 31, 2018

(In Thousands of New Taiwan Dollars/U.S. Dollars)

Holding Company Name	Type and Name of Marketable Security	Relationship with Holding Company	Accounts Recorded	December 31, 2018				Note
				Shares (Units)	Carrying Value	Percentage of Ownership (%)	Market Value or Net Equity	
Hua Nan Investment Trust Corp.	<u>Stocks</u>							
	Taiwan Futures Exchange	-	FVTOCI - equity instruments	1,169,315	\$ 7,000	0.35	\$ 7,000	Note 2
	FundRich Securities Co., Ltd.	-	FVTOCI - equity instruments	171,428	2,434	0.29	2,434	Note 2
	<u>Fund</u>							
	Hua Nan Yung Chong Fund	-	Financial assets mandatorily classified as at FVTPL	437,445	5,000	-	5,000	Note 2
Hua Nan Venture Capital Co., Ltd.	<u>Stocks</u>							
	Formosa Advanced Technologies Co., Ltd.	-	Financial assets mandatorily classified as at FVTPL	455,000	14,469	0.10	14,469	Note 2
	Neo Solar Power Corp.	-	Financial assets mandatorily classified as at FVTPL	161,173	1,262	0.01	1,262	Note 2
	Xu-Yuan Packaging Technology Co., Ltd.	-	Financial assets mandatorily classified as at FVTPL	506,390	8,811	0.95	8,811	Note 2
	Savior Lifetec Corp.	-	Financial assets mandatorily classified as at FVTPL	1,454,809	24,296	0.59	24,296	Note 2
	ProbeLeader Co., Ltd.	-	Financial assets mandatorily classified as at FVTPL	2,500,000	31,784	8.95	31,784	Note 2
	Feature Integration Technology Inc.	-	Financial assets mandatorily classified as at FVTPL	1,180,593	19,910	3.54	19,910	Note 2
	Hoy Technologies Corp.	-	Financial assets mandatorily classified as at FVTPL	1,256,000	8,962	11.36	8,962	Note 2
	AGON-Tech Corp.	-	Financial assets mandatorily classified as at FVTPL	429,584	597	4.17	597	Note 2
	Apexcera Material Tech Corp.	-	Financial assets mandatorily classified as at FVTPL	700,000	-	3.53	-	Note 2
	Tera Xtal Technology Corp.	-	Financial assets mandatorily classified as at FVTPL	1,276,250	-	0.67	-	Note 2
	eTurbotouch Technology Inc.	-	Financial assets mandatorily classified as at FVTPL	999,600	9,606	3.33	9,606	Note 2
	Solid Pro Technology Co., Ltd.	-	Financial assets mandatorily classified as at FVTPL	58,815	276	1.08	276	Note 2
	OTO Photonics Inc.	-	Financial assets mandatorily classified as at FVTPL	1,578,000	22,092	6.17	22,092	Note 2
	Crystal Applied Technology Inc.	-	Financial assets mandatorily classified as at FVTPL	547,662	-	0.51	-	Note 2
	FlexUp Technologies Corp.	-	Financial assets mandatorily classified as at FVTPL	2,590,000	18,604	16.52	18,604	Note 2
	Essence Technology Solution, Inc.	-	Financial assets mandatorily classified as at FVTPL	85,357	-	3.16	-	Note 2
	Twoway Communications Inc.	-	Financial assets mandatorily classified as at FVTPL	968,000	17,884	1.19	17,884	Note 2
	Ultra-PAK Industries Co., Ltd.	-	Financial assets mandatorily classified as at FVTPL	1,365,122	24,627	3.18	24,627	Note 2
	Quan-Ai Electronics Co., Ltd.	-	Financial assets mandatorily classified as at FVTPL	1,300,000	-	2.13	-	Note 2
	Supertech Optoelectronics Co., Ltd.	-	Financial assets mandatorily classified as at FVTPL	1,640,000	-	7.45	-	Note 2



Holding Company Name	Type and Name of Marketable Security	Relationship with Holding Company	Accounts Recorded	December 31, 2018				Note
				Shares (Units)	Carrying Value	Percentage of Ownership (%)	Market Value or Net Equity	
Hua Nan Venture Capital Co., Ltd.	Fitilink Integrated Technology Inc.	-	Financial assets mandatorily classified as at FVTPL	1,596,500	-	5.47	-	Note 2
	Hometom Corp. Ltd.	-	Financial assets mandatorily classified as at FVTPL	550,000	1,771	0.80	1,771	Note 2
	SFI Electronics Technology Inc.	-	Financial assets mandatorily classified as at FVTPL	2,730,000	57,521	6.53	57,521	Note 2
	SmartDisplayer Technology Co., Ltd.	-	Financial assets mandatorily classified as at FVTPL	600,000	24,000	2.41	24,000	Note 2
	Top Green Energy Technologies Inc.	-	Financial assets mandatorily classified as at FVTPL	1,833,333	-	1.47	-	Note 2
	Chin-Shi Electronic Materials, Ltd.	-	Financial assets mandatorily classified as at FVTPL	2,772,000	41,253	8.87	41,253	Note 2
	Minima technology Corp.	-	Financial assets mandatorily classified as at FVTPL	2,148,309	53,708	8.81	53,708	Note 2
	Wellhead Biological Technology Corp.	-	Financial assets mandatorily classified as at FVTPL	900,000	1,269	4.17	1,269	Note 2
	Global Bio Pharma, Inc.	-	Financial assets mandatorily classified as at FVTPL	2,200,000	\$ 32,535	3.19	\$ 32,535	Note 2
	Taiwanj Pharmaceuticals Corp. Ltd.	-	Financial assets mandatorily classified as at FVTPL	399,000	4,754	0.58	4,754	Note 2
	United BioPharma Co., Ltd.	-	Financial assets mandatorily classified as at FVTPL	867,251	38,839	0.49	38,839	Note 2
	Sunnypharmetech Inc.	-	Financial assets mandatorily classified as at FVTPL	3,778,864	69,965	3.38	69,965	Note 2
	NaviFUS Corp.	-	Financial assets mandatorily classified as at FVTPL	3,165,000	47,475	9.62	47,475	Note 2
	Innopharmax Inc.	-	Financial assets mandatorily classified as at FVTPL	826,000	9,746	1.17	9,746	Note 2
	Advagene Biopharma Co., Ltd.	-	Financial assets mandatorily classified as at FVTPL	1,771,509	44,288	4.02	44,288	Note 2
	Taiwania Capital Buffalo II Bioventures, LP	-	Financial assets mandatorily classified as at FVTPL	-	45,000	1.53	45,000	Note 2
	Dong-Wang Nano Industrial Co., Ltd.	-	Financial assets mandatorily classified as at FVTPL	107,556	-	1.08	-	Note 2
	Earth Gen Materials Corp.	-	Financial assets mandatorily classified as at FVTPL	1,500,000	-	8.33	-	Note 2
	FemCo Steel Technology Corp.	-	Financial assets mandatorily classified as at FVTPL	2,325,600	60,466	5.63	60,466	Note 2
	Lealea Co., Ltd.	-	Financial assets mandatorily classified as at FVTPL	833,000	13,866	1.39	13,866	Note 2
	Digital Economy Limited Partnership	-	Financial assets mandatorily classified as at FVTPL	-	21,047	11.95	21,047	Note 2
	Voltafield Technology Corp.	-	Financial assets mandatorily classified as at FVTPL	1,445,111	28,078	4.01	28,078	Note 2
	Groundhog Technologies Inc.	-	Financial assets mandatorily classified as at FVTPL	1,666,667	67,970	5.40	67,970	Note 2
	Mechanic Net Group, Inc.	-	Financial assets mandatorily classified as at FVTPL	250,000	3,483	1.18	3,483	Note 2

Holding Company Name	Type and Name of Marketable Security	Relationship with Holding Company	Accounts Recorded	December 31, 2018				Note
				Shares (Units)	Carrying Value	Percentage of Ownership (%)	Market Value or Net Equity	
Hua Nan Venture Capital Co., Ltd.	Applied Wireless Identifications Group Inc.	-	Financial assets mandatorily classified as at FVTPL	450,682	1,749	1.02	1,749	Note 2
	Altea Therapeutics Corp.	-	Financial assets mandatorily classified as at FVTPL	344,827	-	1.07	-	Note 2
	Rheonix, Inc.	-	Financial assets mandatorily classified as at FVTPL	1,031,177	-	2.03	-	Note 2
	StemCyte, Inc.	-	Financial assets mandatorily classified as at FVTPL	1,500,000	46,862	1.68	46,862	Note 2
	Apexigen, Inc.	-	Financial assets mandatorily classified as at FVTPL	1,643,614	77,842	1.06	77,842	Note 2
	Apollo Medical Optics Inc.	-	Financial assets mandatorily classified as at FVTPL	1,666,667	28,584	4.40	28,584	Note 2
	ACT Genomics Co., Ltd.	-	Financial assets mandatorily classified as at FVTPL	3,500,000	80,780	3.59	80,780	Note 2
	Fertasia International Development Corporation		Investments accounted for using equity method	4,797,800	50,265	29.80	50,265	Note 1
Hua Nan Futures Co., Ltd.	Stocks							
	Taiwan Futures Exchange	-	Investments in debt instruments measured at amortized cost	4,530,713	261,595	1.44	261,595	Note 2
Hua Nan Asset Management Corp.	Stocks							
	Taiwan Urban Regeneration & Financial Services Co., Ltd.	-	Financial assets at fair value through other comprehensive income	2,500,000	25,000,000	0.05	25,000,000	Note 2
Hua Nan Holdings Corp.	Stocks							
	Hua Nan Securities (HK) Limited	Held indirect	Investments accounted for using equity method	79,975,000	US\$ 21,365	100.00	US\$ 21,365	Note 1

Note 1: Net equity was based on the latest audited financial statements.

Note 2: The market value of mutual funds was based on the net asset value as of December 31, 2018. Market value of the listed stocks was based on the closing price as of December 31, 2018. Market value of the unlisted stocks was based on valuation techniques.

TABLE 3

HUA NAN FINANCIAL HOLDINGS CO., LTD.

FINANCING PROVIDED

FOR THE YEAR ENDED DECEMBER 31, 2018

(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

No. (Note 1)	Financier	Counterparty	Financial Statement Account	Related Parties	Maximum Balance for the Period	Ending Balance	Amount Actually Drawn	Interest Rate (%)	Financing Type	Transaction Amount	Financing Reasons	Allowance for Impairment Loss	Collateral		Financing Limit for Each Borrowing Company (Note 2)	Financing Company's Financing Amount Limit (Note 2)
													Item	Value		
1	Hua Nan International Leasing	Teamcham Estate Corporation	Other receivable	No	\$ 74,000	\$ 63,200	\$ 74,000	1-10	Short-term financing	\$ -	Operating use	\$ -	Real estate	\$ 88,800	\$ 210,367	\$ 1,402,453
	Corporation Ltd.	Xi Quan Co., Ltd.	Other receivable	No	17,500	17,500	17,500	1-10	Short-term financing	-	Operating use	-	Real estate	21,000	210,367	1,402,453
		Quijian Square Corporation Ltd.	Other receivable	No	30,000	13,955	30,000	1-10	Short-term financing	-	Operating use	-	Real estate	36,000	210,367	1,402,453
		Megaful Co., Ltd.	Other receivable	No	50,000	29,439	50,000	1-10	Short-term financing	-	Operating use	-	Real estate	60,000	210,367	1,402,453
		Hsin Chuan Construction Co., Ltd.	Other receivable	No	73,000	24,585	73,000	1-10	Short-term financing	-	Operating use	-	Stocks	133,290	210,367	1,402,453
		Yuan Mao Construction Co., Ltd.	Other receivable	No	100,000	94,551	100,000	1-10	Short-term financing	-	Operating use	-	Stocks	100,000	210,367	1,402,453
		Yi Tai Construction Co., Ltd.	Other receivable	No	148,000	102,650	102,650	1-10	Short-term financing	-	Operating use	-	Real estate	210,000	210,367	1,402,453
		The Rock Real Estate Development Co., Ltd.	Other receivable	No	110,000	43,526	110,000	1-10	Short-term financing	-	Operating use	-	Real estate	151,200	210,367	1,402,453
		Teamlead Property Management	Other receivable	No	120,000	120,000	120,000	1-10	Short-term financing	-	Operating use	-	Real estate	144,070	210,367	1,402,453

Note 1: Transactions between parent company and subsidiaries are numbered as follows:

- Parent company: 0.
- Subsidiaries are numbered sequentially from 1.

Note 2: According to Hua Nan International Leasing Corporation Ltd.'s "Operating Procedures of Fund Lending", the credit limits of the lending which arises from business dealings cannot surpass 15% of the lender's recent audited net worth. The credit limits of the lending because of operating use without business dealings cannot surpass 15% of the lender's recent audited net worth. If operating use is of necessity, the credit limits cannot surpass 40% of the lender's recent audited net worth. If the borrowers is Hua Nan International Leasing Corporation Ltd.'s subsidiary, the credit limits cannot surpass 15% of the lender's recent audited net worth. Additionally, the lending amounts under preceding two circumstances cannot surpass 100% of the lenders' recent audited net worth.

Note 3: Secured by debtors' notes receivable from operating.

TABLE 4

HUA NAN FINANCIAL HOLDINGS CO., LTD.
ENDORSEMENT/GUARANTEE PROVIDED
FOR THE YEAR ENDED DECEMBER 31, 2018

(In Thousands of New Taiwan Dollars)

No. (Note 1)	Endorsement/ Guarantee Provider	Counterparty		Limits on Individual Endorsement/ Guarantee Amounts (Note 2)	Maximum Balance for the Period	Ending Balance	Amount Ac- tually Drawn	Endorsement/ Guarantee Amount Collateralized by Properties	Ratio of Accumulated Amount of Endorsement/ Guarantee to Net Asset Value of the Latest Financial State- ment	Maximum Endorse- ment/ Guarantee Amounts Allowable (Note 2)
		Name	Nature of Relationship							
1	Hua Nan Inter- national Leasing Corporation Ltd.	Hua Nan Inter- national Leasing Corporation Ltd.	Subsidiary	\$ 7,012,270	\$ 841,450	\$ 838,150	\$ -	\$ -	59.76%	\$ 12,622,086

Note 1: Transactions between parent company and subsidiaries are numbered as follows:

- a. Parent company: 0.
- b. Subsidiaries are numbered sequentially from 1.

Note 2: According to Hua Nan International Leasing Corporation Ltd.'s "Operating Procedures to Fund Endorsement and Guarantee", Hua Nan International Leasing Corporation Ltd. can only endorse or guarantee its subsidiaries. The so called subsidiaries refer to the direct investment Hua Nan International Leasing Corporation Ltd.'s or indirect investment which it holds more than 50% voting rights of the invested company. The endorsement limit to single company cannot surpass 5 times Hua Nan International Leasing Corporation Ltd.'s audited net worth. The endorsement limits to all subsidiaries cannot surpass 9 times Hua Nan International Leasing Corporation Ltd.'s audited net worth.

TABLE 5

HUA NAN FINANCIAL HOLDINGS CO., LTD.
RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT\$300 MILLION OR 10% OF THE ISSUED CAPITAL
DECEMBER 31, 2018

(In Thousands of New Taiwan Dollars)

Company Name	Transaction Opponent	Relationship	Receivable Ending Balance	Turnover Rate	Overdue		Amounts Received in Subsequent Period	Allowance for Bad Debts
					Amount	Action Taken		
Hua Nan Financial Holdings Co., Ltd.	Hua Nan Commercial Bank, Ltd.	Both owned 100% by Hua Nan Financial Holdings Co., Ltd.	\$ 706,290 (Note)	-	-	-	-	-



TABLE 6

HUA NAN FINANCIAL HOLDINGS CO., LTD.
SALE OF NONPERFORMING LOANS
FOR THE YEAR ENDED DECEMBER 31, 2018

(In Thousands of New Taiwan Dollars)

Date	Counter-parties	Loans	Carrying Amount	Selling Price	Gain on Disposal	Attachment	Relation
February 1, 2018	LBOT 041	Accounts receivable	\$ 5,186	\$ 6,450	\$ 1,264	None	Not related party transaction
May 4, 2018	LBOT122	Accounts receivable	1,273	1,600	327	None	Not related party transaction

TABLE 7

HUA NAN FINANCIAL HOLDINGS CO., LTD.
CONSOLIDATED ENTITIES
DECEMBER 31, 2018 AND 2017

(In Thousands of New Taiwan Dollars)

Investor Company	Investee Company	Main Business and Products	Percentage of Ownership (%)		Note
			December 31, 2018	December 31, 2017	
Hua Nan Financial Holdings Co., Ltd.	Hua Nan Commercial Bank, Ltd.	Banking	100.00	100.00	
	Hua Nan Securities Co., Ltd.	Security	100.00	100.00	
	South China Insurance Co., Ltd.	Insurance	100.00	100.00	
	Hua Nan Investment Trust Corp.	Securities issuance and investment	100.00	100.00	
	Hua Nan Venture Capital Co., Ltd.	Venture capital investments	100.00	100.00	
	Hua Nan Assets Management Co., Ltd.	Acquisition of delinquent loans, evaluation, auction, and management	100.00	100.00	
Hua Nan Commercial Bank, Ltd.	Hua Nan International Leasing Co., Ltd.	Leasing and financing	100.00	100.00	
Hua Nan International Leasing Co., Ltd.	Hua Nan International Leasing Corp.	Leasing and financing	100.00	100.00	
Hua Nan Securities Co., Ltd.	Hua Nan Investment Management Co., Ltd.	Investment consulting	99.95	99.95	
	Hua Nan Futures Co., Ltd.	Futures brokering, management and consulting	99.80	99.80	
	Hua Nan Holdings Corp.	Investment holding	100.00	100.00	
Hua Nan Holdings Corp.	Hua Nan Securities (HK) Limited	Security	100.00	100.00	
	Hua Nan Asset Management Corp.	Consulting business	-	100.00	Note

Note: The board of directors of Hua Nan Securities Co., Ltd. resolution approved dissolution of Hua Nan Asset Management Corp. on July 24, 2017. FSC issued 1060030704 on August 22, 2017 approving the dissolution procedure. The Company has finished liquidation procedure and annulment procedure on March 7, 2018.

TABLE 8
HUA NAN FINANCIAL HOLDINGS CO., LTD.
**BUSINESSES OPERATED IN THE FOREIGN COUNTRIES OR REGIONS WITHOUT COMPETENT AUTHORITIES GOVERNING
SECURITIES BUSINESSES**
DECEMBER 31, 2018

(In Thousands of U.S. Dollars)

Company's Name	Securities Held	Engagement in the Derivative Instruments	Capital Provided by	Revenue from Assets Management	The Major Item of Business	Litigation Event	Financial Position
Hua Nan Holdings Corp.	Table 10	-	Hua Nan Securities Co., Ltd.	\$ -	Holding company business	-	Tables 12 and 13
Hua Nan Asset Management Corp. (Note)	-	-	Hua Nan Holdings Corp.	-	Consulting business	-	Tables 14 and 15

Note: On July 24, 2017, the board of directors of Hua Nan Securities Co., Ltd resolution approved that Hua Nan Asset Management Corp. should start its dissolution. On August 22, 2017, FSC issued No. 1060030704 and approved this dissolution. As of March 7, 2018, Hua Nan Securities Co. completed its liquidation.

TABLE 9
HUA NAN FINANCIAL HOLDINGS CO., LTD.
**MARKETABLE SECURITIES HELD BY BUSINESSES OPERATED IN THE FOREIGN COUNTRIES OR REGIONS WITHOUT COMPETENT
AUTHORITIES GOVERNING WITH NO SECURITIES AUTHORITIES**
DECEMBER 31, 2018

(In Thousands of U.S. Dollars, Except Shares/Units)

Investor	Security	Relationship with the Holder	Accounts Recorded	End of Period				Note
				Shares	Carrying Value	%	Market Value	
Hua Nan Holdings Corp.	Hua Nan Securities (HK) Limited	Indirect holding	Investments accounted for using equity method	79,975,000	US\$ 21,365	100	US\$ 21,365	Eliminated upon consolidation
	Hua Nan Asset Management Corp.	-	-	-	-	-	-	Note
					<u>US\$ 21,365</u>		<u>US\$ 21,365</u>	

Note: On July 24, 2017, the board of directors of Hua Nan Securities Co., Ltd resolution approved that Hua Nan Asset Management Corp. should start its dissolution. On August 22, 2017, FSC issued No. 1060030704 and approved this dissolution. As of March 7, 2018, Hua Nan Securities Co. completed its liquidation.

TABLE 10

HUA NAN FINANCIAL HOLDINGS CO., LTD.
 INFORMATION ON INVESTMENT IN MAINLAND CHINA
 DECEMBER 31, 2018

(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Investee Company Name	Main Businesses and Products	Total Amount of Paid-in Capital	Investment Type	Accumulated Outflow of Investment from Taiwan as of January 1, 2018	Investment Flows		Accumulated Outflow of Investment from Taiwan as of December 31, 2018	Investee's Net Income	% Ownership of Direct or Indirect Investment	Investment Gain	Carrying Amount as of December 31, 2018	Accumulated Inward Remittance of Earnings as of December 31, 2018
					Outflow	Inflow						
Hua Nan Commercial Bank Shenzhen Branch (Including Boan Branch)	Deposits, loans, foreign exchange	\$ 4,799,651 (US\$ 76,990) (CNY 500,000)	Direct investments	\$ 4,799,651 (Notes 1 and 6) (US\$ 76,990) (CNY 500,000)	\$ -	\$ -	\$ 4,799,651 (Notes 1 and 6) (US\$ 76,990) (CNY 500,000)	\$ 183,167 (CNY 40,245)	100	\$ 183,167 (CNY 40,245)	\$ 5,657,875 (CNY 1,266,027)	\$ -
Hua Nan Commercial Bank Shanghai Branch	Deposits, loans, foreign exchange	2,442,748 (US\$ 78,500)	Direct investments	2,442,748 (Note 2) (US\$ 78,500)	-	-	2,442,748 (Note 2) (US\$ 78,500)	66,966 (CNY 14,713)	100	66,966 (CNY 14,713)	2,548,603 (CNY 570,285)	-
Hua Nan Commercial Bank Fuzhou Branch	Deposits, loans, foreign exchange	2,561,433 (US\$ 83,000)	Direct investments	2,561,433 (Note 5) (US\$ 83,000)	-	-	2,561,433 (Note 5) (US\$ 83,000)	60,179 (CNY 13,222)	100	60,179 (CNY 13,222)	2,512,287 (CNY 562,159)	-
Hua Nan International Leasing Corporation	Leasing	879,840 (US\$ 29,700)	Direct investments	879,840 (Notes 3 and 4) (US\$ 29,700)	-	-	879,840 (Notes 3 and 4) (US\$ 29,700)	30,524	100	30,524	924,297	-

Accumulated Investment in Mainland China as of December 31, 2018	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on Investment
\$ 10,683,672 (US\$ 268,190) (CNY 500,000)	\$ 10,683,672 (US\$ 268,190) (CNY 500,000)	\$110,794,285

Note 1: According to the Investment Commission of the Ministry of Economic Affairs October 11, 2010 audited (Ref. No. 09900349890) approved investment amount (CNY300 million) and the Investment Commission of the Ministry of Economic Affairs March 30, 2012 audited (Ref. No. 10100014380) approved investment amount (CNY200 million), by the remittance date of announcement of the Peoples Bank of China reference exchange rates, the working capital for the establishment of registration branch is US\$76,990 thousand.

Note 2: According to the Investment Commission of the Ministry of Economic Affairs February 5, 2014 audited (Ref. No. 10300024640) approved investment amount (US\$78.50 million).

Note 3: According to the Investment Commission of the Ministry of Economic Affairs August 13, 2012 audited (Ref. No. 10100314860) approved investment amount (US\$20 million).

Note 4: According to the Investment Commission of the Ministry of Economic Affairs March 26, 2012 audited (Ref. No. 10300067600) approved investment amount (US\$9.7 million).

Note 5: Accounting to Investment Commission of Ministry of Economic Affairs April 22, 2014 audited (Ref. No. 10300056440) approved investment amount (US\$83 million).

Note 6: Accounting to Investment Commission of Ministry of Economic Affairs April 23, 2015 audited (Ref. No. 10400038880) approved investment amount (CNY500 million).

TABLE 11

HUA NAN HOLDINGS CORPORATION
BALANCE SHEETS
DECEMBER 31, 2018 AND 2017

(In U.S. Dollars)

ASSETS	2018		2017	
	Amount	%	Amount	%
CURRENT ASSETS				
Cash	\$ 3,008,173	12	\$ 2,951,871	11
Other receivables	27,339	-	10,505	-
Total current assets	3,035,512	12	2,962,376	11
INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD	21,364,897	88	24,091,492	89
TOTAL	\$ 24,400,409	100	\$ 27,053,868	100
LIABILITIES AND EQUITY				
LIABILITIES				
Other payables	\$ 975	-	\$ 994	-
Total liabilities	975	-	994	-
EQUITY				
Share capital	11,150,000	46	11,150,000	41
Unappropriated earnings	9,165,505	35	9,047,604	33
Net (loss) profit for the year	(697,459)	-	58,895	-
Exchange differences on translating the financial statements of foreign operations	(208,970)	(1)	(172,705)	-
Unrealized gain on financial assets at fair value through other comprehensive income	4,990,358	20	-	-
Unrealized gain on available-for-sale financial assets	-	-	6,969,080	26
Total equity	24,399,434	100	27,052,874	100
TOTAL	\$ 24,400,409	100	\$ 27,053,868	100



TABLE 12

HUA NAN HOLDINGS CORPORATION
STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

(In U.S. Dollars)

	2018		2017	
	Amount	%	Amount	%
REVENUES				
Interest revenue	\$ 77,202	11	\$ 17,976	28
Share of profit of subsidiaries and associates	(770,615)	(111)	45,466	72
Total revenues	(693,413)	(100)	63,442	100
EXPENSES				
Operating expenses	4,047	1	4,547	7
NET PROFIT FOR THE YEAR	(697,460)	(101)	58,895	93
OTHER COMPREHENSIVE INCOME				
Exchange differences on translating the financial statements of foreign operations	(36,265)	(5)	(134,680)	(212)
Unrealized loss on financial assets at fair value through other comprehensive income	(1,919,715)	(285)	-	-
Unrealized gain on available-for-sale financial assets	-	-	1,420,334	2,238
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE YEAR	\$ (2,653,440)	(391)	\$ 1,344,549	2,119

TABLE 13

HUA NAN ASSET MANAGEMENT CORPORATION
BALANCE SHEETS
DECEMBER 31, 2018 AND 2017

(In U.S. Dollars)

ASSETS	2018		2017	
	Amount	%	Amount	%
CURRENT ASSETS				
Cash	\$ -	-	\$ -	-
Other receivables	-	-	-	-
TOTAL	\$ -	-	\$ -	-
LIABILITIES AND EQUITY				
LIABILITIES				
Other payables	\$ -	-	\$ -	-
Total liabilities	-	-	-	-
EQUITY				
Share capital	-	-	-	-
Unappropriated earnings	-	-	-	-
Net profit for the year	-	-	-	-
Total equity	-	-	-	-
TOTAL	\$ -	-	\$ -	-

Note: On July 24, 2017, the board of directors of Hua Nan Securities Co., Ltd resolution approved that Hua Nan Asset Management Corp. should start its dissolution. On August 22, 2017, FSC issued No. 1060030704 and approved this dissolution. As of March 7, 2018, Hua Nan Securities Co. completed its liquidation.

TABLE 14

HUA NAN ASSET MANAGEMENT CORPORATION
STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

(In U.S. Dollars)

	2018		2017	
	Amount	%	Amount	%
REVENUES				
Interest revenue	\$ -	-	\$ 24,117	100
EXPENSES				
Operating expenses	-	-	7,463	31
NET PROFIT FOR THE YEAR	\$ -	-	\$ 16,654	69

Note: On July 24, 2017, the board of directors of Hua Nan Securities Co., Ltd resolution approved that Hua Nan Asset Management Corp. should start its dissolution. On August 22, 2017, FSC issued No. 1060030704 and approved this dissolution. As of March 7, 2018, Hua Nan Securities Co. completed its liquidation.

TABLE 15

HUA NAN FINANCIAL HOLDINGS CO., LTD.
BUSINESS RELATIONSHIPS AND SIGNIFICANT TRANSACTIONS BETWEEN THE COMPANY AND ITS SUBSIDIARIES
FOR THE YEAR ENDED DECEMBER 31, 2018

(In Thousands of New Taiwan Dollars)

No. (Note 1)	Transaction Company	Counter-party	Nature of Relationship (Note 2)	Description of Transactions			
				Financial Statement Account	Amounts	Trading Terms	Transaction Amount/ Total Consolidated Net Revenues or Total Consolidated Assets (Note 3)
	For the year ended December 31, 2018						
0	Hua Nan Financial Holdings Co., Ltd.	Hua Nan Commercial Bank, Ltd. and subsidiaries	a	Cash and cash equivalents	\$ 422,124	Note 4	0.02%
		Hua Nan Commercial Bank, Ltd. and subsidiaries	a	Receivables	706,290	Note 4	0.03%
		Hua Nan Securities Co., Ltd. and subsidiaries	a	Receivables	164,314	Note 4	0.01%
1	Hua Nan Commercial Bank, Ltd. and subsidiaries	Hua Nan Financial Holdings Co., Ltd.	b	Payables	706,290	Note 4	0.03%
		Hua Nan Financial Holdings Co., Ltd.	b	Deposits and remittances	422,124	Note 4	0.02%
		Hua Nan Securities Co., Ltd. and subsidiaries	c	Deposits and remittances	548,166	Note 4	0.02%
		Hua Nan Securities Co., Ltd. and subsidiaries	c	Deposits and remittances	508,097	Note 4	0.02%
		South China Insurance Co., Ltd.	c	Deposits and remittances	666,348	Note 4	0.02%
2	Hua Nan Securities Co., Ltd. and subsidiaries	Hua Nan Financial Holdings Co., Ltd.	b	Payables	164,314	Note 4	0.01%
		Hua Nan Commercial Bank, Ltd. and subsidiaries	c	Other assets	522,173	Note 4	0.02%
		Hua Nan Commercial Bank, Ltd. and subsidiaries	c	Other financial assets	508,097	Note 4	0.02%
3	South China Insurance Co., Ltd.	Hua Nan Commercial Bank, Ltd. and subsidiaries	c	Cash and cash equivalents	575,648	Note 4	0.02%

Note 1: Transactions between parent company and subsidiaries are numbered as follows:

- Parent company: 0.
- Subsidiaries are numbered sequentially from 1.

Note 2: Three types of transactions with related parties are classified as follows:

- Parent company to subsidiaries.
- Subsidiaries to parent company.
- Subsidiaries to subsidiaries.

Note 3: For calculating the percentages, asset or liability account is divided by the total consolidated assets and revenue or expense account is divided by the total consolidated net revenues of the same period.

Note 4: The terms for the transactions between the Company and related parties are similar to those with third parties.

Note 5: The significant transactions among the parent company and subsidiaries have been eliminated in the consolidated financial statements.



TABLE 16

HUA NAN FINANCIAL HOLDINGS CO., LTD.
DISCLOSURE REQUIRED UNDER ARTICLE 46 OF THE FINANCIAL HOLDING COMPANY ACT
DECEMBER 31, 2018

(In Millions of New Taiwan Dollars, %)

Name	Total Amounts of Credits, Endorsement or Other Transactions	Percentage of HNFH's Equity (%)
1. With the same person		
Central Bank of the Republic of China (Taiwan)	\$ 307,970	194.05
National Treasury Agency	74,807	47.13
Taiwan Power Company	43,596	27.47
Taiwan High Speed Rail Corp.	20,803	13.11
USA	16,726	10.54
Grand industrial Limited Company of Baofeng	14,525	9.15
CPC Corporation, Taiwan	12,175	7.67
New Taipei City Government	10,000	6.30
Far Eastern Department Stores Co., Ltd.	8,200	5.17
EVA Airways Corporation	8,022	5.05
China Airlines Corp.	7,861	4.95
Evergreen Marine Corp. (Taiwan) Ltd.	7,396	4.66
Kingston Technology International	7,069	4.45
First Financial Holdings Co., Ltd.	6,981	4.40
Taiwan Railways Administration, MOTC	6,864	4.32
China Steel Corporation	6,349	4.00
Formosa Plastics Corporation	6,317	3.98
Wan Pao Development Co., Ltd.	6,244	3.93
CTBC Bank Co., Ltd.	6,016	3.79
Pintung County Government	5,195	3.27
Mega financial Holding Co., Ltd.	5,178	3.26
Walsin Lihwa Corporation	5,152	3.25
First Commercial Bank Co., Ltd.	5,016	3.16
Cathy Financial Holding Co., Ltd.	4,958	3.12
Formosa Ha Tinh (Cayman) Limited	4,918	3.10
Inventec Corp.	4,643	2.93
Lin Yuan Investment Co., Ltd.	4,466	2.81
Far Eastern New Century Corp.	4,430	2.79
Nanya Plastics Corporation	4,377	2.76
Credit Agricole Corporate & Investment Bank	4,351	2.74
Changhua County Government	4,333	2.73
Fubon Financial Holding Co., Ltd.	4,313	2.72
Cheng Shin Rubber Industry Co.	4,218	2.66
HSBC Bank (Taiwan) Co., Ltd.	4,061	2.56
Taiwan Semiconductor Manufacturing Co., Ltd.	4,051	2.55
Mayfull Corp.	3,960	2.49
Quanta Computer Inc.	3,831	2.41
Compal Electronics, Inc.	3,819	2.41
Cathy Real Estate Development Co., Ltd.	3,800	2.39
Huaku Development Co., Ltd.	3,780	2.38
Formosa Group (Cayman) Limited	3,688	2.32

Name	Total Amounts of Credits, Endorsement or Other Transactions	Percentage of HNFH's Equity (%)
Nankang Rubber Tire Corp., Ltd.	3,645	2.30
Asia Cement Corp.	3,616	2.28
Kingston Technology Corporation	3,615	2.28
Yunlin County Government	3,578	2.25
Yuanta Commercial Bank	3,500	2.21
Digtimes Inc.	3,455	2.18
Yuanta Securities Corp.	3,415	2.15
Taiwan Glass Ind. Corp.	3,400	2.14
Hon Hai Precision Industry Co., Ltd.	3,392	2.14
Federal Corporation	3,346	2.11
Yang Ming Marine Transport Corporation	3,271	2.06
Formosa Chemicals & Fibre Corp.	3,265	2.06
Government National Mortgage Association	3,163	1.99
Industrial And Commercial Bank Of China	3,057	1.93
Wistron Corp.	3,037	1.91
JPMorgan Chase Bank, N.A.	3,018	1.90
2. With the same related person		
Mr. Lee with same related parties	14,525	9.15
Mr. Lin with same related parties	11,247	7.09
Mr. Wang with same related parties	9,149	5.76
Mr. Tsai with same related parties	8,099	5.10
Mr. Chen with same related parties	7,074	4.46
Mr. Lee with same related parties	6,620	4.17
Mr. Miao with same related parties	6,356	4.00
Mr. Lin with same related parties	6,322	3.98
Mr. Tsai with same related parties	5,218	3.29
Mr. Zhuo with same related parties	4,661	2.94
Mr. Tang with same related parties	4,324	2.72
Mr. Lin with same related parties	4,043	2.55
Mr. Lan with same related parties	4,017	2.53
Mr. Pan with same related parties	3,807	2.40
Mr. Xu with same related parties	3,785	2.38
Mr. Zhan with same related parties	3,707	2.34
Mr. Yang with same related parties	3,019	1.90
3. With the same affiliate		
Grand industrial Limited Company of Baofeng with same affiliate	14,525	9.15
Yulon General Motors Ltd. with same affiliate	13,802	8.70
Far Eastern New Century Corp. with same affiliate	13,160	8.29
China Steel Corp. with same affiliate	13,091	8.25
First Financial Holding Co., Ltd. with same affiliate	12,422	7.83
Eva Airways Corp. with same affiliate	11,709	7.38
Lin Yuan Investment Co., Ltd. with same affiliate	11,366	7.16
Evergreen Marine Corp. (Taiwan) Ltd.	11,277	7.11
Kingston Technology Corporation with same affiliate	10,684	6.73
Yuanta Financial Holding Co., Limited with same affiliate	10,339	6.51
Far Eastern Department Stores Co., Ltd. with same affiliate	9,623	6.06



Name	Total Amounts of Credits, Endorsement or Other Transactions	Percentage of HNFH's Equity (%)
Nankang Rubber Tire Corp., Ltd. with same affiliate	8,984	5.66
Asia Cement Corp. with same affiliate	8,441	5.32
Zhong Shing Development Co., Ltd. with same affiliate	8,214	5.18
Walsin Lihwa Corporation with same affiliate	7,912	4.99
China Airlines Corp. with same affiliate	7,861	4.95
Mega Financial Holding Co., Ltd. with same affiliate	6,756	4.26
Formosa Plastics Corp. with same affiliate	6,493	4.09
YFY Inc. with same affiliate	6,485	4.09
HSBC Holding PLC with same affiliate	6,440	4.06
Cathy Financial Holding Co., Ltd. with same affiliate	6,163	3.88
CTBC Financial Holding Co., Ltd. with same affiliate	6,033	3.80
Taiwan Cement Corp. with same affiliate	5,961	3.76
Formosa Chemicals & Fibre Corp. with same affiliate	5,900	3.72
Continental Engineering Corporation with same affiliate	5,444	3.43
Chailease Finance with same affiliate	5,388	3.39
Taiwan Glass Ind. Corp. with same affiliate	5,188	3.27
Inventec Corp.	5,177	3.26
Nanya Plastics Corp. with same affiliate	5,089	3.21
ASE Technology Holding Co., Ltd. with same affiliate	4,805	3.03
Kuotu Motor Co., Ltd. with same affiliate	4,792	3.02
Fubon Financial Holding Co., Ltd. with same affiliate	4,739	2.99
Cheng Shin Rubber Company with same affiliate	4,519	2.85
Taiwan Cooperative Financial Holding Co., Ltd. with same affiliate	4,338	2.73
Hui Hang Investment with same affiliate	4,198	2.65
Quanta Computer Inc. with same affiliate	4,108	2.59
Tatung Co., Ltd. with same affiliate	4,043	2.55
YangMing Marine Transport Corp. with same affiliate	4,011	2.53
China Development Financial Holding Co., Ltd. with same affiliate	4,002	2.52
Mayfull Corp. with same affiliate	3,960	2.49
Compal Electronics with same affiliate	3,937	2.48
Huaku Development with same affiliate	3,790	2.39
Farglory Construction Corp. with same affiliate	3,754	2.37
Industrial And Commercial Bank of China with same affiliate	3,633	2.29
Wisdom Marine Lines with same affiliate	3,533	2.23
Wistron Corp. with same affiliate	3,528	2.22
Everwiner Enterprise Co., Ltd. with same affiliate	3,419	2.15
Chang Chun Petrochemical Co., Ltd. with same affiliate	3,412	2.15
China Times Inc. with same affiliate	3,357	2.11
Federal Corp. with same affiliate	3,352	2.11
Capital Securities Corp. with same affiliate	3,327	2.10
JP Morgan Chase & Co with same affiliate	3,220	2.03
Ocean Plastics Co., Ltd. with same affiliate	3,119	1.97
Citigroup Inc. with same affiliate	3,060	1.93
Reliance Industries Limited with same affiliate	3,019	1.90
Yieh Phui Enterprise Co., Ltd. with same affiliate	3,009	1.90

VII Risk Management and Analysis on Financial Status and Operating Results.

I. Financial Status: Major reason and impact for material changes in assets, liabilities, and stockholders' equity. Future responsive actions shall be described if the impact is significant.

Unit: NT\$1,000

Year Item	2018	2017	Difference	
			Amount	Percentage
CASH AND CASH EQUIVALENTS	48,510,679	58,983,323	(10,472,644)	-18%
DUE FROM THE CENTRAL BANK AND OTHER BANKS	156,720,416	185,191,799	(28,471,383)	-15%
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS	86,705,474	76,061,991	10,643,483	14%
AVAILABLE-FOR-SALE FINANCIAL ASSETS, NET	-	149,474,678	(149,474,678)	-100%
FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	191,447,673	-	191,447,673	NA
INVESTMENTS IN DEBT INSTRUMENTS MEASURED AT AMORTIZED COST, NET	450,489,822	-	450,489,822	NA
SECURITIES PURCHASED UNDER AGREEMENTS TO RESELL	489,059	601,507	(112,448)	-19%
RECEIVABLES, NET	41,257,457	45,198,320	(3,940,863)	-9%
CURRENT TAX ASSETS	418,349	480,222	(61,873)	-13%
DISCOUNTS AND LOANS, NET	1,623,317,849	1,582,344,101	40,973,748	3%
REINSURANCE CONTRACTS ASSETS, NET	4,030,604	4,005,896	24,708	1%
HELD-TO-MATURITY FINANCIAL ASSETS, NET	-	380,815,899	(380,815,899)	-100%
INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD, NET	110,724	57,128	53,596	94%
OTHER FINANCIAL ASSETS, NET	30,363,702	41,634,967	(11,271,265)	-27%
PROPERTY AND EQUIPMENT, NET	32,264,055	32,518,581	(254,526)	-1%
INVESTMENT PROPERTIES, NET	10,922,997	9,837,544	1,085,453	11%
INTANGIBLE ASSETS, NET	762,044	543,485	218,559	40%
DEFERRED TAX ASSETS	3,496,800	2,646,268	850,532	32%
OTHER ASSETS, NET	2,899,159	3,024,041	(124,882)	-4%
TOTAL ASSETS	2,684,206,863	2,573,419,750	110,787,113	4%
DEPOSITS FROM THE CENTRAL BANK AND BANKS	132,267,041	84,127,060	48,139,981	57%
FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS	4,803,071	7,975,720	(3,172,649)	-40%
DERIVATIVE FINANCIAL LIABILITIES FOR HEDGING	-	4,082	(4,082)	-100%
SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE	46,323,247	40,797,559	5,525,688	14%
COMMERCIAL PAPER PAYABLE, NET	15,950,469	27,524,893	(11,574,424)	-42%
PAYABLES	43,481,315	43,808,589	(327,274)	-1%
CURRENT TAX LIABILITIES	1,677,066	1,080,850	596,216	55%
DEPOSITS AND REMITTANCES	2,155,650,451	2,110,962,220	44,688,231	2%
BONDS PAYABLE	58,589,023	53,448,450	5,140,573	10%
OTHER BORROWINGS	2,121,000	703,000	1,418,000	202%
PROVISIONS	19,967,657	18,447,562	1,520,095	8%
OTHER FINANCIAL LIABILITIES	13,631,338	8,872,718	4,758,620	54%
DEFERRED TAX LIABILITIES	6,119,745	6,103,727	16,018	0%
OTHER LIABILITIES	9,467,857	5,329,157	4,138,700	78%
TOTAL LIABILITIES	2,510,049,280	2,409,185,587	100,863,693	4%
SHARE CAPITAL	115,436,133	110,465,199	4,970,934	5%
CAPITAL SURPLUS	17,758,986	17,758,986	-	0%
RETAINED EARNINGS	37,181,499	35,513,962	1,667,537	5%
OTHER EQUITY	3,778,863	494,436	3,284,427	664%



Year Item	2018	2017	Difference	
			Amount	Percentage
TOTAL EQUITY ATTRIBUTABLE TO OWNER OF THE PARENT	174,155,481	164,232,583	9,922,898	6%
NON-CONTROLLING INTERESTS	2,102	1,580	522	33%
TOTAL EQUITY	174,157,583	164,234,163	9,923,420	6%
TOTAL LIABILITIES AND EQUITY	2,684,206,863	2,573,419,750	110,787,113	4%

Analysis and explanation of the increases or decreases:

1. The decrease in available-for-sale financial assets and held-to-maturity financial assets - net this year from the previous year is mainly attributed to the adoption of reclassification in IFRS 9.
2. The increase in investment using equity method - net from the previous year is mainly attributed to Hua Nan Venture Capital's acquisition of 29.8% of the shares of Fertasia International Development Corporation at the price of NT\$25,032 thousand in July 2018.
3. The increase in intangible assets - net from the previous year is mainly attributed to the increase in computer software from the previous year.
4. The increase in deferred income tax assets from the previous year is mainly attributed to the increase in deferred income tax assets from the previous year.
5. The increase in deposits from the Central Bank and peer banks from the previous year is mainly attributed to the increase in interbank loans from the previous year.
6. The decrease in financial liabilities at fair value through profit and loss from the previous year is mainly attributed to the decrease in financial liabilities at fair value through profit and loss from the previous year.
7. The decrease in derivative financial liabilities for hedging from the previous year is mainly attributed to the decrease in derivative financial liabilities for hedging from the previous year.
8. The decrease in commercial paper payable from the previous year is mainly attributed to the decrease in commercial paper payable to KGI Bank, Ta Ching Bills Finance Corporation, Taipei Fubon Bank, and Far Eastern International Bank from the previous year.
9. The increase in current income tax liabilities is mainly attributed to the increase in current income tax liabilities from the previous year.
10. The increase in other loans from the previous year is mainly attributed to the increase in short-term credit loans from the previous year.
11. The increase in other financial liabilities from the previous year is mainly attributed to the increase in the amount of principal collected for structural products from the previous year.
12. The increase in other liabilities from the previous year is mainly attributed to the increase in the guarantee deposits received for securities borrowing and guarantee deposits received from the previous year.
13. The increase in other equity from the previous year is mainly attributed to the valuation of the equity instruments at fair value through other comprehensive income.

II. Financial performance: Significant changes in net revenue and income before tax for past two years, the main reason for the change, expected operating goals and the basis of the goals. The possible impact and responsive action on financial holding company's future financial business.

Unit: NT\$1,000

Item	Year	2018	2017	Difference	
				Amount	Percentage
NET INTEREST		26,560,219	26,938,742	(378,523)	-1%
NET REVENUES OTHER THAN INTEREST		19,442,265	15,281,806	4,160,459	27%
TOTAL NET REVENUES		46,002,484	42,220,548	3,781,936	9%
ALLOWANCE FOR DOUBTFUL ACCOUNTS, COMMITMENT, AND GUARANTEES	(	3,533,260)	(4,950,360)	1,417,100	-29%
CHANGE IN PROVISIONS FOR INSURANCE LIABILITIES, NET	(	23,475)	(237,716)	214,241	-90%
OPERATING EXPENSES	(	25,774,540)	(23,223,104)	(2,551,436)	11%
NET PROFIT BEFORE INCOME TAX		16,671,209	13,809,368	2,861,841	21%
INCOME TAX EXPENSE	(	2,049,774)	(1,793,800)	(255,974)	14%
NET PROFIT FOR THE YEAR		14,621,435	12,015,568	2,605,867	22%
OTHER COMPREHENSIVE INCOME	(	1,398,581)	599,718	(1,998,299)	-333%
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		13,222,854	12,615,286	607,568	5%

Analysis and explanation of the increases or decreases:

1. The increase in non-interest net revenue from the previous year is mainly attributed to the relative increase in gains on financial assets (liabilities) at fair value through profit or loss from the previous year which increased profits.
2. The decrease in the allowance for doubtful accounts and guarantees from the previous year is mainly attributed to the subsidiary Hua Nan Bank's increase of the provision for doubtful accounts and guarantees to improve asset quality.
3. The decrease in net change in provisions for insurance from the previous year is mainly attributed to the decrease in the subsidiary South China Insurance Co., Ltd.'s net variation in claim reserve from the previous year.
4. The relative increase in losses in other comprehensive income from the gains in the previous year is mainly attributed to the losses in debt instruments measured at fair value through other comprehensive profits and losses.

III. Cash flow

(I) Cashflow analysis for past two years

Unit: Percentage

	2018	2017	Percentage for Increase or Decrease
Cashflow ratio	-7.07%	9.64%	-16.71%
Cashflow adequacy ratio	549.69%	193.12%	356.57%
Cashflow Reinvestment Ratio	-725.24%	4289.24%	-5,014.48%

Note:

1. Cashflow ratio increased mainly due to the net cash inflow from operating activities.
2. Cashflow adequacy ratio increased due to the net cash inflow from operating activities in past five years.
3. Cashflow reinvestment ratio increased due to the net cash inflow from operating activities.

(II) Cash liquidity analysis for the next year

Unit: in Thousand NT Dollars

Beginning cash balance	Projected Net Cash inflow from Operating Activities for the Year	Projected Net Cash inflow from Investing and Financing Activities for the Year	Projected Cash Balance or Insufficient Amount	Corrective Actions for the Projected Insufficient Balance	
				Investment Plan	Financing Plan
48,510,679	(12,267,365)	(12,549,888)	23,693,426	-	-

IV. Major Capital Expenditures in recent years and their Impact on Finance and Business: None.

V. Policy on investment in other companies, main reasons for profit / losses resulting therefrom, improvement plan, and investment plans for the upcoming fiscal year.

(I) Investment policy for the most recent year:

According to the investment policy of the Company, the Company makes investment according to the strategical planning for the Group's operation and development in order to help the Group realize the vision of becoming a quality financial holding company and regional financial institute and earn long term investment gain with stable growth.

(II) Main Causes for Profits or Losses and Improvement Plans for the Most Recent Year.

In 2018, the Company generated net income after tax of NT\$14.62 billion with an EPS of NT\$1.27. Net income after tax increased NT\$2.6 billion compared to 2017, mainly due to profit increase of the subsidiary Hua Nan Commercial Bank. Regarding subsidiary operation, Hua Nan Commercial Bank is still the major source of income. The exchange gains from USD/TWD SWAP and investment income increased due to the increase of interest rate spread between US and Taiwan in 2018, which brought about an increase of NT\$2.9 billion in profit. The profit of Hua Nan Securities decreased NT\$270 million due to the tumbling stock market. The stock market dropped 8.6% for the whole year and resulted in decrease in profit from dealer investment. Hua Nan Assets Management Company sold a parcel of land in Tucheng Industrial District to Hua Nan Commercial Bank in 2017. There were no large-scale land sales in 2018 and thus profit decreased NT\$148 million. The profitability of other subsidiaries was at similar levels with the previous year, and all subsidiaries have maintained profitability.

(III) Investment plan for the next year

ASEAN:

In response to the New Southbound Policy, the Group will closely watch the development trend and policy for foreign investment in the ASEAN countries, prudently review possibility of setting up branch offices, merge, or joint venture.



VI. Risk management

Risk management analysis in overall consolidated financial statements. Operating status for last year and up to the date of annual report:

(I) The risk management organization structure and policy for the financial holding company and its subsidiaries:

1. Hua Nan Financial Holdings

(1) The risk management organization structure of the Group

The mission of the Company's risk management is to reach the optimal balance between risk and payback, and maintain high quality risk outline. The Company also intends to assist all operating units to reach the goal of optimizing shareholder value under the premise of maintaining the target annual credit rating decided by the Company's Board of Directors.

The important committees that have risk management function include Board of Directors' meeting, Asset & Liability Management Committee, and Risk Management Committee. The Board of Directors are responsible to approve the Group's risk management guidelines and Group risk policy for all kinds. The Board of Directors also decide the risk appetite. Asset & Liability Management Committee is responsible for the interest risk, liquidity risk, exchange rate risk, investment portfolio management, fund transfer pricing, and risk capital management in the Group bank book(non-trading book) and related topics. Risk Management Committee holds important meetings for the Group's risk management. It handles market risk, credit risk, operational risk, or other risk related topics.

The Company's responsible department for risk management is Risk Management Department. The department is responsible for risk management related affairs. Five teams are under the department, which are credit risk team, market risk team, operational risk team, risk measurement team, and risk integration team. Subsidiaries set up independent risk management department or function according to business nature and practical need. The main functions of Group risk management are:

- A. Group risk integration
- B. Formulate, approve and control Group risk-related policies
- C. Set, approve and control Group risk limits
- D. Coordination and management of risk issues across subsidiaries



(2) Risk Management Policy

The Company's risk management policy is to establish a standard that can be applied uniformly to all members of Hua Nan Financial Holding Group, and identify, evaluate, control, undertake, and manage risk to ensure all operating risks are controlled within acceptable range and reflect the business objectives and corporate value of the Group.

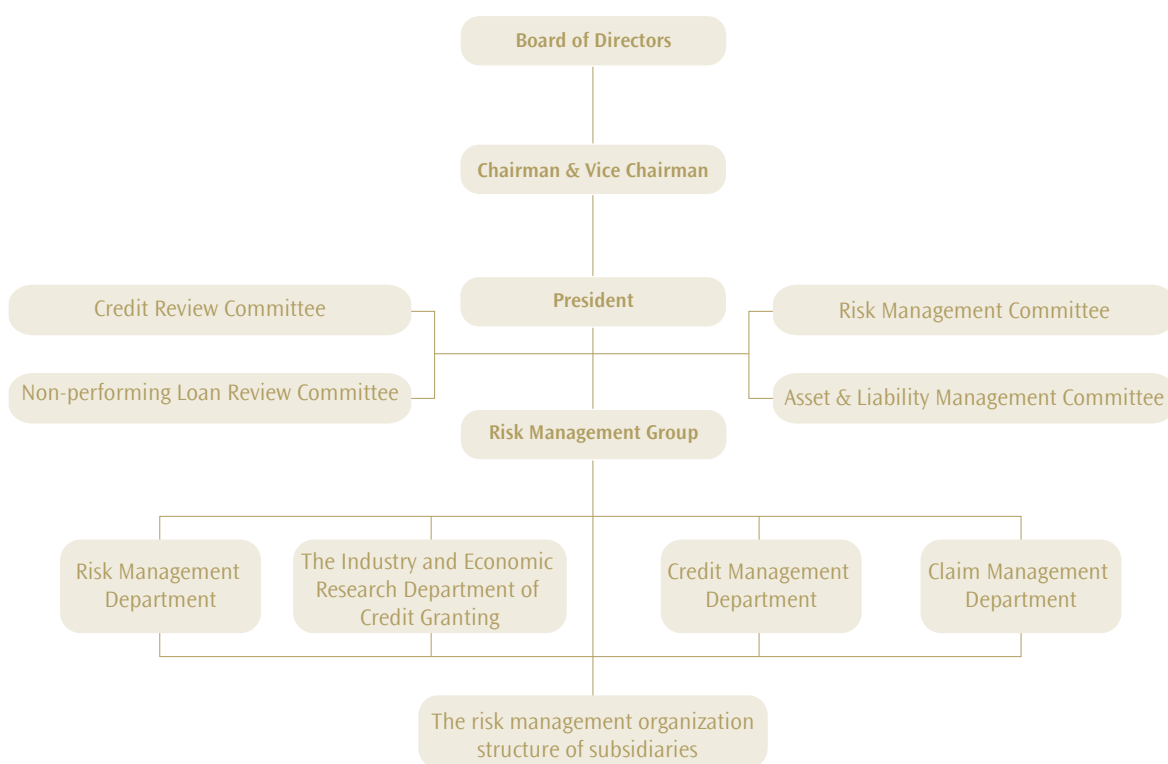
2. Hua Nan Commercial Bank

(1) Important committees under the President of Hua Nan Commercial Bank:

- A. Risk Management Committee: Centralize various risk management to plan a healthy risk management system and culture.
- B. Asset & Liability Management Committee: Execute the asset & liability management policy.
- C. Credit Review Committee: Evaluate credit risk cases in large amounts to ensure the safety of claim.
- D. Non-performing Loan Review Committee: Review the action plan on significant and complex cases and bad debt write off cases to assist cleaning of overdue loan.

(2) Hua Nan Commercial Bank has risk management group and four departments under the group. The responsibility of the departments are as follows:

- A. Risk Management Department: Responsible for the credit risk, market risk, and operational risk of the entire bank and asset & liability planning and management.
- B. Credit Management Department: Responsible for the review of credit risk for the entire bank and the planning and management of secondary review.
- C. The Industry and Economic Research Department of Credit Granting: Responsible for domestic and overseas financial, economic, industrial research and study, collection of general corporate credit ratings and financial analysis, and editing and publishing related publications.
- D. Claim Management Department: The management of overdue credit asset risk evaluation and categorization and collection, and cleaning of non-performing loan.



3. Hua Nan Securities

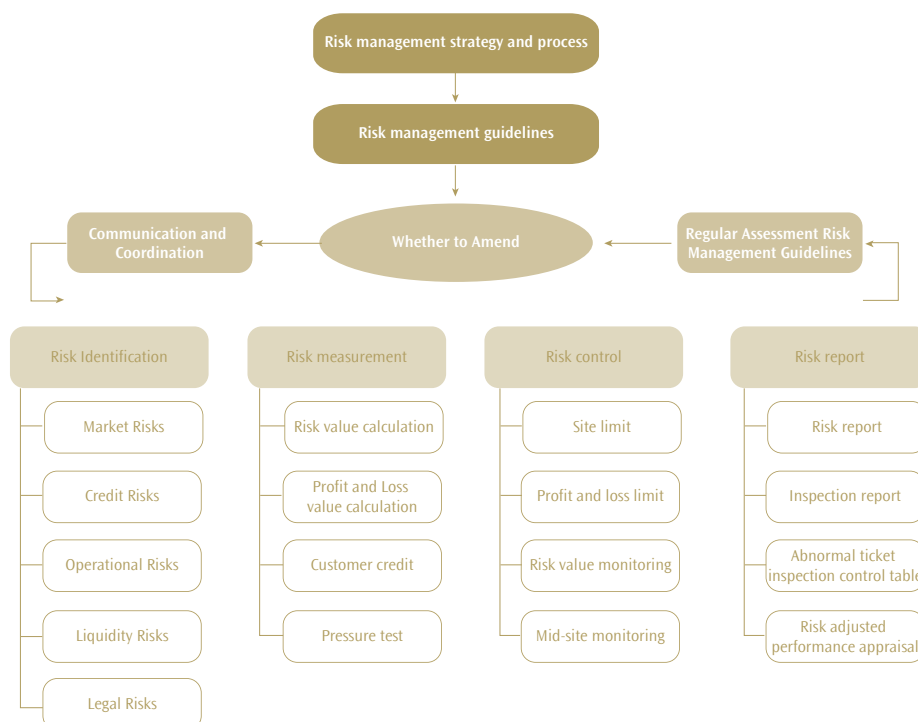
(1) Risk management strategy and process

A. Risk management strategy

Hua Nan Securities is the subsidiary of Hua Nan Financial Holdings. In order to implement Hua Nan Financial Group's risk management policy and strategy, the risk management of Hua Nan Securities is to follow the risk management guidelines and policy of Hua Nan Financial Holdings, stipulate the Company's risk management policy and precautions of risk management for all departments as the Company's risk management guideline.

B. Risk management process

The risk management process of Hua Nan Securities is as below:



(2) Risk Management Organization and Framework

The risk management organizational framework of Hua Nan Securities includes Board of Directors, Risk Management Committee, and Risk Management Department. In order to ensure the effectiveness and efficiency of risk management, the Board of Directors authorized the president to lead Risk Management Department. Risk Management Committee is established under the president. According to the Company's risk management organizational framework (Refer to figure 1)



Figure 1 Risk management organization structure of Hua Nan Securities.

Various risk management mechanism of Hua Nan Securities by the Risk Management Department:

A. Market Risks

- a. The establishment and modification of related market risk policy.
- b. The trading strategy for all operating units and determination and management of transaction limit for dealers.
- c. The development and maintenance of market risk evaluation model.
- d. The review of product plans for the new financial product developed by all operating units.
- e. Back testing and stress testing

B. Credit Risks

- a. The establishment and modification of credit risk policy.
- b. The determination and management of trading limit for all operating units.
- c. Credit risk evaluation and monitoring.
- d. Inspect warning measuring stock control table and table of stock under risk control.
- e. Inspect credit evaluation status of the position.
- f. Inspect the pre-settlement risk of trading counterparties.

C. Operational Risks

- a. The establishment and modification of operational risk policy.
- b. The development and maintenance of various operational risk management tools, methodology, and frame.
- c. Assist all departments to execute various management tools.
- d. Risk culture awareness training.

D. Liquidity risk

- a. The control over position limit and liquidity risk of owned position.
- b. Set up controlled stocks according to the TCRI level and monthly average trading volume of the target.
- c. Monitor overall position limit.
- d. Real time alert during trading hours and fund liquidity gap analysis.

E. Legal risks

- a. All contracts shall be reviewed by internal audit office. Legal compliance department shall issue opinion on the contracts.
- b. Set up standard operating procedures for all possible legal disputes to make related personnel fully understand the rights and obligations.
- c. Legal compliance department assists all departments in reviewing the account opening and contracts that need company seal.
- d. Legal compliance department provides related documents for the Company's lawsuit and updates the latest progress.

4. South China Insurance

(1) Risk management organizational framework

A. Risk Management Committee:

In order to ensure all risk management activities meet the operation objectives and strategy of the Board of Directors, the Board of Directors take final responsibility for the effectiveness of risk management. South China Insurance established Risk Management Committee that reports to Board of Directors. The independent directors act as the chairman. All committee members are not managing directors.

B. Risk Management and Asset & Liability Management Meeting:

In order to conduct the risk management activity in all departments and facilitate cross department interactions and communications, implement top-down risk management mechanism and risk management culture, South China Insurance established Risk Management and Asset & Liability Management Meeting that reports to the president. The President is responsible for calling and chairing the meeting. Vice President, Risk Management Department manager, actuary, and headquarter legal compliance head act as members of the meeting.

C. Risk management department:

In order to effectively manage and handle all risk management related affairs, South China Insurance established Risk Management Department that reports to the President. Insurance Risk Section, Operation Risk Section, and Integrated Risk Section is also established.

- The related responsibility and status of risk management execution by all levels of organization in South China Insurance are described as below:

Organization Level	Major Responsibility
Board of Directors	<ol style="list-style-type: none"> (1) The approval of all risk management and asset & liability management policy. (2) The approval of risk appetite and risk limit. (3) The review of all material risk management reports. (4) Recognize all risks that should be borne by the operation, ensure the effectiveness of risk management and take final responsibility for overall risk management.
Risk Management Committee	<ol style="list-style-type: none"> (1) The study of risk management policy, structure, organization function, and qualifying and quantifying management standard. Periodically provides reports to Board of Directors, timely reports risk management execution status, and provides necessary suggestions for improvement. (2) Executes risk management policy decided by the Board of Directors. Reviews the development, establishment, and efficacy of execution for the Company's overall or respective risk management mechanism. (3) Ensures healthy, effective, and real-time risk management information. Provides periodic management report to assist and monitor the risk management activities by all departments. (4) Studies the Company's risk appetite under existing strategy and budget. Adjusts risk category, risk limit allocation, and undertaking approach according to macro economic environment. (5) Coordinates cross department interaction and communication of risk management functions. (6) The study of stress test. (7) The study of other potential risks and material issues such as material investment project or strategic transaction as well as potential risk for high complexity, high profit, or high trading volume products. (8) Assists and monitors the establishment of sound risk management culture and ensures risk management personnel can execute risk management operation in an independent manner. (9) Takes charge of the Company's overall risk management, which means monitoring the implementation of department risk management mechanism.
Risk management and Asset & Liability Meeting	<ol style="list-style-type: none"> (1) The study of various risk management and asset & liability management related affairs. (2) The study of various risk management and asset & liability management related mechanism. (3) The study of respective limit on various types of insurance and financial products. (4) The study of new insurance or financial product plan. (5) The study of establishment and planning of significant risk management system. (6) The handling of various risk management and asset & liability management related issues. (7) Other risk management and asset & liability management related affairs assigned or authorized by Risk Management Committee.
Risk Management Department	<ol style="list-style-type: none"> (1) The establishment or modification of various risk management policy and asset & liability management policy. (2) The establishment or modification of various risk management and asset & liability management precautions. (3) The stipulation, amendment, and control of various risk and asset & liability limits. (4) The evaluation of establishing various risk management and asset & liability management system. (5) The planning and execution of various risk management and asset & liability management mechanisms. (6) Summarizes risk information provided by all operating units, coordinates and communicates with all operating units to execute the policy and limit. Provides periodic risk management reports. (7) The handling of various risk management and asset & liability management issues.

(2) Risk management policy:

South China Insurance stipulated various risk management and asset & liability management policies for possible major risks during operation such as market risk, credit risk, operational risk, insurance risk, and asset & liability management. The Company ensures all risks are controlled within acceptable range through management processes such as risk identification, risk evaluation and assessment, risk control, risk monitoring and reports, and in the end achieve the objective of maximizing shareholder value.

5. Hua Nan Investment Trust

- (1) For the long-term stable operation and profit growth, the Company stipulated risk management policy to effectively identify, evaluate, control, and manage various risks, and control potential risks within acceptable range to achieve the objective of maximizing shareholder value.
- (2) The organization and responsibility of the Company's risk management strategy lies in Board of Directors level and president level respectively. Risk Management Department is established to independently monitor risk management affairs within the Company to ensure the effective implementation of risk management policy.

6. Hua Nan Venture Capital

(1) Organization structure:

The Company's chief risk officer is the Vice President. The management department or other related departments are responsible for the execution of risk management. Risk management personnel or function independent of operating units shall be established by the nature of operation and practical need.

(2) Policy:

The Company shall effectively identify, evaluate, control, and manage various risks in order to control potential risks within acceptable range when conducting various businesses to achieve the objective of maximizing shareholder value.

7. Hua Nan Assets Management Co. (HNAMEC)

(1) The risk management organization structure of HNAMEC.

The Company's chief risk officer is the president. The president is responsible for the instruction and monitoring of risk management affairs. The Risk Management Department is responsible for the execution.

(2) The risk management policy for HNAMEC:

Hua Nan Asset Management Co. shall effectively identify, evaluate, control, and manage various risks when conducting various businesses and control potential risks within acceptable range to achieve the objective of maximizing shareholder value.

(II) The risk control approach and risk exposure quantifying information for the financial holding company and its subsidiaries:

1. Hua Nan Financial Holdings

General qualitative disclosures: Need to disclose each individual risk area for all subsidiaries (including credit risk, market risk, operational risk, and other risks), describe risk management objectives and policy including below items:

- Strategy and process.
- Organization and structure of related risk management system.
- Scope and character of risk report and evaluation system.
- Risk hedging and offset policy. Strategy and process to continuously monitor the effectiveness of hedging and offset tool.

(1) Credit Risks

A. Important control mechanisms

When engaging in the corporate finance business, each subsidiary shall follow the Group's 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 credit risk limit and periodically assess the asset credit portfolio. Simultaneously, each subsidiary must establish risk indicators and a pre-warning mechanism. They must also strengthen the active 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 Commercial 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 probabilities, 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 senior executives in better understanding the Company's risk outline and enhance the Company's transparency, the Company prepares the Group 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, etc.

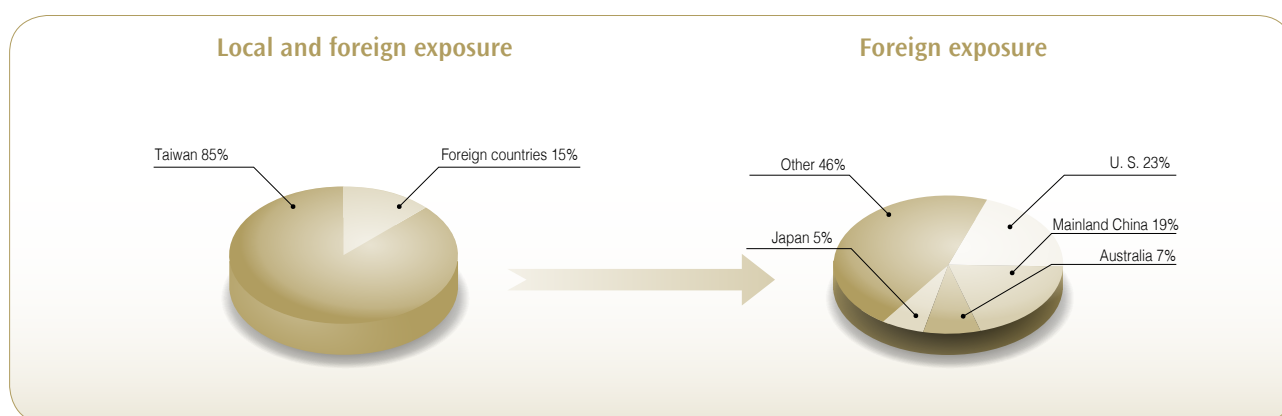
B. Risk management reports

a. Credit exposure limit

The total credit exposure of the Group at the end of 2018 was NT\$2.6 trillion. Credit granting business accounted for 67%, bond and notes business accounted for 27%, and other businesses accounted for 6%. Total credit exposure increased NT\$104.7 billion comparing to the end of 2017. Major increase came from the increase of bond and notes business in the amount of NT\$93.1 billion.

b. Concentration risk management

If classified by country, 85% of the Company's credit exposure amount comes from Taiwan, and the remaining 15% comes from foreign countries. Among the foreign countries, the United States, China, Australia, and Hong Kong are the top four nations, accounting for 54% of the total foreign exposure amount. The other countries take up less than 5% each.

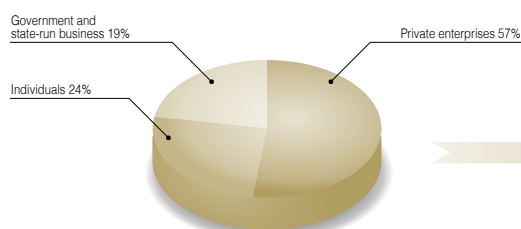


If divided by sector, 57% of the Company's credit exposure amount comes from private sector, 24% from individuals, and 19% from government and state-run businesses.

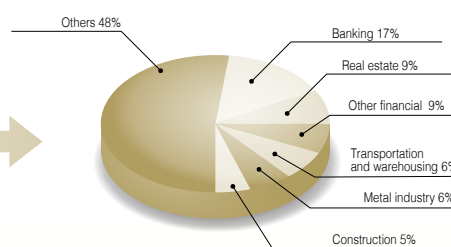
Among the private sector, the top six industries are the banking industry, the real estate industry, other financial industries, the transportation and warehousing industry, the metal industry, and the construction industry, which account for 52% of the total credit exposure for the private sector. Other individual industries take up less than 5% each.

On the consumer front, mortgage loans make up the majority at 82%. They are distantly followed by personal revolving funds at 8%, consumer loans at 7%, 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 68%, distantly followed by the southern region at 17%.

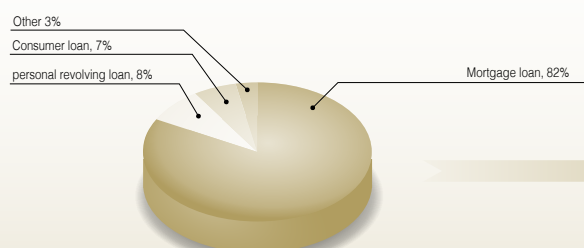
Exposure by Segments



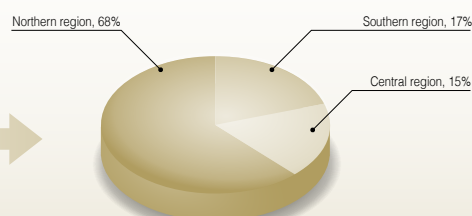
Exposure by Industry under Corporate Finance



Exposure by Product under Consumer Banking



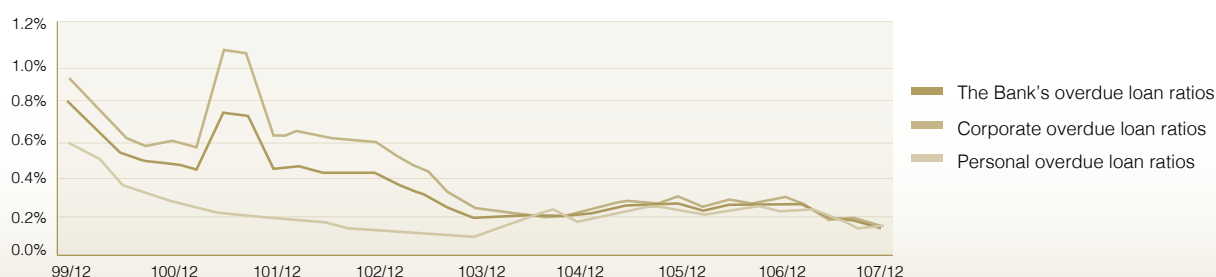
Mortgage Loan Exposure under Consumer Banking by Region



c. Credit asset quality

The credit asset quality of the subsidiary, Hua Nan Commercial Bank, can be evaluated by analyzing the changes in overdue loans, newly increased overdue loans, and change in M2+ ratios. Taking overdue loans as an example, Hua Nan Commercial Bank's overdue loan ratio has continued to decline in recent years. As of the end of 2018, its overdue loan ratio was 0.34%.

Trends of HNCB Overdue Loan Ratio



(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 plan for review in order to identify the risk of the new financial product.

b. Post-trading risk control: Limit management

In order to control transaction position loss of all subsidiaries within a tolerable range and avoid excess impact on the Group's capital, the Group's subsidiaries shall set up market-risk-related limits in conjunction with the annual budget procedure to control market risk on daily basis.

B. Risk management reports

Considering the rapid changes in the capital market, in addition to subsidiaries' daily control of the market-risk-related limits, the financial holding company shall also compile the exposure status of the Group's trading book on daily basis. In case of any irregularity, it shall immediately take required measures. In addition, the limit control status of the Group's market risk shall be reported to the G.M. 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 2018 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 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.

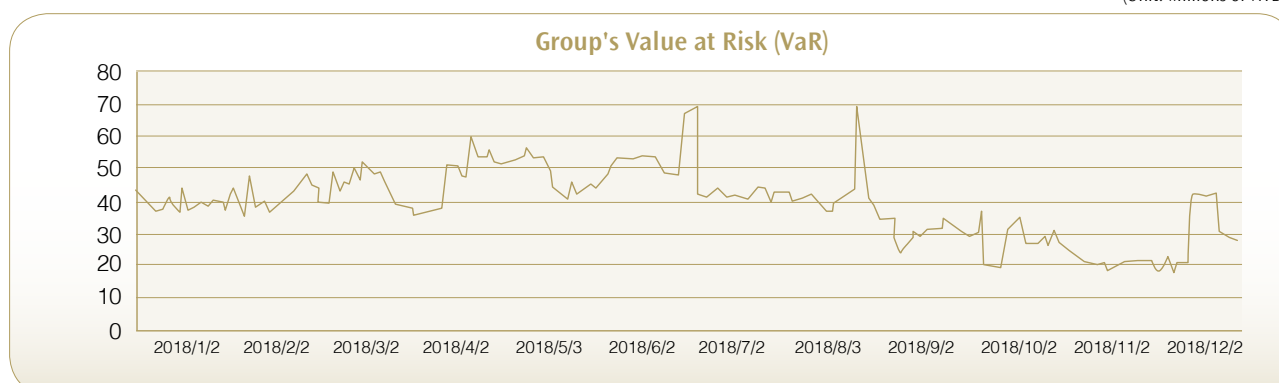
c.4 "Period of historical data": Observation of the historical data of the past year (about 250 transaction days).

d. The trend of changes in the VaR of the Group's 2018 trading book position

The lowest, highest, and average VaR in 2018 for the Group's trading book position were NT\$18.17 million, NT\$69.32 million, and NT\$38.99 million, respectively.

The VaR of the Group's trading book position at the end of 2018 was NT\$20.95 million, which is a decrease of NT\$8.95 million from NT\$29.9 million at the end of 2017.

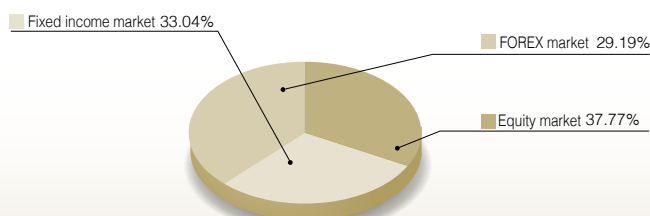
(Unit: Millions of NTD)



e. Summary of the VaR of the Group's trading book position at the end of 2018

The VaR of the Group's trading book position at the end of 2018(NT\$20.95 million) took up 0.01% of the Group's net value at the end of 2018, which was within the Group's tolerable range. If classified by risk factors, the equity products accounted as the biggest (37.77%), followed by foreign exchange products (33.04%) and fixed income products (29.19%).

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 and precautions for relevant risks, compiled subsidiaries' asset and liability management reports, and submitted the reports to the Group's risk management 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 it and institute related limits to monitor and manage the risk exposures of asset and liability management.

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 shareholder 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 and the Company, Hua Nan Commercial Bank is currently the only member of the Group to whom the non-trading book interest rate risk management framework is applicable.

The tools adopted by Hua Nan Commercial Bank for measuring the non-trading book interest rate risk include the net interest income sensitivity analysis and the economic value of shareholder 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 Commercial Bank's non-trading book interest rate risk.

(b) Risk management report

Based on Hua Nan Commercial Bank's asset and liability structure on December 31, 2018, 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 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 10% 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 11.7%.

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	+10.0%
Gradually decline by 100 basis points	-11.7%

In terms of the economic value of shareholder equity, if the market interest rate gradually rises by 100 basis points, the economic value of shareholder equity is estimated to decrease by 9.3% compared with the situation where the interest rate remains unchanged. On the other hand, if the market interest rate gradually declines by 100 basis points, the economic value of equity is estimated to increase by 8.8%.

Change in the market interest rate for the next 12 months	Change in economic value of shareholder equity (compared with the situation where the interest rate remains unchanged)
Gradually rise by 100 basis points	-9.3%
Gradually decline by 100 basis points	+8.8%

B. Liquidity risk

Liquidity risk refers to the risk in impairment of earnings or shareholder equity in current or future periods 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 repayment funding source at the cost of suffering great loss.

a. Important control mechanisms

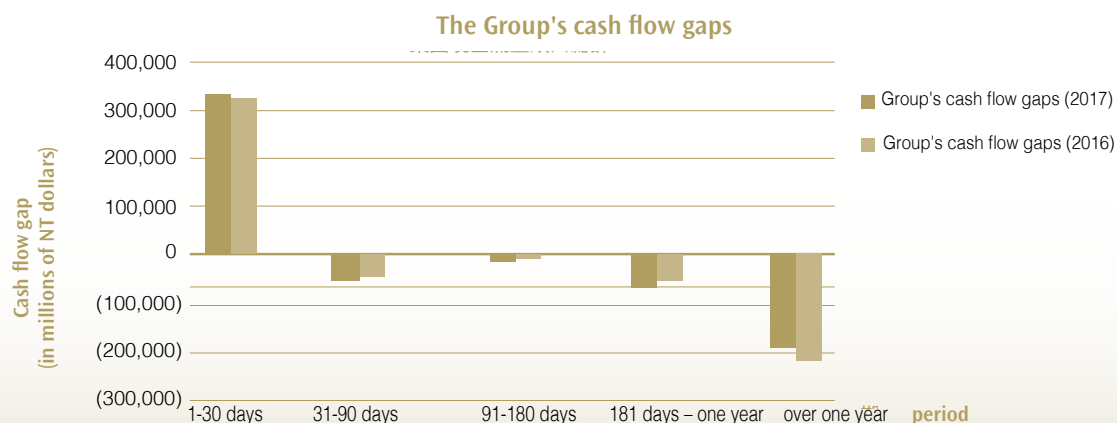
After considering the natures of business between the Company and each subsidiary, currently, the liquidity risk management framework is applicable to Hua Nan Financial Holdings, Hua Nan Commercial Bank, Hua Nan Securities, South China Insurance, Hua Nan Investment Trust, and Hua Nan AMC.

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 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 positive cash flow gap of 1–30 days was NT\$333,499 million on December 31, 2018, which is an increase of NT\$5,102 million from the NT\$328,937 million on December 31, 2017.



C. Non-trading book currency risk

The Group's non-trading book foreign exchange rate risk is measured by the impact of the unfavorable exchange rate of the net non-trading foreign currency positions. Considering the nature of businesses between the Company and each subsidiary, currently the non-trading book foreign exchange rate risk management framework is applicable to Hua Nan Commercial 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. Using December 31, 2018 as the benchmark, the impact of adverse changes in exchange rates on the shareholders' equity of Hua Nan Commercial Bank, Hua Nan Securities, and South China Insurance was 0.11%, 0.01%, and 1.35%, respectively. The impact of exchange rate risk on non-trading book was limited.

(4) Insurance risk management

For the risks in product design, pricing, underwriting, reinsurance, catastrophe and reserves involved in the property insurance business, the Group has set up the proper management mechanism, assisting 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 within 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 target groups before properly planning the control procedures for each stage of the insurance product. The subsidiary's risk management unit shall help identify the risk faced, 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. The observation value under the 95% confidence level is used as the reference for setting up the pre-warning value based on the data of respective indicators in the past years.

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

When the indicator reaches the pre-warning value standard, the involved units shall submit the action plans. For cases which do not reach the pre-warning value standard but show irregularity as judged by the risk management unit, the involved units shall also submit the report.

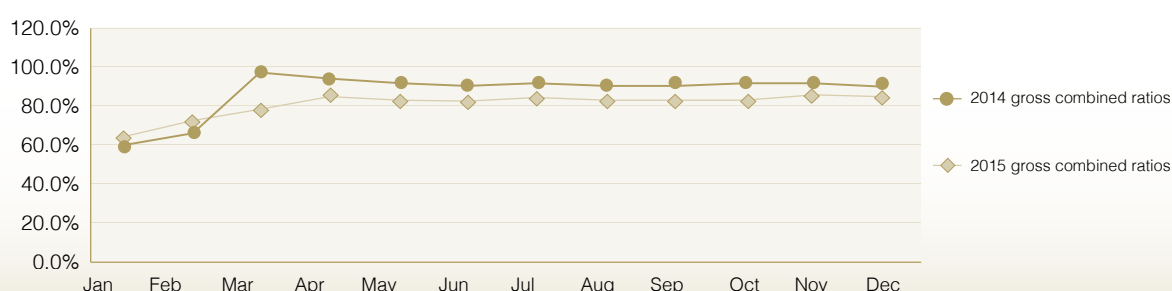
B. Insurance risk reports

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 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 expense ratio is the ratio of written operating expense to written premium which is mainly used to review business expenditure status. As there were fewer major accidents in 2018, the gross combined ratio dropped on a year-over-year basis.

Trend of Gross Combined Ratios

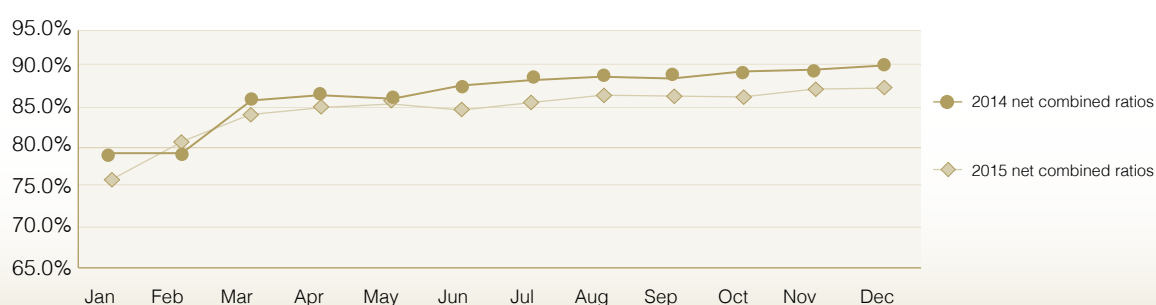


Note: The calculation of the indicators in the above chart does not cover compulsory auto insurance, nuclear insurance and policy-oriented earthquake insurance.

b. Re-insurance risk management

Net combined ratio is the aggregation of net loss ratio and net expense ratio, in which the net loss ratio is the ratio of the net claim amount to net premium earned and it is mainly used to review the loss of the retained policy after reinsurance is arranged. The net 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. As there were fewer major accidents in 2018, the combined ratio for retained business showed a year-over-year decline.

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 all of the 2018 actual underlying retention of each risk unit complied with the limit and were within the tolerable range.



(5) Operational Risks

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. When implementing these policies, the business category and size of subsidiary would be concurrently considered 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)

ORAP 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) or major amendment proposals.

c. Corporate Loss Database (CLD)

CLD 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)

KORC 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.

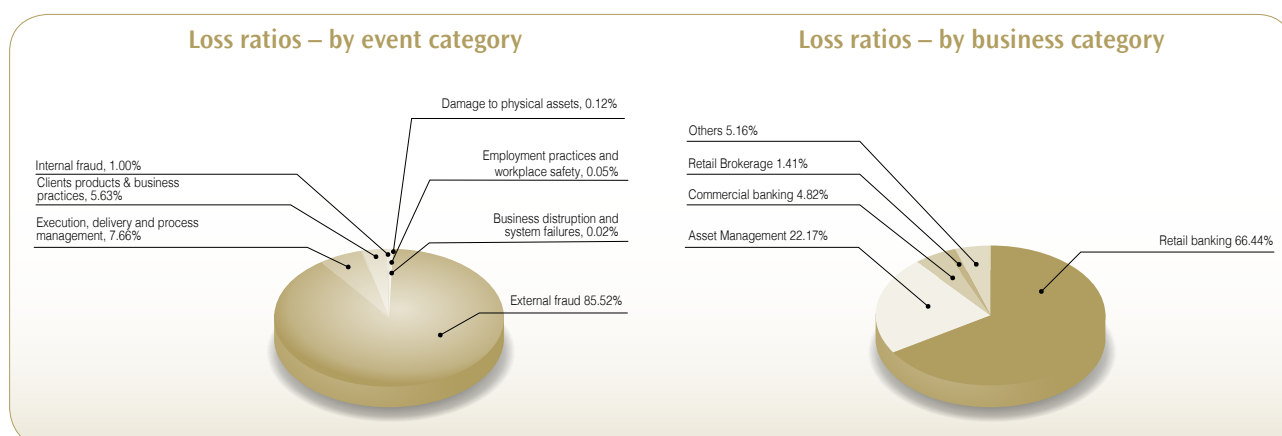
e. Key Risk Indicator (KRI)

KRI 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. If any defect is found by executing the operational risk management tools or mechanisms, the business unit in question shall promptly review, improve, and periodically submit the improvement status. The Company regularly reports the results in executing 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 operational risk loss occurring in the business conduct of European and American financial institutions in the recent years, losses from improper business conducts were incurred to a lesser degree by the Group. 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.

2. Hua Nan Commercial Bank

(1) The risk management objectives, policy, and management method

A. Credit Risks

Item	Description
1. Credit risk management strategy and process	<p>(I) Credit risk management strategy The ultimate objective of the Bank's credit risk management is to establish the optimal fund allocation policy and evaluate credit risk assets by progressive internal evaluation approach for internal management in order to meet international credit risk management best practice and pursue the maximum profit within the tolerable range of risk. Establish a consistent credit risk management culture. The Bank has stipulated "Hua Nan Commercial Bank Corporate Finance Credit Risk Management Policy" and "Hua Nan Commercial Bank Personal Finance Credit Risk Management Policy" as a guidance of credit risk related affairs. Guidelines and precautions regarding important items were also stipulated for compliance.</p> <p>(II) Credit risk management process The Bank's credit risk management process includes stages like credit investigation, collateral appraisal, credit rating, application, analysis and review, acquiring receipt, registering credit lines, draw down, credit monitoring, and secondary review on pre-warning. It is controlled through various management reports generated by IT system in order to get hold of authentic risk of the transaction counterparty and achieve the objective of risk management.</p>
2. Organization and structure of credit risk management system	<p>(I) Board of Directors: It is the highest decision making unit of the Bank and is responsible for the Bank's credit risk management policy and related affairs.</p> <p>(II) Related Committees for risk management</p> <ol style="list-style-type: none"> 1. Risk Management Committee: Study credit risk related issues of the Bank to strengthen the Bank's credit risk management system and culture. 2. Credit Review Committee: Evaluate the Bank's large scale credit risk cases to protect the claim. 3. Overdue Loan Review Committee: Review significant and complex case action plan and bad debt write off cases to enhance the collection and cleaning of overdue loan. <p>(III) Industry and Economic Research Department of Credit Granting: In charge of credit investigation, financial analysis, and industry and economy studies.</p> <p>(IV) Credit Granting Management Department: Responsible for credit review, planning, and management as well as the pre-warning and secondary review management on credit granting.</p> <p>(V) Claim Management Department: Responsible for the collection and cleaning of overdue loan (including bad debt) and the evaluation, categorization, and management of overdue credit assets.</p> <p>(VI) Risk Management Department: Responsible for credit risk planning and management.</p>
3. The scope and character of credit risk report and evaluation system.	<p>(I) Set up the report format and frequency of various credit risk reports by different report readers. The items in the report include asset combination risk evaluation, credit rating report, industry study report, credit loss, and competent authority audit report.</p> <p>(II) In order to evaluate clients' credit risk and estimate expected loss, the Bank has established internal credit rating model to effectively evaluate the client's default rate as reference indicators for the Bank to decide credit granting level of authority, asset combination management, and credit product pricing. The Bank also studies the collection of all computerized data as a computation standard for evaluating client default loss rate and default exposure for the future.</p> <p>(III) Establish "Equity capital and risk asset capital provision system for the bank". Periodically calculate credit weighted risk asset and statutory capital. Use the calculated result as a reference for internal management.</p>

Item	Description
4. Credit risk hedge and risk offset policy. Strategy and process for monitoring the continuous effectiveness of hedge and offset tools.	<p>(I) To prevent the Bank from loss due to default of borrower or trading counterparty, the Bank requires collaterals and guarantor as well as credit guarantee from credit guarantee fund in credit risk management related rules. The Bank intends to reduce credit exposure or potential credit risk exposure through assets, rights, or guarantee provided by the client itself or third party.</p> <p>(II) In order to continuously ensure the effectiveness of risk offset tool, the Bank stipulates below rules:</p> <ol style="list-style-type: none"> 1. The collateral management operation stipulates the rules for request, appraisal, pledge, periodic check, re-appraisal of collaterals, and protective measures for collaterals. When there is concern over the depreciation of collaterals or collaterals have already depreciated, the Bank shall request additional collaterals or partially collect the principal of loan. 2. The Bank's credit risk management stipulates the qualification of guarantor and requires continual inspection on credit status of the guarantor. When the economic or credit status of the guarantor deteriorated and the guarantor is no longer suitable for the guarantee, an immediate change of guarantor or additional guarantor shall be requested. 3. The credit risk management rule stipulated by the Bank requires inspection upon sending for guarantee, draw down, and interim review to ensure the case sent for guarantee meets the rules of the Bank and guarantee fund so as to ensure the effectiveness of the guarantee.

B. Liquidity risk

Item	Description
1. Liquidity risk management strategy and process	<p>(I) The purpose of liquidity risk management is to prevent loss to current or future earnings or shareholder equity due to insufficient liquidity and consider the balance between reducing capital cost and increasing profit from asset. Adequate liquidity shall be maintained in case any emergency happens.</p> <p>(II) The Bank has stipulated related rules for risk identification, evaluation, monitoring, and reporting process flow and established risk limit monitoring mechanisms to periodic report risk information to Asset & Liability Management Committee and Board of Directors.</p>
2. The organization and structure for liquidity risk management system	<p>(I) Board of Directors: It is the highest decision making unit of liquidity risk management and is responsible for the approval of management policy, management framework, and risk limit as well as the review of material risk report.</p> <p>(II) Asset & Liability Management Committee: It is the advisor unit that studies and monitors the execution of risk management mechanism. Its main responsibilities include studying risk management charters and risk limit, periodic reviewing risk exposure, and discussing responsive actions on risks.</p> <p>(III) Risk Management Department and capital management unit: Risk Management Department studies liquidity risk management related rules and regularly submits risk reports. Capital management unit maintains appropriate short-term liquidity position according to daily liquidity requirement for operation.</p>
3. The scope and characters of liquidity risk report and evaluation system.	<p>(I) The risk evaluation is done through normal operating basis and stress test. The main tools include setting the standards of liquidity ratio and cash flow gaps, analyzing changes in funding source diversification, and stress tests. In addition, rule for emergent fund appropriation is stipulated in case of liquidity crisis.</p> <p>(II) Periodically prepare risk report to disclose major risk information and risk limit compliance status and submit the report to Asset & Liability Management Committee. The report is submitted to Board of Directors on quarterly basis as a reference for decision.</p>
4. Liquidity risk hedge and risk offset policy. Strategy and process for monitoring the continuous effectiveness of hedge and offset tools.	In order to well control risk exposure and respond immediately, the Bank has established liquidity risk limit control mechanism to set the limit for all management indicators and monitor periodically. If there is case of over-limit, responsible units shall study ensuing countermeasures, report to Asset & Liability Management Committee, and execute after approval.

C. Market Risks

Item	Description
1. Strategy and process for market risk management	<p>(I) Management strategy:</p> <ol style="list-style-type: none"> 1. Stipulate the Bank's related rules on market risk management according to competent authority's instruction, Group risk management guidelines, market risk management policy, and the Bank's "internal control system". 2. Improve market risk control mechanism such as ex-ante management prior to trading and post-trading risk tracking of financial products. Effectively utilize and manage fund to ensure market risk exposure is maintained under tolerable range and achieve profit objectives. <p>(II) Management process: Set up and execute market risk management process, mechanism, and tools according to related regulations, including identifying, evaluating, controlling, and disclosing. The Risk Management Department periodically reports to Risk Management Committee and top management. Top management continuously monitors and provides guidance to evaluate whether the transaction performance meets operating strategy and whether market risk is under tolerable range.</p>



Item	Description
2. Market risk management organization and structure	<p>(I) Board of Directors: It is the highest decision making unit responsible for the approval of market risk management policy, management framework, and market risk limit as well as monitoring the execution of market risk management functions.</p> <p>(II) Risk Management Committee: It is the advisor unit that monitors the execution of market risk management mechanism. Its major responsibilities are studying market risk management related rules and market risk limit, discussing market risk related issues, periodically inspecting risk exposure and reviewing responsive actions on market risk.</p> <p>(III) Risk Management Department: In charge of the planning and management of market risk. 1. Set up related rules for market risk management. 2. Plan and execute related control mechanism for market risk. 3. Establish related systems for market risk management. 4. Report market risk exposure information or related significant issues for the entire bank's financial transactions.</p>
3. The scope and characters of market risk report and evaluation system.	<p>(I) Conduct risk exposure evaluation and analysis regarding market risk factors and related positions such as interest rate, exchange rate, equity securities that are involved with the entire bank's financial transactions. Routinely prepare overall bank market risk report to disclose the market risk information for the entire bank as a reference for top management decision.</p> <p>(II) The purpose of market risk evaluation is to define a clear and definite standard to define and evaluate market risk on trading book, and provide a consistent structure to evaluate market risk exposure in order to effectively compare, monitor, and analyze all activities that bear market risk on the same basis.</p> <p>(III) Establish VaR system to daily compute market risk exposure for all financial transactions and implement the control mechanism for financial transaction related market risk limit over the entire bank. The "Bank self-owned fund and risk asset fund provision system" is in place to periodically calculate weighted market risk asset and legal required fund according to requirement from competent authority. Related information is also used for internal management.</p>
4. The market risk hedge or risk offset policy, and strategy and process for monitoring the effectiveness of risk hedge and offset tools.	<p>(I) Establish market risk related limits and management mechanism.</p> <p>(II) If transaction is expected to exceed the approved limit, operating unit shall apply to increase the limit or apply for a temporary limit beforehand, or take risk offset measures.</p> <p>(III) The holding period for primary market underwriting position for marketable securities on trading book and positions bought from the secondary market are all controlled to reduce accumulated positions with low liquidity.</p>

D. Operational Risks

Disclosure Items	Description
1. Operational risk management strategy and process.	<p>(I) Management strategy: Set up operational risk management related rules approved by the Board of Directors, including the related operational risk policy, approach, and process for managing major products, activities, processes, and system. Develop appropriate operational risk management environment. Board of Directors and top management proactively participate the establishment of operational risk management structure and mechanism, and implement the management mechanism into daily operation of the entire bank.</p> <p>(II) Management process: Develop related operational risk management tools and mechanisms according to the operational risk management cycle of "identify, evaluate, control, and monitor".</p>
2. Operational risk management system organization and structure	<p>The Bank's risk management organization structure includes Board of Directors, Risk Management Committee, Headquarter Business Group and Management Group, Headquarter Risk Management Department, and Audit Department of the Board of Directors. The Audit Department of Board of Directors is responsible for the independent audit.</p> <p>(I) Board of Directors: Review operational risk management framework and take the final responsibility for operational risk management.</p> <p>(II) Risk Management Committee: Study guidelines for operational risk management and related rules, discuss operational risk related issues, monitor operational risk framework and the execution of mechanism, and provide suggestions to the result of execution.</p> <p>(III) Headquarter business groups and management groups: The group head is responsible for monitoring the implementation of operational risk management policy and precautions as well as the execution of all operational risk management mechanism and tools. Management of all units overseas the employees in evaluating and managing of operational risk within their duty in order to ensure the operational risk can be reduced to acceptable level.</p> <p>(IV) Risk Management Department Stipulate and establish operational risk management related rules, set up operational risk management execution plan, plan the execution of operational risk management mechanism and tools, communicate and strengthen the Bank's operational risk management awareness and ability, periodically report to Risk Management Committee and Board of Directors regarding significant operational risk loss incidents and operational risk related information.</p>
3. The scope and characters of operational risk report and evaluation system	<p>(I) The Bank has established the "Operational risk loss database". All units report in the database to evaluate the operational risk loss incurred by the Bank. According to "The description of bank equity capital and risk assets calculation approach and the table" released by the Banking Bureau, FSC, AMA shall collect the name of the incident, description of the incident, incurred unit, responsible unit, location of occurrence, type of the incident, business affected by the incident, date incurred, date discovered, end date, follow up actions, amount of loss, detail of the loss, recovered amount, recover method, and detail of the insurance.</p> <p>(II) The character is to increase all units' risk awareness through the reporting activity and training of operational risk loss reporting system, systematically track operational risk related information and progress of the follow up actions, and strengthen capability and quality in operational risk management.</p> <p>(III) Risk Management Department periodically review the detail and action plan for operational risk loss incidents and report to Risk Management Committee and Board of Directors.</p>

Disclosure Items	Description
4. Policy in operational hedge or risk offset, and the strategy and process for monitoring the continuous effectiveness of hedge and risk offset tools.	<p>(I) Operational risk hedge or risk offset policy: The Bank analyzes according to the "impact" and "possibility" of the operational risk, considers the cost and benefit of risk offset, and adopts operational risk countermeasures such as risk avoidance, risk transfer, risk control, or risk undertaking.</p> <p>(II) The strategy and process for monitoring the continuous effectiveness of risk avoidance and offset tools: The Bank adopts risk avoidance or risk offset tools according to actual need when conducting all operational risk management mechanism and tools. The risk offset tools such as action plans are implemented by execution units and progress is followed up. Risk Management Department quarterly reports to Risk Management Committee and Board of Directors to ensure the offset tools are continuously and effectively executed.</p>

(2) Quantifying risk exposure information

A. Credit Risks

Statistics on risk exposure allocation after risk offset through credit risk standard approach.

December 31, 2018

Unit: in Thousand NT\$

Type of Exposure	After Risk offset Exposure Amount	Percentage	Weighted Credit Risk Asset	Percentage
Sovereign country (A)	552,988,763	21.80%	1,327,036	0.09%
Non-central government public department (B)	76,786,913	3.03%	25,839,623	1.78%
Bank (including multiple development bank) (C)	268,621,928	10.59%	107,232,218	7.41%
Corporation (including securities and insurance company) (D)	877,544,590	34.59%	835,156,368	57.69%
Retail debentures (E)	189,252,470	7.46%	139,482,789	9.64%
Real estate in housing (F)	511,419,507	20.16%	273,854,463	18.92%
Equity securities investment (G)	9,010,887	0.36%	9,010,887	0.62%
Other assets (H)	51,168,622	2.02%	55,722,577	3.85%
Total (I)	2,536,793,680	100.00%	1,447,625,961	100.00%

B. Liquidity risk

a. Structure Analysis on Maturity Date in NTD

December 31, 2018

Unit: in Thousand NT\$

	Total	Amount in each Maturity					
		0 to 10 days	11 to 30 days	31 to 90 days	91 to 180 days	181 days to 1 year	Over one year
Major fund inflow upon maturity	2,180,618,788	295,917,611	276,690,460	208,195,471	149,931,735	182,423,870	1,067,459,641
Major fund outflow upon maturity	2,803,910,859	121,795,910	185,344,131	306,857,358	301,882,366	497,367,269	1,390,663,825
Maturity gap	-623,292,071	174,121,701	91,346,329	-98,661,887	-151,950,631	-314,943,399	-323,204,184

b. Structure Analysis on Maturity Date in USD

December 31, 2018

Unit: in Thousand USD

	Total	Amount in each Maturity				
		0 to 30 days	31 to 90 days	91 to 180 days	181 days to 1 year	Over one year
Major fund inflow upon maturity	27,613,451	8,140,738	7,204,169	3,048,634	1,743,180	7,476,730
Major fund outflow upon maturity	30,281,328	9,740,617	8,460,033	3,604,574	2,397,117	6,078,987
Maturity gap	-2,667,877	-1,599,879	-1,255,864	-555,940	-653,937	1,397,743

C. Market Risks

Market Risk Asset
December 31, 2018

Unit: in Thousand NT\$

Type of Risk	Risk Asset
Interest risk	27,473,429
Equity securities risk	1,002,555
Foreign exchange risk	7,922,515
Commodities risk	0
Option applied by simple method	2,726,595
Total	39,125,094

3. Hua Nan Securities

(1) The scope and characters of risk report and evaluation system

A. Risk report

Hua Nan Securities daily generates position information, profit and loss status, and VaR by the whole company, by department, by trading strategy, and by trader after market is closed for the president and all levels of management to grasp the risk information for their position. The review access is set up according to VaR system user level. Risk Management Department daily reviews VaR system and prepares risk related report periodically.

B. Scope for risk evaluation

Risk management for all businesses engaged by Hua Nan Securities, whether it is on or off balance sheet, are included in the scope of management, including market risk, credit risk, operational risk, liquidity risk, and legal risk. They are respectively managed by corporate level, department level, or trader's level.

a. Market Risks

In order to effectively manage market risk, Hua Nan Securities adopted the Risk Metrics system established by the financial holding to calculate position VaR. The system provides daily position variance through covariance method, historical simulation method, and Monte Carlo method. It evaluates the maximum possible loss due to unfavorable change in market value for Hua Nan Securities' security portfolio within one day under a confidence level of 99%. According to VaR system information, Risk Management Department daily prepares limit control table to inspect whether the VaR and loss of each operating unit comply with company rule. If they reach the warning level, the operating unit will be required to explain and provide improvement countermeasures so that management can fully understand the risk for all businesses and further enhance the market risk management mechanism for Hua Nan Securities.

b. Credit Risks

As for the credit management of trading counterparty, according to "Hua Nan Securities Credit Risk Management Policy", operating units shall periodically review trading counterparty's credit status by external credit ratings(Taiwan Ratings or Taiwan Economic Journal TCRI rating), continuously monitor the credit risk from trading, and control equivalent credit risk of derivative financial products. Equivalent credit risk is the total of current exposure(CE) and potential future exposure(PFE). If total current exposure of unmatured contracts for a client reach a certain percentage of the credit lines granted to the client, the operating department shall immediately review and adopt measures such as suspend the client's transaction credit or require the client to provide additional collaterals. Credit risk from margin trading and short selling customers. The credit line shall be granted according to the customer's financial status. The customer's credit status shall be periodically reviewed. The default risk by the Company's customers

shall be continuously monitored. The Audit Office audits the execution status of all broker business units. It is focused on specific customers and specific marketable securities. Effectively control the credit risk of customer credit and the marketable securities, real-time monitor during trading hours, and manage by report after market is closed.

c. Operational Risks

Five operational risk management tools such as risk self assessment (RSA), operational risk assessment process (ORAP), key operational risk control (KORC), key risk indicator (KRI), and corporate loss database (CLD) are implemented according to "Hua Nan Securities Operational Risk Management Policy" and Group operational risk related management tools and precautions in order to enhance the Company's operational risk awareness and culture.

d. Liquidity risk

In order to effectively manage liquidity risk, Hua Nan Securities stipulated precautions for liquidity risk management. The Finance Department periodically forecasts future fund demand and supply and monitor the fund management status.

e. Legal risks

Hua Nan Securities has established operating procedures against legal risk. All contracts to be signed shall be reviewed by internal audit office. Opinion from legal compliance department shall be obtained to avoid legal risk.

- (2) Hedge and risk offset policy and strategy and process for monitoring the continuous effectiveness of hedge and offset tools. The positions held by Hua Nan Securities' operating units are categorized by trading position and hedge position. Position risk control is done by each unit according to risk management precautions. When loss from trading position reaches the limit, all units shall immediately stop loss or take necessary actions. In addition, the hedge position established by Hua Nan Securities in order to hedge risk shall be appropriately adjusted according to market fluctuation. The gains and losses of hedge position shall be periodically evaluated to ensure the hedge position can effectively hedge related risk.

(3) The risk management mechanism, approach, and quantifying exposure information

A. Risk management mechanism

The matrix risk management mechanism of Hua Nan Securities is illustrated as below: The risk management mechanism enables the Company to obtain maximum profit and expand business under tolerable risk level and continue to strengthen Hua Nan Securities' risk management mechanism in all types of risks.



B. Risk management approach

Risks derived from various types of businesses of Hua Nan Securities are all included under the management of Risk Management Department, including market risk, credit risk, operational risk, liquidity risk, and legal risk. The management approach for each type of risk is as below:



Type of Risk	Management Objectives	Management Approach
Market Risks	Avoid the risk of gain or loss incurred by market price fluctuation for the position held.	(1) The estimation of held investment VaR (2) The estimation of overall position VaR (3) Set up VaR limit (4) Real-time alert mechanism during trading hours (5) The execution of stop loss mechanism (6) The control of department loss limit (7) Review on product proposal
Credit Risks	Avoid the risk of loss caused by default of trading counterparty.	(1) Client credit check (2) Conduct credit evaluation based on the result of client credit check (3) Grant credit lines according to credit evaluation result (4) Real-time alert and control of credit lines during trading hours
Operational Risks	Avoid the risk of loss caused by internal operation, personnel, system and mistakes, or external incidents.	(1) Establish standard operating procedure and internal control for all operations. (2) Periodically conduct audit on all operations. (3) Implement five major management tools for operational risk. a. Risk Self-Assessment (RSA) b. Operational Risk Assessment Process (ORAP) c. Key Operational Risk Control (KORC) d. Key Risk Indicator (KRI) e. Corporate Loss Database (CLD) (4) Operational risk awareness training (5) Inspection and modification of operating procedure
Liquidity risk	Prevent stop trading due to insufficient market liquidity on held position.	(1) Held position limit for the investment (2) Liquidity of the investment (3) Overall position limit (4) Real-time alert of limit during trading hours (5) Fund liquidity gap analysis (6) Maturity management on held position
Legal risks	Unfavorable rights and obligations to the Company due to the signing of contracts	All contracts to be signed shall be reviewed by the internal audit office. Legal compliance department shall issue opinion on the contracts. Standard operating procedures shall be stipulated for all kinds of possible legal disputes and make related personnel aware of the rights and obligations.

C. Quantifying risk exposure information

a. Market Risks

Hua Nan Securities periodically discloses related market risk information in financial statements. The highest, lowest, and average VaR for market risk in 2018 are NT\$74,078 thousand, NT\$21,730 thousand, and NT\$41,706 thousand, respectively, and accounted for 0.34% of the Company's net value, which complied with existing Company rules.

Unit: in Thousand NT\$

	2018			2017		
VaR for the entire Company	Average	Highest	Lowest	Average	Highest	Lowest
	\$41,706	\$74,078	\$21,730	\$53,388	\$71,341	\$39,024

b. Credit Risks

The securities credit risk related information for Hua Nan Securities at the end of 2018 are: Overall exposure for margin trading is NT\$8,059,593 thousand. Average TCRI level is 4.979. Possibility for default is 0.188%. For unrestricted-use capital loan, outstanding loan balance is NT\$1,206,640 thousand. Market value for collateral is NT\$2,397,670 thousand. Average TCRI level for collaterals is 5.72. Expected default rate is 0.348%. For bond and notes position, overall risk exposure is NT\$7,482,111 thousand. For the risk before settlement with trading counterparty, the nominal value of interest rate swap is NT\$3,300,000 thousand. PSR value is NT\$40,531 thousand. Nominal value for foreign exchange swap is USD1,300 thousand. PSR value is USD640 thousand. All of the above are within the specified limit.

c. Operational Risks

Hua Nan Securities has completed related department operational risk self assessment for this year according to operational risk management execution plan. Operational risk loss database is routinely updated and maintained. Going forward, the Company will continue to conduct the next stage operational risk execution plan with the Group.

d. The equivalent amount of risk for capital adequacy ratio at the end of December 2018 is as below.

Unit: in Thousand NT\$

Risk Items	Equivalent Risk Amount
Market Risks	662,161
Credit Risks	820,501
Operational Risks	391,510
Operating risks	1,874,172

e. The calculation of statutory capital adequacy ratio

Hua Nan Securities adopts capital adequacy ratio as the evaluation indicator for the Company's overall operating risk to inspect whether the Company's capital can cover potential losses during operation. The highest, lowest, and average capital adequacy ratio for Hua Nan Securities in 2018 are 453%, 301%, and 370%, respectively, which all complied with legal requirement.

Unit: Percentage

	2018			2017		
	Average	Highest	Lowest	Average	Highest	Lowest
Overall Company Capital Adequacy Ratio	371%	458%	301%	335%	369%	308%

4. South China Insurance

(1) Strategy and process

South China Insurance is engaged in all kinds of property insurance. In order to effectively control various risks and control future potential risk within tolerable range, the Company's strategy and process are as below:

A. Market risk:

a. Strategy side:

- (a) Implement the limit control and market risk evaluation according to market risk management policy to achieve the objective of controlling market risk.
- (b) Establish market risk control mechanism to ensure market risk exposure is controlled within tolerable range and achieve target profit.
- (c) Establish internal management system on risk adjusted return on capital (RAROC)

b. Process flow side:

The management of process flow is mainly conducted through the ex-ante management prior to trading and post-trading risk tracking of financial products and the establishment of appropriate control mechanism.

B. Credit risk:

a. Strategy side:

- (a) Implement the limit management and credit risk evaluation defined by credit risk management policy to achieve the objective of controlling credit risk.

- (b) Establish credit risk control mechanism to ensure credit risk exposure is maintained within a tolerable range to achieve target profit.
- b. Process flow side:

The management of process flow is mainly conducted through the credit evaluation before engaging business and credit risk monitoring after business is engaged and establishing appropriate control mechanism.
- C. Operational risk:
 - a. Strategy side:
 - (a) Implement various operational risk management tools defined in operational risk management policy to achieve the objective of controlling operational risk.
 - (b) Establish operational risk control mechanism to ensure operational risk exposure is controlled within tolerable range to achieve target profit.
 - (c) Establish operational risk loss database with the Group as the major source of operational risk loss data analysis and report, and fulfill the need for calculating future operational risk economic capital.
 - b. Process flow side:

The management process is mainly conducted through the control mechanism of various management tools. "Operational risk management cycle" is established to assist all levels of management to control the operational risk of daily operating activities, establish a consistent operational risk management structure and mechanism within the Company to strengthen risk management culture and awareness.
- D. Insurance risk:
 - a. Strategy side:
 - (a) Implement the pre-warning indicator management and insurance risk evaluation defined by insurance risk management policy to achieve the objective of controlling insurance risk.
 - (b) Establish insurance risk control mechanism to ensure the insurance risk exposure is within a tolerable range to achieve target profit.
 - (c) Establish internal management system on risk adjusted return on capital (RAROC)
 - b. Process flow side:

The management process is mainly through the pre-insure new product management and post-insure pre-warning management and establishment of appropriate control mechanism.
- E. Asset & liability management:
 - a. Strategy side:
 - (a) Implement the limit control and related risk evaluation defined by asset & liability management policy to achieve the objective of asset & liability management.
 - (b) Establish asset & liability control mechanism to maintain the liquidity risk, foreign exchange risk, non-trading book portfolio risk exposure and capital adequacy ratio within tolerable range to achieve target profit.
 - (c) Establish emergency fund raising rule as action blueprint of emergency actions in case insufficient liquidity happens or unable to obtain fund with reasonable cost.
 - b. Process flow side:

The management process is mainly through the ex-ante management prior to trading and post-trading risk tracking for financial products and the establishment of appropriate asset & liability control mechanism in order to continuously conduct the stipulation and execution of asset & liability allocation decision as well as risk evaluation and monitoring.

(2) Related risk management system organization and structure

South China Insurance adopts "Risk Metrics system" to evaluate market risk exposure, daily monitor whether risk exposure exceeds VaR limit or the pre-warning amount, and conduct periodic back testing to verify the correctness and reliability of risk exposure measurement.

Collect internal operational risk loss data through "operational loss database system". The system records operational risk loss incidents incurred in operational risk loss database through the integrated reporting system as a reference of reviewing existing control and major source of loss data analysis report.

(3) The scope and characters of risk report and evaluation system

South China Insurance reviews all risk characters, defines frequency of risk management report, and reports to Risk Management and Asset & Liability Management meeting. (Market risk management report, insurance risk management report, and asset & liability management report is on monthly basis. Credit risk management report and operational risk management report is on quarterly basis.) The overall risk management report is submitted to Risk Management Committee and Board of Directors on quarterly basis.

Conduct various annual stress tests on scenarios such as interest rate, stock price, exchange rate, bankruptcy of re-insurer, and compound catastrophe, and report the evaluation result to Risk Management and Asset & Liability Management meeting, Risk Management Committee and Board of Directors.

(4) The hedge and risk offset policy, and strategy and process for monitoring the continuous effectiveness of hedge and offset tools.

South China Insurance stipulates related quantifying and qualifying limit management mechanism and management action initiation mechanism according to the characters of various risks as various risk hedge and offset strategy, which is continuously monitored. If management action initiation point is reached or limit is exceeded, related operation units shall study responsive actions or action plan, report to appropriate level, obtain approval, and execute afterwards.

(5) Insurance subsidiary: The asset risk, insurance risk, interest risk, and other risks of the life insurance company. The asset risk, credit risk, underwriting risk, asset & liability allocation risk, and other risks of the property insurance and reinsurance company.

A. Market risk:

a. Management method:

Monitoring Procedure	Method
Identify risk	List products that can be directly held through preparing financial product list and understand the market risk factor of all products(ex. interest rate, exchange rate, equity security price, credit spread, coefficient, or volatility, etc)
Evaluate risk	Adopt VaR as a tool to evaluate market risk of trading book position. VaR is used to compute the maximum possible loss occurring over a certain period of time (e.g. within one day) in the future with a certain level of confidence (e.g. 99%) under the normal market status according to the observation of historical data.
Control risk	(a) The ex-ante management prior to trading: Approval of new financial products. Before trading new financial products (products not included in the approved product list for South China Insurance), the new financial product proposal shall be submitted to South China Insurance Risk Management and Asset & Liability Management meeting for review. The trading can only be started after the review of Risk Management Committee and approval of Hua Nan Financial Holdings. (b) Post-trading risk tracking: Limit management and maturity management. In order to control various market risks within a tolerable range and avoid excess impact on the capital of the Group and South China Insurance, various management indicators(and limits) and maturity threshold are in place.
Monitor and report	(a) Daily limit management report (b) Investment action report (c) Monthly maturity management report (d) Monthly market risk management report for South China Insurance Risk Management and Asset & Liability Management Meeting (including back testing report). (e) Quarterly market risk management report for South China Insurance Board of Directors and Risk Management Committee.

b. Risk exposure:

The market risk exposure for South China Insurance as of December 31, 2018 is within tolerable range.

Unit: in Million NT\$

Risk Exposure Amount	2018.12.31
Highest daily VaR	2.6
Lowest daily VaR	0.1
Average daily VaR	1.2

B. Operational risk:

a. Management method:

Monitoring Procedure	Method
Identify risk	(a) Operational risk self-assessment: The operational risk identification on existing business: Identify the operational risk for the unit through interviewing and meeting with the personnel of the unit and review the control procedure. (b) Operational risk evaluation procedure: The operational risk identification on new insurance and new process: Identify and evaluate potential operational risk and reputation risk regarding the product, process, operating activity, system, or organization. Study necessary risk offset plan; approve and accept the residual risk on proper approval level.
Evaluate risk	Record operational risk loss incidents that already happened in the operational risk loss database through an integrated reporting system. The major objective is to collect the operational risk loss data within the Company as a reference for reviewing existing controls and the major source of loss data analysis and report.
Control risk	Ensure the basic quality requirement in operating procedures and reduce operational risk through setting up operational risk, control objectives, and control measures used to offset risk in key operation procedures.
Monitor and report	(a) Evaluate the operational risk outline for certain process or activity at certain time and certain area through the quantifying indicators in key operational risk management report to effectively reduce operational risk. (b) Utilize operational risk loss database management report as a reference to review existing control and analysis for future loss. (c) Effectively control operational risk related action plan and the execution through action plan tracking report to reduce related operational risk. (d) Quarterly operational risk management report in South China Insurance Board of Directors meeting/ Risk Management Committee/Risk Management and Asset & Liability Management Meeting.

b. Risk exposure:

The key risk indicators of South China Insurance as of December 31, 2018 did not exceed limit. All units periodically conduct review and improvement through operational risk management tool or mechanism. Improvements are followed up. Therefore, operational risk exposures are all within tolerable limit.

C. Credit risk:

a. Management method:

Monitoring Procedure	Method
Identify risk	Consider the source of risk and the difference of process control, classify risks by loan credit risk/issuer credit risk/trading counterparty credit risk/insurance representative credit risk/reinsurer credit risk.
Evaluate risk	(a) The degree of loan credit risk is evaluated according to South China Insurance "Notices in Granting Loan", "Guidelines for Granting Loan" as well as engaging professional appraisal institutes to appraise the collaterals provided by borrower. (b) The degree of credit risk of issuers, trading counterparties, and reinsurer is evaluated according to external credit rating, financial statements, and volatility of bond price. (c) The degree of insurance representative credit risk is evaluated according to South China Insurance "Insurance Broker and Agent Contract Signing Operating Procedure" and "Rules for Insurance Representative System".
Control risk	(a) The ex-ante management prior to trading: Review and approval process for the case. Qualification review and evaluation procedure shall be made according to internal rules and approved by level of authority before making any transaction. (b) Post-trading risk tracking: Limit management and abnormality follow up mechanism. In order to control various credit risks within tolerable range and avoid excess impact on capital of the Group and South China Insurance, the abnormal bond tracking mechanism and various management indicators(and limits) are in place.
Monitor and report	(a) Quarterly abnormal bond tracking report. (b) Quarterly credit risk management report in South China Insurance Board of Directors meeting/ Risk Management Committee/Risk Management and Asset & Liability Management Meeting.

b. Risk exposure:

The credit risk exposure of South China Insurance as of December 31, 2018 is within tolerable range.

Unit: in Million NT\$

Risk Exposure Amount	2018.12.31
Loans	223
Issuer	6,393
Trading counterparty	427
Sales representative	430
Reinsurer	4,031
Total	11,504

D. Insurance risk:

a. Management method:

Monitoring Procedure	Method
Identify risk	Consider the characters of insurance operating procedure to classify them into underwriting risk/provision risk/reinsurance risk.
Evaluate risk	Evaluate risk through management indicators.
Control risk	<p>(a) New insurance product management Before selling new insurance product, South China Insurance shall submit the new insurance product proposal to South China Insurance Risk Management and Asset & Liability Management Meeting for review and obtain approval from the president of South China Insurance.</p> <p>(b) Warning management In order to control all insurance risks within tolerable limit and avoid excess impact on capital of the Group and South China Insurance, various pre-warning management indicators(and pre-warning values) are in place.</p>
Monitor and report	<p>(a) Monthly insurance risk management report to South China Insurance Risk Management and Asset & Liability Management Meeting.</p> <p>(b) Quarterly insurance risk management report to South China Insurance Board of Directors/Risk Management Committee.</p>

b. Risk exposure:

The insurance risk exposure of South China Insurance as of December 31, 2018 is within tolerable limit.

Risk Exposure Amount	2018.12.31
Gross combined ratio	83.8%
Net combined ratio	87.6%
Unearned premium reserve provision rate	48.5%
Indemnity reserve provision rate	38.8%
Indemnity reserve tracking rate	-3.8%
Self retained business rate	145.5%

Note: 1. The calculation of gross combined ratio, net combined ratio, and self retained business rate does not include policy-oriented insurance products.

2. The calculation of unearned premium reserve provision rate and indemnity reserve provision rate does not include policy-oriented insurance products and products that ceased selling.

3. The calculation of indemnity reserve tracking rate does not include policy-oriented insurance products.

E. Asset & liability management

a. Management method:

Monitoring Procedure	Method
Identify risk	It is categorized into liquidity risk/foreign exchange rate risk/non-trading book portfolio management/capital adequacy management by characters of the risk.
Evaluate risk	Evaluate risk through management indicators.
Control risk	<p>(a) The ex-ante management prior to trading: Approval of new financial products. Before trading new financial products (products not included in the approved product list for South China Insurance), the new financial product proposal shall be submitted to South China Insurance Risk Management and Asset & Liability Management meeting for review. The trading can only be started after the review of Risk Management Committee and approval of Hua Nan Financial Holdings.</p> <p>(b) The post-trading risk tracking: Manage by limit In order to control asset & liability management risk within a tolerable range to avoid excess impact on capital of the Group and South China Insurance, various limits and indicators (and pre-warning values) are in place.</p>
Monitor and report	<p>(a) Daily non-trading book position (coverage method and FVOCI position) limit management report.</p> <p>(b) Investment action report</p> <p>(c) Monthly foreign exchange rate risk management report.</p> <p>(d) Monthly liquidity risk management report.</p> <p>(e) Monthly asset & liability management report to South China Insurance Risk Management and Asset & Liability Management meeting.</p> <p>(f) Quarterly asset & liability management report to South China Insurance Board of Directors and Risk Management Committee</p> <p>(g) Half year capital adequacy evaluation report to South China Insurance Risk Management & Asset and Liability Management Meeting.</p>

b. Risk exposure:

The various asset & liability risk exposures of South China Insurance as of December 31, 2018 are within tolerable range.

Unit: in Million NT\$

Risk Exposure Amount	2018.12.31
Highest monthly VaR (Coverage method and FVOCI position)	152
Lowest monthly VaR (Coverage method and FVOCI position)	54
Average monthly VaR (Coverage method and FVOCI position)	116
Liquidity assets with highest liquidity risk to liabilities ratio	46.7%
Current assets to liabilities ratio	76.4%
Assets to liabilities ratio	137.7%
Financial assets liquidity ratio	74.3%
Cashflow gap within one month	+3,493
Unfavorable foreign exchange fluctuation to equity ratio	1.35%
Capital adequacy ratio	538.97%

5. Hua Nan Investment Trust

(1) Market Risks

A. The definition of market risk: The unfavorable impact of trading position value decrease caused by fluctuation of market risk factors such as interest rate, foreign exchange rate, commodity and equity securities price, credit spread, and change in coefficient or volatility.

B. Market risk management:

a. Self-owned fund market risk management: The management of the Company's self-owned fund follows "Hua Nan Financial Holding Group Market Risk Management Policy".

b. Trust fund market risk management

i. The review mechanism for financial products before the issuance of new trust fund.

ii. The Product Review Committee reviews the financial products issued by the Trust and evaluates the reasonableness and risk of various products and fully disclose them in order to protect the Company's and customers' right.

- ii. The major scope for the product review includes detail and structure of the products, product risk analysis, risk analysis for the issuance and guarantee institution, benefit analysis and customer right protection.
 - iii. All products issued by the Trust shall be reviewed according to commodities review guidelines and submitted to Hua Nan Financial Holding Product Review Group by the Trust's Product Review Committee for approval.
 - iv. A product list shall be prepared for each trust fund and list down the product category that the fund is allowed to invest. If the fund intends to invest any product that is not included in the product list, the product shall meet the allowed trust product investment scope; operational risk self-assessment or internal procedure for key operating process risk control shall be conducted and approved by the president before it can be invested.
 - II. The control over investment percentage: The control is done according to related regulations such as "Securities Investment Trust and Consulting Act", "Regulations Governing Securities Investment Trust Funds", "Regulations Governing the Conduct of Discretionary Investment Business by Securities Investment Trust Enterprises and Securities Investment Consulting Enterprises", "Investment Trust Contract for Securities Investment Trust", and "Discretionary Investment Contract".
 - III. The risk tracking for trading gain or loss: The investment trust fund means the business that securities investment trust business may engage in according to Article 3 of "Securities Investment Trust and Consulting Act" aside from the Company's self-owned fund. In order to control the loss within expected range and effectively manage the investment risk of investment trust fund, the stop loss mechanism of investment trust fund is stipulated and managed accordingly.
 - IV. The liquid fund ratio and market liquidity of the investment target of the trust fund are also important parts of the risk management. The Company sets up management rules and limit for the ratio to conduct quantifying risk monitoring.
 - V. (E) Periodic review the position risk of major stock investment asset pool and evaluation item for appropriateness of related investment target such as quantifying standard for asset pool selection in Notices of fund stock selection management mechanism, negative lists, or related management indicators.
- (2) Credit Risks
- A. Means the default loss risk caused by trading counterparty not fulfilling contract obligation due to deteriorated financial condition or other reasons.
 - B. Credit risk management
 - a. Credit risk management of self-owned fund: The credit risk management of the Company's self-owned fund is conducted according to Article 12 of "Regulations Governing Securities Investment Trust Enterprises", related regulations, letters, and internal management rules.
 - b. Credit risk management of trust fund
 - (A) The Company shall confirm the credit rating of trading counterparty meets "Securities Investment Trust and Consulting Act", "Regulations Governing Securities Investment Trust Funds", "Regulations Governing the Conduct of Discretionary Investment Business by Securities Investment Trust Enterprises and Securities Investment Consulting Enterprises", and related regulation before conducting transaction. The Company periodically evaluates or inspects the credit rating of trading counterparties.
 - (B) The credit risk control of investment target and trading counterparty: In order to ensure the selection and control over issuer and guarantee institution of the investment target and trading counterparty comply with regulation and internal control, selection standard and limit control is set up for the issuer and guarantee institution of the investment as well as trading counterparty.
- (3) Operational risk management
- a. Definition: It is the risk of loss caused by internal operation, improper handling or mistakes by personnel or system, or external incidents. It contains legal risk but excludes strategy risk and reputation risk.
 - b. Operational risk management: Conduct according to "Hua Nan Financial Holding Group Operational Risk Management Policy".
- (4) Risk report
- a. All of the Company's departments submit various risk management reports to Risk Management Department and their department heads either on real-time basis, daily, or periodically based on the duty or nature of the business as references for business decision.

- I. Daily report: Report gain or loss on self-owned fund holding position, management status on limit, and status on controlling all trust fund holding position investment percentage on daily basis.
 - II. Monthly report:
 - i. Report to the president regarding gain or loss on self-owned fund holding position, management status on limit, exception management incidents, and risk indicators of the fund on monthly basis.
 - ii. Report to the president and business group head on operational risk loss incidents on monthly basis.
 - III. Quarterly report: Report to the president on loss data analysis management report, operational risk key indicators management quarterly report, follow up on improvement plans, and management incentive bonus mechanism evaluation result.
 - IV. Annual report: Annually report to the president on risk map evaluation result, annual operational risk execution plan and the execution result.
 - V. E. Irregular reports:
 - i. Irregularly report to the president regarding stop loss management status and exception management incidents.
 - ii. Irregularly evaluate the impact of specific significant incidents and report the result of analysis and suggestions to the president.
 - iii. Report to the president regarding operational risk evaluation process, key operating process risk control when there is new business or change of business.
 - b. The Company's Risk Management Department periodically reports to the Company's Board of Directors on control status of various business risks so that Board of Directors can understand and judge whether the risk undertaken is within appropriate range as a reference for management decision.
6. Hua Nan Venture Capital

The Company's responsible risk management personnel shall submit various risk management reports to management and parent company's Risk Management Department either on real-time basis, daily, or periodically based on the nature of the business. The risk control status on various businesses is reported to the Company's Board of Directors on quarterly basis so that Board of Directors can understand and judge whether the risk undertaken is within appropriate range as a reference for management decision.

7. Hua Nan Assets Management Co. (HNAMC)

The scope of Hua Nan Assets Management Company's risk management includes operational risk, credit risk, and liquidity risk. Respective control methods for the risks are described as below:

- (1) Operational risk management: Related operational risk management is conducted according to "Hua Nan Financial Holding Group Operational Risk Management Policy". In order to prevent legal risk from lack of legality in contracts signed with others or incomplete legal document that will damage shareholder equity, all legal contracts to be signed with others shall be reviewed by legal or engaged lawyer before the legal contracts are signed, unless they are standard contracts. The signing counterparty's legitimacy and authorization shall also be confirmed before both parties sign the contract. As for legal compliance, the Company ensures all operating activities comply with regulation through training and inspection on legal compliance affairs according to "Execution Guidelines for Hua Nan Assets Management Company Legal Compliance System".
- (2) Credit risk management: The Company's short-term fund management is conducted according to "Management Guidelines for Hua Nan Assets Management Company Short-term Fund Management". The deposit shall be saved in banks above certain level of rating. Other major investment targets are controlled within a limit.
- (3) Liquidity risk management: The normal operating fund management activity is conducted according to "Guidelines for Hua Nan Assets Management Company Loan Management". Source of fund shall be properly dispersed and avoid centralization. "Notices for Hua Nan Assets Management Liquidity Risk Management" and "Hua Nan Assets Management Fund Liquidity Emergent Handling Guidelines" are stipulated to prevent sudden liquidity crisis from affecting normal operation.

Except for the above risk controls, Hua Nan Assets Management Company has Investment Review Committee to review and evaluate investment projects and obtain professional, objective, and fair evaluation opinion before conducting all investments. The Company proactively makes efforts to sell the assets or make asset improvements after purchase in order to reduce pressure of capital cost and increase asset value so as to increase the Company's profit.

(III) Impact of changes of important domestic and foreign policies and laws on the Company's finances and business, and the countermeasures: None

(IV) Impact of technological and market changes on the Company's finances and business and countermeasures:

In the era of digital finance, we must rely on secure and trusted information network environment to build a foundation for innovative finance. However, as national boundaries do not exist on the Internet, we face new forms of information security threats from different sectors and information security risks have become a major issue. The assessment and analysis of information security risks include:

1. Management measures for preventing information security risks

Hua Nan Group implements the following management measures for information security risks:

(1) Compliance with related information security management systems

Continuous implementation of the information management system (ISO 27001) with the aim of providing a safe transaction environment and continuous strengthening of BS 10012 Personal Information Protection Standards.

(2) Implementation of information security assessments

The FSC passed the "Regulations on Financial Institutions' Computer System Security Assessments" and requires financial institutions to conduct penetration tests, vulnerability scans, and security settings reviews on their internal network equipment, servers, terminal equipment, information security equipment (invasion detection and firewalls), and website information systems to provide customers with a safe and reliable transaction environment and implement related assessment standards.

(3) Active participation as a member of the FSC's Financial Information Sharing and Analysis Center (F-ISAC)

HNHFC and subsidiary companies have become members of F-ISAC and companies of the Group shall make full use of information for which intelligence analyses have been completed in information security early warning and allied defense measures.

(4) Continue to strengthen the Group's capabilities for protecting information security

Related plans include the introduction of the Security Operation Center (SOC) system, installation of new types of network firewalls, and external DNS protection plans.

2. identify and assess information security risks

In response to the material cyberattacks in 2018, the Information Technology Department of HNFHC has requested subsidiary companies to initiate investigations, compile reports on processing procedures, and report to superior officers. Related cases included the following:

(5) Multiple computers of the Judicial Yuan were infected by malicious backdoor programs as the Windows XP and Windows Server 2003 they used were operating systems for which Microsoft had announced the end of support (EOS). They are no longer provided with security updates and the loophole was exploited in the attack. Related measures include upgrading EOS operating systems, updating virus databases, full-system scans, blockage of malicious relay sites, shutting down unnecessary service ports, and implementing active measures such as network behavioral detection, monitoring, and control.

(6) The TSMC virus infection was a result of the failure to isolate a new server and verify that it is free of viruses before connecting the new server to the Internet during installation. It caused the WannaCry mutant virus to enter the company's networks. Related measures include a review of the office computer installation procedures to verify that the new computer is protected by the latest virus database before it is connected to the Internet. In addition, Windows Update provided by Microsoft to patch up loopholes for viruses must be quickly updated and the virus definitions must be updated to the latest version.

The companies of Hua Nan Group have found no material cyberattacks or incidents in 2018 and this year as of the publication date of the Annual Report. There was no material negative impact on the Company's businesses.

(V) Effect of changes in the Company's public image and measures taken in response:

The Company upholds the philosophy of corporate sustainability and establishes long-term partnerships with customers and other social groups. We also actively participate in charity activities to fulfill corporate social responsibilities and enhance the Company's image.

For instance, the Company has collaborated with the Chinese Taipei Baseball Association in the "Baseball Dreams Come True" charity event since 2007. We seek to support grassroots baseball activities and we provide long-term sponsorship to various baseball tournaments and related events. In addition, we have organized the "Excellent Hua Nan Care for the Elderly" charity event together with Hondao Senior Citizen's Welfare Foundation since 2012. We have mobilized volunteer teams to visit the elderly who live alone in areas across Taiwan, donated supplies, and arranged free clinic and free hair-cutting services in hopes of providing care to the aging society.

The business management departments propose response measures for various emergencies and the Public Relations Department provides immediately clarification to external entities. The Company believes that our participation in charity or other activities can help improve the Company's image, build better relations with the general public, and cultivate a better image of the Company in the minds of the general public. In the event of a crisis, we can gain an understanding of the general public more easily, reduce the damage caused by the crises, and significantly reduce uncertainties in business management.

(VI) The expected benefits and possible risks of mergers and acquisitions as well as the responding measures:

1. Expected benefits of mergers and acquisitions:

- (1) Increase shareholders' equity: High-quality external mergers and acquisitions help maintain and improve shareholders' equity. The Company's external mergers and acquisitions are conducted to protect shareholders' equity and we aim to protect the Company's sustainability and maximize investment returns for shareholders.
- (2) Expand gains from the economies of scale: External mergers and acquisitions increase the scale of assets for businesses of the Group as well as the market scale of various main businesses. They also help the Group achieve the two goals of becoming a high-quality domestic financial holding company and a regional financial institution so that we may enjoy the benefits of operations in economies of scale.
- (3) Expand gains from the economy of scope: External mergers and acquisitions help us establish a one-stop financial product service platform. They also enhance the Group's cross-sector operations and cross-marketing performance so that we may enjoy the benefits of operations in economies of scope.
- (4) Expand resource sharing benefits: After completing the integration of external mergers and acquisitions, resources such as organization, departments, operations, equipment, assets, channels, businesses, and manpower, previously independently established and managed, can be provided in support of other units to save costs.
- (5) Prevent risks of marginalization: The consolidation of the domestic financial sector is expected to continue. High-quality external mergers and acquisitions can strengthen our competitive constitution and effectively prevent risks of marginalization in the market.

2. Possible risks and response measures after mergers and acquisitions

- (1) Loss of talents in merged or acquired companies: The loss of talents in merged or acquired companies may occur in the merger or acquisition process due to changes in management and poaching from competitors.
Response measures: Seek companies with similar corporate culture and business philosophies as M&A targets. Draft the merger and transition plan carefully and use open and transparent methods to retain talents.
- (2) Information concealed by merged companies: Merged companies often conceal information on actual business operations or unfavorable factors in the M&A process to facilitate smooth sales or increase the sales price.
Response measures: Implement onsite review projects and discuss broadly the possible issues with various departments and financial consultants. Where necessary, use contractual terms to preclude risks of uncertainty.
- (3) Excessively optimistic assessments of benefits: Excessively optimistic assessments of benefits of the acquisition of a merged company may cause the purchase price to go far beyond actual benefits.
Response measures: Conduct careful assessments on the benefits of the M&A. Adopt diverse assessment methods and refer to prevailing rates in the industry for the purchase price to prevent purchases at a premium.

(VII) Risks derived from concentration of operations and countermeasures: None.

(VIII) Impacts, risks, and response measures resulting from major equity transfer or replacement of directors, supervisors, or substantial shareholders holding more than 1% of the Company's shares: None.



(IX) Impact, risk, and response measures related to any change in the administrative authority towards the Company's operations: None

(X) Any litigious or non-litigious matters or administrative disputes up to the publication date of this annual report where the Company and company Directors, Supervisors, President, person with actual responsibility in the Company, and major shareholders holding more than 1% of the company's shares and affiliated companies who have been concluded through final judgment or still under litigation, to be a party thereof, and where the results thereof could materially affect the shareholders' equity or prices of the Company's securities, as well as the facts of the dispute, amount of money at stake, date of litigation commencement, and main parties to the litigation as of the publication date of the Annual Report:

1. Hua Nan Securities

(1) Case for Wei XX

Wei XX, a customer of the Company's Zhongxiao Branch, suffered NT\$20,000 thousand in loss when a former clerk Huan XX conspired with another defendant Tu XX to sell his shares without authorization. Wei XX filed a criminal and civil suit. As the two defendants including Huang XX remains at large, trials have not yet begun. The case is now processed by Taiwan Taipei District Court.

(2) Case for Feng XX

Feng XX, the former Project Vice President of Operation Management Department claimed that the Company did not make full retirement payment in the amount of NT\$2,394 thousand plus 5% annual rate for the outstanding amount from April 3, 2012 until the settlement date. On October 13, 2017, Taiwan Taipei District Court ruled in favor of the Company and Mr. Feng appealed to Taiwan High Court. On October 9, 2018, Taiwan High Court ruled that the Company shall pay the counterparty NT\$690,960 plus 5% annual rate for the outstanding amount from November 28, 2015 until the settlement date. The Company could not appeal for the third instance because Mr. Feng did not file an appeal and the amount awarded in the High Court judgment was less than NT\$1.5 million. Therefore, the judgment of the second instance was confirmed.

(3) Case for Peng XX

The plaintiff Peng XX claimed that the Company did not make full retirement payment in the amount of NT\$2,029 thousand. On December 17, 2013, Taiwan Taipei District Court ruled the Company shall pay NT\$868 thousand plus 5% annual rate for the outstanding amount from November 2, 2012 until the settlement date. On October 13, 2015, Taiwan High Court decided the Company shall pay additional NT\$1,161 thousand plus 5% annual rate for the amount from November 2, 2012 until the settlement date. The Company appealed and the appeal was remanded by the Supreme Court. On June 28, 2017, Taiwan High Court ruled the Company shall pay NT\$1,141 thousand in addition to the NT\$868 thousand ruled by the first instance plus 5% annual rate for the outstanding amount from November 2, 2012 until the settlement date. The Company has made a second appeal to the Supreme Court.

(4) Case for 2 individuals including Huang XX

The plaintiffs Huang XX and Hsi XX claimed that the defendant, former clerk Peng XX, conducted investments on their behalf and caused losses. They request Peng XX and the Company to jointly provide compensation. The plaintiffs stated that the defendant and the Company shall be jointly responsible for paying the plaintiff Huang XX NT\$21,052 thousand plus 5% annual rate for the outstanding amount from the day the transcript of the suit statement is delivered until the settlement date; and the defendant and the Company shall be jointly responsible for paying the plaintiff Hsi XX NT\$15,077 thousand plus 5% annual rate for the outstanding amount from the day the transcript of the suit statement is delivered until the settlement date. Taiwan Taipei District Court ruled in favor of the Company after the trial on April 29, 2016. The plaintiffs rejected the ruling and filed an appeal. The plaintiff Huang XX and Hsi XX's appeal for the court of the second instance was accepted on May 26, 2016.

The court ruled in favor of the Company on August 14, 2018 and the Company received Huang XX and Hsi XX's appeal statement on September 13, 2018. The Company has filed a statement of defense and the case is now processed by the Supreme Court.

(5) Case for Chang XX

The plaintiff Chang XX (former customer of Chien Cheng Branch) defaulted on settlement in September 1998 and resulted in NT\$400 thousand in default payment. The Company obtained a promissory note for mandatory enforcement on the plaintiff Chang XX's salary. However, the plaintiff claimed that the promissory note was not signed by the plaintiff and filed a suit to request the return of unjust enrichment in the Taiwan Taipei District Court Taipei Summary Court and requested the Company to pay NT\$116,500. The oral arguments in this case ended on February 8, 2018. Taiwan Taipei District Court Taipei Summary Court dismissed the plaintiff's suit on February 27, 2018 and ruled in favor of the Company. The plaintiff filed an appeal within the statutory appeal period but the plaintiff Chang XX failed to pay the judgment fee. Taiwan Taipei District Court Taipei Summary Court dismissed the plaintiff's appeal and the case was finalized.

(6) Case for Tung XX

The plaintiff Tung XX, former sales representative of Minchuan Branch was laid off by the Company on January 19, 2018. The plaintiff filed a lawsuit on salary payment against Minchuan Branch. The plaintiff claimed that the employment contract between the two parties remained valid and the Company shall pay salary from February 2018 to May 2020 in the amount of NT\$772,800 plus the basic salary and annual bonus in the amount of NT\$112,500 deducted by the Company on a pro rata basis as the plaintiff's sales performance did not reach the basic requirement.

The Kaohsiung District Court called a mediation at 3 p.m. October 30, 2018. The mediation was unsuccessful. The case is currently under the jurisdiction of Taiwan Kaohsiung District Court.

(7) Case for 3 individuals including Huang XX

The plaintiffs Huang XX, Shih XX, and Huang XX filed a suit in August 2018 in Taiwan Kaohsiung District Court to request the defendants, Yu XX, Wu XX, and the Company to jointly pay compensation for losses on investment totaling NT\$12,575,360 to the three plaintiffs plus 5% annual rate for the outstanding amount from day the transcript of the suit statement is delivered until the settlement date. The Company received a notice and the civil statement of claim from Taiwan Kaohsiung District Court on October 30, 2018 which requested the Company to compile information on the points of contention and file a statement of defense before November 8, 2018. Trial for this case will begin with a notice of hearing from Taiwan Kaohsiung District Court.

(XI) Other material risk and mitigation efforts: None

VII. Crisis management and response mechanisms

- (I) The Company has established the "Fund Liquidity Emergency Response Guidelines" to respond to liquidity risks of the Company. The Guidelines provide procedures for actions such as capital dispatch and capital backup to safeguard the Company's regular operations.
- (II) The Group established the "Hua Nan Financial Holdings Group Business Crisis Response Measures and Guidelines" to quickly process management crisis of group members and manage and reduce losses or damage caused by business crises. When members of the Group are subject to other management crises, they shall initiate their response measures in accordance with regulations and form a business crisis response team to manage the command, coordination, and progress of the crisis response. In the crisis management period, the Company's external information disclosure shall be provided on the publication system specified by the competent authority of securities and the Company shall use newspaper publications or organize press conferences to actively disclose information to news media.
- (III) The Group has established the "Hua Nan Financial Holdings Group Mandatory Report Guidelines" to build reporting mechanisms for material events. If a member of the Group is subject to alleged malfeasance, material thefts, natural disasters, information security incidents that may damage customer rights and interests or affect the healthy operations of the institution, material changes in risk exposure or other items that may cause financial losses of the Company, credit rating downgrade of an overseas branch institution by a local supervisory authority, or other material emergency incidents that affect the Company's reputation, the company shall immediately report such occurrences in accordance with the reporting mechanisms and file a review report within a specific period.

VIII. Other Important Issues: None.

VIII Other Special Notes

I. Related Information for Subsidiaries

(I) **Organizational Chart of Subsidiaries:** Please refer to "Group Organizational Structure" of "III Corporate Governance Report".

(II) Basic Information for Subsidiaries

Date: December 31, 2018
Unit: Thousands of NT dollars

Company Name	Date Established	Address	Paid-in Capital (Thousand dollars)	Business Activities
Hua Nan Commercial Bank Ltd.	1947.02.22	No. 123, Songren Rd., Taipei City	79,992,000	Business within the scope of Article §71 of the Banking Act.
Hua Nan Securities Co., Ltd.	1988.06.17	5F, No. 54, Sec. 4, Minsheng E. Rd., Songshan Dist., Taipei City	8,111,743	The stock broker, dealer, underwriter, and futures proprietary merchant
South China Insurance Co., Ltd.	1963.04.11	5F, No. 560, Sec. 4, Zhongxiao E. Rd., Taipei City	2,001,386	Property insurance business
Hua Nan Investment Trust Corp.	1992.09.29	3F-1, No. 54, Sec. 4, Minsheng E. Rd., Taipei City	308,399	Securities investment trust business
Hua Nan Venture Capital Co., Ltd.	2004.01.28	3F, No. 143, Sec. 2, Mingsheng E. Rd., Taipei City	2,000,000	Venture capital business
Hua Nan Assets Management Co., Ltd.	2005.05.10	4F, No. 18, Sec. 1, Changan E. Rd., Taipei City	1,000,000	Purchase and management of claims
Hua Nan International Leasing Co., Ltd	2012.07.13	5F, No. 18, Sec. 1, Changan E. Rd., Taipei City	1,500,000	Financial lease business
Hua Nan International Leasing Co., Ltd	2012.10.25	Room #02, 12F, Kerry Plaza Tower 2, Zhongxinsi Rd., Futian Dist., Shenzhen City	879,840	Financial lease business
Hua Nan Securities Investment Management	1993.09.27	4F-1, No. 54, Sec. 4, Minsheng E. Rd., Taipei City	137,200	Securities investment management business
Hua Nan Futures Co., Ltd.	1994.04.30	3F-7, 8, 9, No. 54, Sec. 4, Minsheng E. Rd., Taipei City	535,000	Futures broker business
Hua Nan Securities Holdings Corp.	1997.03.17	3rd Floor, J & C Building, P.O. Box 362, Road Town, Tortola, British Virgin Islands	USD11,150	Holding company
Hua Nan Securities (Hong Kong) Limited	1997.05.09	6/F., Ka Wah Bank Centre, No. 232 Des Voeux Road Central, Hong Kong	USD10,233	Securities business

(III) **Companies with Deemed Control and Subordination pursuant to Article §369-3:** None.

(IV) **Industry of business operated by subsidiaries:** banking industry, securities industry, securities investment trust industry, securities investment management consulting industry, property insurance industry, asset management industry, futures broker and management industry, futures consulting industry, insurance agent industry, consulting industry, and capital lease industry.



(V) Rosters of Directors, Supervisors, and Presidents of Subsidiaries

2019.4.30

Unit: Shares, %

Company Name	Position	Name or Representative	Names of others	
			Number of shares	Shareholding Ratio
Hua Nan Commercial Bank Ltd.	Chairman	Hua Nan Financial Holdings Co., Ltd. Representative: Chang Yun-Peng	7,999,200,000	100%
	Vice Chairman	T. Lin		
	Managing Director and President	David Y.C. Cheng		
	Managing Director	Chih-Yang Lin		
	Independent Managing Director	Sun-Yuan Lin		
	Director	Chih-Wen Hsu		
	Director	Ming-Chi Hsu		
	Director	Yun Lin		
	Director	Mei-Chu Huang		
	Director	Chih-Yu Lin		
	Director	Wei-Ling Yen		
	Director	Yuan-Ling Hsu		
	Director	Michael, Yuan-Jen Hsu		
	Director	Vivien, Chia-Ying Shen		
	Director	Hui-Ming Li		
	Director	Chun-Liang Lin		
	Independent Director	Sung-Tung Chen		
	Independent Director	Min-Hsien Yang		
	Independent Director			
	Managing Supervisor	Wen-Ping Kung		
Hua Nan Securities Co., Ltd.	Supervisor		811,174,346	100%
	Supervisor	Hui-Chung Yen		
	Supervisor	Kuo-Ping Chen		
	Supervisor	Pao-Hsi Lin		
	Chairman	Hua Nan Financial Holdings Co., Ltd. Representative: Chao-Jung Yang		
	Vice Chairman	Michael, Yuan-Jen Hsu		
	Director and General Manager	Chin-Feng Chen		
	Director	Fan Wang		
	Director	Sung-Nien Chang		
	Director	Wen-Feng Li		
	Director	Robert Li		
	Independent Director	Hui-Ya Shen		
South China Insurance Co., Ltd.	Independent Director	Tsang-Hsiang Lin	200,138,625	100%
	Independent Director	Teng-Cheng Chou		
	Supervisor	Ping-Hui Chang		
	Supervisor			
	Chairman	Hua Nan Financial Holdings Co., Ltd. Representative: Chung-Chuan Wu		
	Director and General Manager	Chih-Chi Tu		
	Director	Po-Hsi Liao		
	Director	David Y.C. Cheng		
	Director	Hui-Ling Hsu		
	Director	Huang-Chou Chen		
	Director	Yu-Ming Liang		
	Director	Heng-I Tu		
	Director	Ping-Yao Liao		
	Director	Hsieh-Liu Li		
	Director	Nai-Wen Chang		
	Director	Shih-Yu Huang		
	Independent Director	Wei-Lung Chen		
	Independent Director	Hsien-Feng Li		
	Independent Director	Hsiu-Fen Lin		
	Supervisor	King-Huo Lu		
	Supervisor	Shu-Chin Liang		
	Supervisor	Shu-Hui Ou		

Company Name	Position	Name or Representative	Names of others	
			Number of shares	Shareholding Ratio
Hua Nan Investment Trust Corp.	Chairman Director Director Director Director Director Supervisor Supervisor	Hua Nan Financial Holdings Co., Ltd. Representative: I-Chun Lin Tony Jang Robert Li Yuan-Ling Hsu Fan Wang Chien-Feng Lin Ching-Ping Chiang Jui-Chen Hsu Li-Peng Tsai	30,839,927	100%
	President	Shao-Wei Chen	0	0%
Hua Nan Venture Capital Co., Ltd.	Chairman and President Director Director Director Director Supervisor	Hua Nan Financial Holdings Co., Ltd. Representative: Chun-Chih Huang Chih-He Shih Cheng-Chih Tsai Chi-Tsun Lin Sarah C.T. Hsu Jung-Cheng Kao	200,000,000	100%
Hua Nan Assets Management Co., Ltd.	Chairman Director Director Director Supervisor	Hua Nan Financial Holdings Co., Ltd. Representative: Tung-Hao Li Kuo-Wei Wu Tsung-Hsien Li Jui-Chu Li Li-E Su King-Huo Lu	100,000,000	100%
	President	Tien-Yen Liu	0	0%
Hua Nan International Leasing Co., Ltd	Chairman Director Director Director Director Supervisor	Hua Nan Commercial Bank Representative: Chih-He Shih Chun-Chih Huang Tsung-Hsuan Huang Po-Lin Hsu Jui-Yun Wang Chun-Heng Tsao	150,000,000	100%
	President	Chih-Hsien Tsai	0	0%
Hua Nan International Leasing Co., Ltd	Chairman Director Director Director Director Supervisor	Hua Nan International Leasing Co., Ltd Representative: Chih-He Shih Chun-Chih Huang Tsung-Hsuan Huang Po-Lin Hsu Jui-Yun Wang Chun-Heng Tsao		100%
	President	Chih-Hsien Tsai	0	0%
Hua Nan Securities Investment Management	Chairman and President Director Director	Hua Nan Securities Co., Ltd. Representative: Hsiang-Sheng Chu Sarah C.T. Hsu Chi-Tsun Lin	13,713,800	99.95%
	Supervisor	Hsin-Tien Ting	0	0%
Hua Nan Futures Co., Ltd.	Chairman Director Director	Hua Nan Securities Co., Ltd. Representative: I-Tsung Chen Tien-Li Cheng Jen-Hsiang Hsu	53,393,000	99.80%
	Supervisor	Ya-Pei Wang	0	0%
	President	Chuan-Tsai Li	0	0%
Hua Nan Securities Holdings Corp.	Director	Hua Nan Securities Co., Ltd. Representative: Wen-Chang Huang	11,150,000	100.00%
Hua Nan Securities (Hong Kong) Limited	Chairman Director Director Director and General Manager	Hua Nan Securities Holding Ltd. Representative: Wen-Chang Huang Chin-Feng Chen Michael, Yuan-Jen Hsu Wei-Kang Chang	79,975,000	100.00%



(VI) Operational Highlights of Subsidiaries

1. Operational Highlights

Unit: Thousand New Taiwan Dollars (except earnings per share)

Company Name	Capital Stock	Total Assets	Total Liabilities	Net Worth	Operating Revenue	Operating Profit(Note)	Current Profit And Loss (After Tax)	Earnings Per Share (NT\$) (After Tax)
Hua Nan Commercial Bank Ltd.	79,992,000	2,622,147,356	2,437,490,214	184,657,142	40,743,358	16,035,144	14,306,738	1.79
Hua Nan Securities Co., Ltd.	8,111,743	36,113,719	23,844,231	12,269,488	2,934,370	411,176	456,087	0.56
South China Insurance Co., Ltd.	2,001,386	17,998,131	13,048,975	4,949,156	7,012,032	779,520	635,235	3.17
Hua Nan Investment Trust Corp.	308,399	930,340	411,710	518,630	167,539	14,421	13,911	0.45
Hua Nan Venture Capital Co., Ltd.	2,000,000	1,551,958	9,476	1,542,482	31,326	10,407	12,679	0.06
Hua Nan Assets Management Co., Ltd.	1,000,000	3,555,725	2,472,301	1,083,424	137,485	25,565	8,914	0.09
Hua Nan Securities Investment Management	137,200	149,977	7,254	142,723	26,629	(1,156)	236	0.02
Hua Nan Futures Co., Ltd.	535,000	3,758,646	2,739,822	1,018,824	391,641	31,273	58,348	1.09
Hua Nan Securities Holdings Corp.	352,126	749,459	30	749,429	(20,906)	(21,028)	(21,028)	(0.6)
Hua Nan Securities (Hong Kong) Limited	336,154	758,296	102,073	656,223	15,272	(23,233)	(23,233)	(0.69)
Hua Nan International Leasing Co., Ltd	1,500,000	2,023,223	620,770	1,402,453	49,660	10,734	47,600	0.32
Hua Nan International Leasing Co., Ltd	879,840	945,551	21,254	924,297	52,566	40,701	30,524	NA

Note 1: The face value of Hua Nan Securities Holding Ltd. and Hua Nan Asset Management Corp are USD1 dollar. The face value of Hua Nan Securities (Hong Kong) Limited is HKD1 dollar.

Note 2: Hua Nan Commercial Bank Ltd. does not have operating revenue and income from operation according to the Regulations Governing the Preparation of Financial Reports by Securities Issuers for its industry. Therefore, total net revenues and net profit before income tax are used to fill in operating revenue and income from operation.

2. Consolidated financial statements of the affiliated enterprises

The affiliated enterprises of the Company according to "Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises" are the same with those companies that need to be included in consolidated financial statements according to IAS27. The required disclosures in consolidated financial statements of the affiliated enterprises have already been disclosed in the consolidated financial statements. Therefore, the Company does not prepare consolidated financial statements of the affiliated enterprises.

3. Consolidated business report

The Company is not the affiliated company of other companies according to Chapter VI-I Affiliated Enterprises of the Company Act. Therefore, the Company does not need to prepare it.

II. Private Placement Securities of the Most Recent Year up to the Date of Publication of This Report: None.

III. Holding or Disposal of the Company's Shares by the Subsidiaries of the Most Recent Year up to the Date of Publication of This Report: None.

IV. Any Events that Had Significant Impacts on Shareholders' Right or Security Prices: None.

V. Other Necessary Supplement: None.

IX Basic information for domestic and overseas operating units of the Group

I. Hua Nan Commercial Bank

(I) Headquarter and domestic operating units of Hua NaN Bank

Basic information for domestic and overseas operating units

Serial Number	Location	Unit Number	Name of the Unit	Safe Deposit Box	Postal Code	Address	Tel	Fax
Headquarter			Headquarter		11073	No. 123, Songren Rd., Xinyi Dist., Taipei City	02-23713111	
		051	Board of Directors		11073	No. 123, Songren Rd., Xinyi Dist., Taipei City	02-23713111	02-87291966
		055	Administration Department		11073	No. 123, Songren Rd., Xinyi Dist., Taipei City	02-23713111	02-87291824
		056	Operation Planning Department		11073	No. 123, Songren Rd., Xinyi Dist., Taipei City	02-23713111	02-87291844
		057	Operation Management Department		11073	No. 123, Songren Rd., Xinyi Dist., Taipei City	02-23713111	02-87291880
		058	Corporate Finance Marketing Department		11073	No. 123, Songren Rd., Xinyi Dist., Taipei City	02-23713111	02-87291700
		059	Audit Department of Board of Directors		11073	No. 123, Songren Rd., Xinyi Dist., Taipei City	02-23713111	02-87291720
		060	Finance and Accounting Department		11073	No. 123, Songren Rd., Xinyi Dist., Taipei City	02-23713111	02-87291850
		061	Human Resource Department		11073	No. 123, Songren Rd., Xinyi Dist., Taipei City	02-23713111	02-87291854
		062	Credit Information, Industry and Economics Study Department		11073	No. 123, Songren Rd., Xinyi Dist., Taipei City	02-23713111	02-87291764
		065	Information Planning and Development Department		10076	No. 15, Quanzhou St., Zhongzheng Dist., Taipei City	02-23328111	02-23037344
		066	Information Operation Service Department		10076	No. 15, Quanzhou St., Zhongzheng Dist., Taipei City	02-23328111	02-23037344
		067	Information Security Department		10076	No. 15, Quanzhou St., Zhongzheng Dist., Taipei City	02-23328111	02-23037344
		068	Legal Compliance Department		11073	No. 123, Songren Rd., Xinyi Dist., Taipei City	02-23713111	02-87291840
		069	Trust Department		11073	No. 123, Songren Rd., Xinyi Dist., Taipei City	02-23713111	02-87291774
		070	International Finance Business Branch		11073	No. 123, Songren Rd., Xinyi Dist., Taipei City	02-23713111	02-87291814
		071	Digital Finance Department		11073	No. 123, Songren Rd., Xinyi Dist., Taipei City	02-23713111	02-87291890
		074	Claim Management Department		11073	No. 123, Songren Rd., Xinyi Dist., Taipei City	02-23713111	02-87291750
		075	Financial Trading Department		11073	No. 123, Songren Rd., Xinyi Dist., Taipei City	02-23713111	02-87291860
		076	Personal Finance Marketing Department		11073	No. 123, Songren Rd., Xinyi Dist., Taipei City	02-23713111	02-87291730
		078	Wealth Management Department		11073	No. 123, Songren Rd., Xinyi Dist., Taipei City	02-23713111	02-87291770



Serial Number	Location	Unit Number	Name of the Unit	Safe Deposit Box	Postal Code	Address	Tel	Fax
		085	Risk Management Department		11073	No. 123, Songren Rd., Xinyi Dist., Taipei City	02-23713111	02-87291760
		087	Insurance Agent Department		10571	10F, No. 188, Sec. 5, Nanjing E. Rd., Songshan Dist., Taipei City	02-27468666	02-27468777
		088	Credit Management Department		11073	No. 123, Songren Rd., Xinyi Dist., Taipei City	02-23713111	02-87291920
		089	Financial Market Marketing Department		11073	No. 123, Songren Rd., Xinyi Dist., Taipei City	02-23713111	02-87291874
		090	Customer Service Department		10442	5F, No. 18, Sec. 1, Changan E. Rd., Taipei City	02-21810101	02-25429933
		092	North One Channel Management Center		10449	8F, No. 2, Lane 116, Sec. 2, Zhongshan N. Rd., Taipei City	02-25677758	02-25230851
		093	North Two Channel Management Center		10449	9F, No. 2, Lane 116, Sec. 2, Zhongshan N. Rd., Taipei City	02-25677758	02-25231303
		094	North Three Channel Management Center		33042	5F, No. 79, Nanhua St., Taoyuan Dist., Taoyuan City	03-3315995	03-3315767
		095	Central Channel Management Center		40041	4F, No. 174, Minquan Rd., Central Dist., Taichung City	04-22291336	04-22296325
		096	South Channel Management Center		80344	10F, No. 178, Wufu 4th Rd., Yancheng Dist., Kaohsiung City	07-5213618	07-5215525
1	Taipei City	888	Head Office Branch		11073	1F, No. 123, Songren Rd., Xinyi Dist., Taipei City	02-27206988	02-27205656
2		100	Department of Business	*	10006	No. 38, Sec. 1, Chongqing S. Rd., Zhongzheng Dist., Taipei City	02-23713113	02-23614117
3		101	Savings Branch		10489	No. 160, Sec. 2, Nanjing E. Rd., Zhongshan Dist., Taipei City	02-25076131	02-25072810
4		102	Offshore Banking Branch		11073	No. 123, Songren Rd., Xinyi Dist., Taipei City	02-23713111	02-87291710
5		103	Chengnei Branch		10045	No. 93, Bo'ai Rd., Zhongzheng Dist., Taipei City	02-23818780	02-23613028
6		104	Dadaocheng Branch	*	10344	No. 96, Sec. 2, Yanping N. Rd., Datong Dist., Taipei City	02-25556280	02-25591573
7		105	Jiancheng Branch	*	10355	No. 228, Nanjing W. Rd., Datong Dist., Taipei City	02-25563110	02-25584245
8		106	Zhongshan Branch	*	10442	No. 18, Sec. 1, Chang'an E. Rd., Zhongshan Dist., Taipei City	02-25611121	02-25232072
9		107	Yuanshan Branch		10449	No. 112, Sec. 2, Zhongshan N. Rd., Taipei City	02-25619588	02-25418154
10		108	Chengdong Branch		10458	No. 146, Songjiang Rd., Zhongshan Dist., Taipei City	02-25512111	02-25362764
11		109	Ximen Branch		10846	No. 173, Xining S. Rd., Wanhua Dist., Taipei City	02-23149978	02-23832866
12		110	Nan Sungshan Branch		11066	No. 293, Sec. 5, Zhongxiao E. Rd., Xinyi Dist., Taipei City	02-27695957	02-27688428
13		111	Ren Ai Road Branch		10685	No. 25, Sec. 4, Ren'ai Rd., Da'an Dist., Taipei City	02-27722090	02-27110276
14		112	Nanking East Road Branch		10488	No. 217, Sec. 3, Nanjing E. Rd., Zhongshan Dist., Taipei City	02-27155111	02-27129350
15		113	Xinsheng Branch		10059	No. 48, Sec. 1, Xinsheng S. Rd., Zhongzheng Dist., Taipei City	02-23934211	02-23211338
16		114	Datong Branch		10372	No. 276, Sec. 3, Chongqing N. Rd., Datong Dist., Taipei City	02-25917767	02-25912924
17		115	Songshan Branch		10566	No. 654, Sec. 4, Bade Rd., Songshan Dist., Taipei City	02-27652132	02-27614818
18		116	Chung Lun Branch		10554	No. 145, Sec. 3, Bade Rd., Songshan Dist., Taipei City	02-25780377	02-25783902
19		117	Taipei Nanmen Branch		10093	No. 11, Sec. 2, Roosevelt Rd., Zhongzheng Dist., Taipei City	02-23217111	02-23510410



Serial Number	Location	Unit Number	Name of the Unit	Safe Deposit Box	Postal Code	Address	Tel	Fax
20	Taipei City	118	Gongguan Branch		10089	No. 216, Sec. 3, Roosevelt Rd., Zhongzheng Dist., Taipei City	02-23622141	02-23623500
21		119	Xinyi Branch		10064	No. 183, Sec. 2, Xinyi Rd., Zhongzheng Dist., Taipei City	02-23943141	02-23937089
22		120	Zhongxiao East Road Branch	*	10686	No. 212, Sec. 4, Zhongxiao E. Rd., Da'an Dist., Taipei City	02-27733577	02-27410336
23		121	Heping Branch		10664	No. 93, Sec. 2, Heping E. Rd., Da'an Dist., Taipei City	02-27002405	02-27099230
24		122	Shuangyuan Branch	*	10879	No. 127, Xizang Rd., Wanhua Dist., Taipei City	02-23071122	02-23055954
25		123	Shihlin Branch		11168	No. 246, Sec. 4, Chengde Rd., Shilin Dist., Taipei City	02-28819500	02-28827737
26		124	Tung-Taipei Branch		10553	No. 50, Sec. 4, Nanjing E. Rd., Songshan Dist., Taipei City	02-25794141	02-25791395
27		125	Da An Branch	*	10695	No. 458, Guangfu S. Rd., Da'an Dist., Taipei City	02-27039851	02-27088441
28		126	Ming Shen Branch	*	10574	No. 54, Sec. 4, Minsheng E. Rd., Songshan Dist., Taipei City	02-27155011	02-27121484
29		127	Fushing Branch		10544	No. 337, Fuxing N. Rd., Songshan Dist., Taipei City	02-27171781	02-27184582
30		128	Lungchiang Branch		10483	No. 145, Sec. 2, Minsheng E. Rd., Zhongshan Dist., Taipei City	02-25045341	02-25044487
31		129	Yongji Branch		11082	No. 800, Sec. 5, Zhongxiao E. Rd., Xinyi Dist., Taipei City	02-27593111	02-27595757
32		130	Dunhua Branch		10683	No. 2, Sec. 2, Dunhua S. Rd., Da'an Dist., Taipei City	02-27557467	02-27066043
33		132	Dazhi Branch		10462	No. 56, Lequn 3rd Rd., Zhongshan Dist., Taipei City	02-85020818	02-85026101
34		133	Tun Ho Branch		10682	No. 107, Sec. 2, Dunhua S. Rd., Da'an Dist., Taipei City	02-27010900	02-27042811
35		134	Donghu Branch		11490	No. 456, Sec. 5, Chenggong Rd., Neihu Dist., Taipei City	02-26315550	02-26328296
36		136	Dongxing Branch	*	10569	No. 239, Sec. 5, Nanjing E. Rd., Songshan Dist., Taipei City	02-25289567	02-25288359
37		137	Pei Nankang Branch		11503	2F-10, No. 3, Park St., Nangang Dist., Taipei City	02-26558788	02-26558778
38		138	Muzha Branch		11648	No. 4, Sec. 3, Muzha Rd., Wenshan Dist., Taipei City	02-29361769	02-29361759
39		143	Nan Neihu Branch		11494	No. 130, Xing'ai Rd., Neihu Dist., Taipei City	02-27968288	02-27968299
40		145	Chang An Branch		10491	No. 205, Sec. 2, Bade Rd., Zhongshan Dist., Taipei City	02-87722778	02-87722775
41		147	Huaisheng Branch		10654	No. 247, Sec. 3, Zhongxiao E. Rd., Da'an Dist., Taipei City	02-27727211	02-27318743
42		148	Zhonghua Road Branch		10065	No. 59, Sec. 2, Zhonghua Rd., Zhongzheng Dist., Taipei City	02-23822078	02-23318355
43		149	Hsin Wei Branch		10683	2F., No. 6, Sec. 4, Xinyi Rd., Da'an Dist., Taipei City	02-27015123	02-23258122
44		152	Shihpai Branch		11271	No. 78, Sec. 1, Shipai Rd., Beitou Dist., Taipei City	02-28223822	02-28216268
45		153	Jui Hsiang Branch		10573	No. 145, Sec. 5, Minsheng E. Rd., Songshan Dist., Taipei City	02-27641407	02-27619254
46		154	Taita Branch		10617	No. 1, Sec. 4, Roosevelt Rd., Da'an Dist., Taipei City	02-23631478	02-23639657
47		156	Shih Mao Branch	*	11052	No. 458, Sec. 4, Xinyi Rd., Xinyi Dist., Taipei City	02-27581392	02-27581389
48		157	Wanhua Branch		10849	No. 149, Kangding Rd., Wanhua Dist., Taipei City	02-23812922	02-23817634



Serial Number	Location	Unit Number	Name of the Unit	Safe Deposit Box	Postal Code	Address	Tel	Fax
49	Taipei City	158	Nan Kang Branch		11510	No. 52, Sec. 3, Nangang Rd., Nangang Dist., Taipei City	02-27885966	02-27885725
50		178	Beitou Branch		11268	No. 13, Sec. 2, Beitou Rd., Beitou Dist., Taipei City	02-28934166	02-28960184
51		179	Hsi Hu Branch	*	11493	No. 392, Sec. 1, Neihu Rd., Neihu Dist., Taipei City	02-27977189	02-27979169
52		189	Tianmu Branch	*	11148	No. 109, Sec. 1, Zhongcheng Rd., Shilin Dist., Taipei City	02-28380777	02-28355410
53		190	Nei Hu Branch		11457	No. 157, Sec. 4, Chenggong Rd., Neihu Dist., Taipei City	02-27961266	02-27935380
54		195	Wenshan Branch		11641	No. 52, Sec. 1, Muzha Rd., Wenshan Dist., Taipei City	02-22360288	02-22365655
55	New Taipei City	139	Banqiao Wenhua Branch		22050	1F, No. 67, Sec. 1, Wenhua Rd., Banqiao Dist., New Taipei City	02-22723999	02-22721010
56		151	Pu Chien Branch	*	22069	No. 37, Sec. 2, Sanmin Rd., Banqiao Dist., New Taipei City	02-29646911	02-29570930
57		159	Huajiang Branch	*	22041	No. 80, Sec. 2, Wenhua Rd., Banqiao Dist., New Taipei City	02-22512581	02-22524900
58		160	Panchiao Branch		22063	No. 73, Zhongxiao Rd., Banqiao Dist., New Taipei City	02-29511101	02-29615496
59		161	Sanchong Branch		24147	No. 5-1, Sec. 2, Chongxin Rd., Sanchong Dist., New Taipei City	02-29824101	02-29713685
60		162	Pei Sanchong Branch		24146	No. 1, Longmen Rd., Sanchong Dist., New Taipei City	02-29880011	02-29717564
61		163	Xinzhuang Branch		24243	No. 100, Zhongzheng Rd., Xinzhuang Dist., New Taipei City	02-29944761	02-29975920
62		164	Yonghe Branch		23444	No. 147, Sec. 2, Yonghe Rd., Yonghe Dist., New Taipei City	02-29214111	02-29275188
63		165	Chung Ho Branch	*	23558	No. 257, Sec. 2, Zhongshan Rd., Zhonghe Dist., New Taipei City	02-22495555	02-22498520
64		166	Hsintien Branch		23143	No. 108, Sec. 2, Beixin Rd., Xindian Dist., New Taipei City	02-29136661	02-29155547
65		167	Tamsui Branch	*	25158	No. 28, Zhongzheng Rd., Tamsui Dist., New Taipei City	02-26219680	02-26232275
66		168	Xizhi Branch	*	22166	No. 101, Zhongzheng Rd., Xizhi Dist., New Taipei City	02-26416411	02-26420866
67		169	Nan Yunghe Branch		23455	No. 220, Zhongzheng Rd., Yonghe Dist., New Taipei City	02-89423288	02-89423289
68		170	Shi Sanchong Branch		24153	No. 237, Sec. 4, Sanhe Rd., Sanchong Dist., New Taipei City	02-28575211	02-28575228
69		171	Nan Sanchong Branch		24141	No. 52, Sec. 1, New Taipei Blvd., Sanchong Dist., New Taipei City	02-29888001	02-29831367
70		172	Shuanghe Branch		23574	No. 320, Zhonghe Rd., Zhonghe Dist., New Taipei City	02-29261771	02-29293971
71		173	Sintai Branch		24257	No. 708, Zhongzheng Rd., Xinzhuang Dist., New Taipei City	02-29071181	02-29071190
72		174	Erh Chung Branch	*	24158	No. 86 & 88, Sec. 1, Guangfu Rd., Sanchong Dist., New Taipei City	02-29991166	02-29991678
73		175	Bansin Branch		22065	No. 30 & 32, Quyun Rd., Banqiao Dist., New Taipei City	02-29631777	02-29631797
74		176	Wu Ku Branch		24250	No. 219, Sec. 2, New Taipei Blvd., Xinzhuang Dist., New Taipei City	02-85218788	02-85216649
75		180	Chi Sui Branch		23544	No. 562, Sec. 2, Zhongshan Rd., Zhonghe Dist., New Taipei City	02-22220603	02-22214405
76		182	Fuhe Branch		23449	No. 158, Fuhe Rd., Yonghe Dist., New Taipei City	02-89280491	02-89266004
77		183	Nanshihjjiao Branch		23569	No. 342, Jingxin St., Zhonghe Dist., New Taipei City	02-29421722	02-29415816



Serial Number	Location	Unit Number	Name of the Unit	Safe Deposit Box	Postal Code	Address	Tel	Fax
78	New Taipei City	184	Pei Luzhou Branch		24765	No. 213, Changrong Rd., Luzhou Dist., New Taipei City	02-28470606	02-28471052
79		185	Luzhou Branch		24753	No. 161, Zhongshan 1st Rd., Luzhou Dist., New Taipei City	02-22886888	02-22830959
80		186	Tucheng Branch	*	23671	No. 15, Qiansui Rd., Tucheng Dist., New Taipei City	02-22672345	02-22694219
81		187	Pei Hsin Branch		23141	No. 129, Minquan Rd., Xindian Dist., New Taipei City	02-22180111	02-22188883
82		191	Shulin Branch		23844	No. 189, Sec. 1, Zhongshan Rd., Shulin Dist., New Taipei City	02-26870656	02-26870659
83		192	Chang Shu Wan Branch		22146	No. 276, Sec. 1, Datong Rd., Xizhi Dist., New Taipei City	02-26472611	02-26472656
84		193	Taishan Branch		24356	No. 212, Sec. 2, Mingzhi Rd., Taishan Dist., New Taipei City	02-22968388	02-22968343
85		194	Sanxia Branch		23741	No. 65, Heping St., Sanxia Dist., New Taipei City	02-26747711	02-26747171
86		196	Yingge Branch		23941	No. 101, Guoqing St., Yingge Dist., New Taipei City	02-26777711	02-26775511
87		197	Pei Xinzhuang Branch		24246	No. 211, Sec. 2, Zhonghua Rd., Xinzhuang Dist., New Taipei City	02-66371688	02-66371066
88		198	Pei Tucheng Branch		23657	No. 149, Yumin Rd., Tucheng Dist., New Taipei City	02-22635656	02-22635916
89		199	Linkou Station Front Branch		24448	No. 331, Sec. 1, Wenhua 3rd Rd., Linkou Dist., New Taipei City	02-26098399	02-26006811
90	Keelung City	200	Keelung Branch		20051	No. 305, Ren 1st Rd., Ren'ai Dist., Keelung City	02-24222192	02-24272114
91		201	Keelung Harbor Branch	*	20041	No. 46, Zhong 2nd Rd., Ren'ai Dist., Keelung City	02-24282121	02-24289665
92		211	Qidu Branch		20645	No. 81, Mingde 1st Rd., Qidu Dist., Keelung City	02-24567101	02-24562215
93	Yilan County	220	Luodong Branch		26550	No. 85, Gongzheng Rd., Luodong Township, Yilan County	03-9543611	03-9566050
94		221	Yilan Branch		26044	No. 140, Sec. 3, Zhongshan Rd., Yilan City, Yilan County	03-9354911	03-9326056
95	Taoyuan City	240	Taoyuan Branch		33042	No. 79, Nanhua St., Taoyuan Dist., Taoyuan City	03-3321121	03-3354999
96		241	Zhongli Branch	*	32045	No. 35, Minzu Rd., Zhongli Dist., Taoyuan City	03-4936999	03-4939853
97		242	Yangmei Branch		32641	No. 95, Dacheng Rd., Yangmei Dist., Taoyuan City	03-4755131	03-4752439
98		243	Lichang Branch		32042	No. 175, Zhongzheng Rd., Zhongli Dist., Taoyuan City	03-4253151	03-4252201
99		244	Pei Taoyuan Branch		33046	No. 94, Sec. 2, Daxing W. Rd., Taoyuan Dist., Taoyuan City	03-3011234	03-3025555
100		245	Nankan Branch		33859	No. 99, Sec. 1, Nankan Rd., Luzhu Dist., Taoyuan City	03-3521212	03-3526969
101		246	Pingzhen Branch		32443	No. 265, Sec. 2, Huannan Rd., Pingzhen Dist., Taoyuan City	03-4689688	03-4683368
102		247	Bade Branch		33446	No. 307, Sec. 2, Jieshou Rd., Bade Dist., Taoyuan City	03-3679911	03-3676367
103		248	Guishan Branch		33342	No. 1227, Sec. 2, Wanshou Rd., Guishan Dist., Taoyuan City	03-3505822	03-3198195
104		249	Longtan Branch		32552	No. 8, Zhongzheng Rd., Longtan Dist., Taoyuan City	03-4090666	03-4090667
105		250	Daxi Branch		33542	No. 87, Cihu Rd., Daxi Dist., Taoyuan City	03-3878833	03-3879922
106		251	Neili Branch		32083	No. 260, Huanzhong E. Rd., Zhongli Dist., Taoyuan City	03-4626969	03-4629797



Serial Number	Location	Unit Number	Name of the Unit	Safe Deposit Box	Postal Code	Address	Tel	Fax
107	Taoyuan City	252	Linkou Branch		33375	No. 300, Fuxing 1st Rd., Guishan Dist., Taoyuan City	03-3183456	03-3182345
108		260	Guanyin Branch		32850	No. 780, Sec. 2, Zhongshan Rd., Guanyin Dist., Taoyuan City	03-4081731	03-2824612
109		262	Dayuan Branch		33756	No. 108, Zhongzheng E. Rd., Dayuan Dist., Taoyuan City	03-3867272	03-3857373
110	Hsinchu City	300	Hsinchu Branch	*	30041	No. 131, Dongmen St., East Dist., Hsinchu City	03-5217111	03-5233445
111		302	Chu Ko Branch		30072	No. 172, Guanxin Rd., East Dist., Hsinchu City	03-6687888	03-6687066
112		351	Ta Chong Branch		30061	No. 118., Xida Rd., East Dist., Hsinchu City	03-5212191	03-5267348
113	Hsinchu County	301	Zhudong Branch		31041	9F., Chaoyang Rd., Zhudong Township, Hsinchu County	03-5969372	03-5969379
114		310	Xinfeng Branch		30442	No. 155-16, Sec. 1, Jianxing Rd., Xinfeng Township, Hsinchu County	03-5592130	03-5592237
115		313	Lioujia Branch		30264	No. 6, Ziqiang S. Rd., Zhubei City, Hsinchu County	03-6673289	03-6676025
116		323	Zhubei Branch		30251	No. 159, Xianzheng 9th Rd., Zhubei City, Hsinchu County	03-5542277	03-5542727
117	Miaoli County	320	Zhunan Branch		35051	No. 10, Bo'ai St., Zhunan Township, Miaoli County	037-472651	037-472374
118		321	Toufen Branch		35159	No. 922, Zhonghua Rd., Toufen City, Miaoli County	037-663577	037-673447
119		322	Miaoli Branch		36049	No. 686, Zhongzheng Rd., Miaoli City, Miaoli County	037-353711	037-353722
120	Taichung City	400	Fengyuan Branch	*	42043	No. 95, Xinyi St., Fengyuan Dist., Taichung City	04-25273180	04-25270214
121		401	Dongshi Branch		42352	No. 282, Sanmin St., Dongshi Dist., Taichung City	04-25871180	04-25875611
122		402	Qingshui Branch	*	43655	No. 241, Zhongshan Rd., Qingshui Dist., Taichung City	04-26237171	04-26227581
123		403	Xi Fengyuan Branch		42041	No. 225, Yuanhuan S. Rd., Fengyuan Dist., Taichung City	04-25275123	04-25270744
124		420	Taichung Branch	*	40041	No. 174, Minquan Rd., Central Dist., Taichung City	04-22261111	04-22275063
125		422	Nan Taichung Branch		40144	No. 53, Sec. 4, Fuxing Rd., East Dist., Taichung City	04-22294471	04-22283866
126		423	Pei Taichung Branch	*	40446	No. 338, Wuquan Rd., North Dist., Taichung City	04-22025131	04-22015755
127		424	Taichungkang Road Branch		40758	No. 689, Sec. 2, Taiwan Blvd., West Dist., Taichung City	04-23266555	04-23267241
128		425	Dali Branch	*	41265	No. 37, Dongrong Rd., Dali Dist., Taichung City	04-24835151	04-24835393
129		426	Shueinan Branch	*	40667	No. 81, Sec. 4, Wenxin Rd., Beitun Dist., Taichung City	04-22924456	04-22924121
130		427	Wucyuan Branch	*	40347	No. 270, Zhongming S. Rd., West Dist., Taichung City	04-23755981	04-23760420
131		429	Dajia Branch		43748	No. 6, Xinzheng Rd., Dajia Dist., Taichung City	04-26805111	04-26805122
132		430	Taiping Branch		41167	No. 58, Zhongxing E. Rd., Taiping Dist., Taichung City	04-22771919	04-22770707
133		431	Taichung-Science-Park Branch		40767	No. 16, Gongyequ 1st Rd., Xitun Dist., Taichung City	04-23591778	04-23594800
134		451	Shalu Branch		43353	No. 112, Shatian Rd., Shalu Dist., Taichung City	04-26629951	04-26622248
135	Nantou County	500	Caotun Branch		54263	No. 317, Sec. 2, Taiping Rd., Caotun Township, Nantou County	049-2323881	049-2367949

Serial Number	Location	Unit Number	Name of the Unit	Safe Deposit Box	Postal Code	Address	Tel	Fax
136	Nantou County	501	Nantou Branch	*	54062	No. 236, Fuxing Rd., Nantou City, Nantou County	049-2222701	049-2231593
137	Changhua County	520	Changhua Branch		50061	No. 152, Guangfu Rd., Changhua City, Changhua County	04-7242151	04-7223146
138		521	Hemei Branch		50861	No. 300, Sec. 5, Zhangmei Rd., Hemei Township, Changhua County	04-7556101	04-7552383
139		522	Yuanlin Branch	*	51041	No. 753, Sec. 1, Zhongshan Rd., Yuanlin City, Changhua County	04-8358161	04-8358044
140		523	Lukang Branch		50551	No. 279, Minquan Rd., Lukang Township, Changhua County	04-7745988	04-7745995
141		524	Xihu Branch		51442	No. 250, Xihuan Rd., Xihu Township, Changhua County	04-8821811	04-8821222
142	Yunlin County	540	Douliu Branch		64046	No. 45, Datong Rd., Douliu City, Yunlin County	05-5339711	05-5326741
143		541	Huwei Branch		63242	No. 50, Zhongzheng Rd., Huwei Township, Yunlin County	05-6334901	05-6334907
144		542	Xiluo Branch		64851	No. 239, Guangfu W. Rd., Xiluo Township, Yunlin County	05-5882868	05-5882875
145	Chiayi City	600	Chiayi Branch		60041	No. 320, Zhongshan Rd., West Dist., Chiayi City	05-2232050	05-2248860
146		601	Chianan Branch	*	60047	No. 469, Lanjing St., West Dist., Chiayi City	05-2236321	05-2230712
147	Chiayi County	602	Puzi Branch		61341	No. 2, Wenhua S. Rd., Puzi City, Chiayi County	05-3701133	05-3705111
148	Tainan City	620	Xinying Branch	*	73061	No. 109, Sec. 2, Xinjin Rd., Xinying Dist., Tainan City	06-6322295	06-6323276
149		621	Madou Branch	*	72149	No. 36, Zhongshan Rd., Madou Dist., Tainan City	06-5727241	06-5721647
150		622	Yongkang Branch		71049	No. 800, Zhonghua Rd., Yongkang Dist., Tainan City	06-2015531	06-2338644
151		640	Tainan Branch	*	70048	No. 154, Sec. 2, Yongfu Rd., West Central Dist., Tainan City	06-2222111	06-2252134
152		642	Tung Tainan Branch	*	70165	No. 90, Sec. 2, Linsen Rd., East Dist., Tainan City	06-2747027	06-2747175
153		643	Xi Tainan Branch	*	70054	No. 156, Kangle St., West Central Dist., Tainan City	06-2211622	06-2243620
154		644	Pei Tainan Branch	*	70443	No. 294, Chenggong Rd., North Dist., Tainan City	06-2221171	06-2221170
155		645	Nandu Branch		70143	No. 203, Sec. 1, Changrong Rd., East Dist., Tainan City	06-2360789	06-2756169
156		646	Annan Branch		70965	No. 467-1, Sec. 4, Anhe Rd., Annan Dist., Tainan City	06-3567272	06-3564122
157		647	Rende Branch	*	71742	No. 511, Zhongshan Rd., Rende Dist., Tainan City	06-2490651	06-2490621
158		648	Xinshi Branch		74447	No. 232-1, Zhongzheng Rd., Xinshi Dist., Tainan City	06-5893535	06-5895242
159		681	Jinhua Branch	*	70254	No. 172, Sec. 2, Jinhua Rd., South Dist., Tainan City	06-2911835	06-2632694
160	Kaohsiung City	700	Kaohsiung Branch	*	80344	No. 178, Wufu 4th Rd., Yancheng Dist., Kaohsiung City	07-5611241	07-5517832
161		701	Tungling Branch	*	80284	No. 120, Zhongzheng 1st Rd., Lingya Dist., Kaohsiung City	07-7130701	07-7130673
162		702	Xinxing Branch	*	80049	No. 117, Zhongshan 1st Rd., Xinxing Dist., Kaohsiung City	07-2864191	07-2867641
163		703	Kaohsiung Sanmin Branch		80143	No. 189, Qixian 2nd Rd., Qianjin Dist., Kaohsiung City	07-2859161	07-2859157
164		704	Lingya Branch		80245	No. 489, Zhongshan 2nd Rd., Lingya Dist., Kaohsiung City	07-3353141	07-3353149



Serial Number	Location	Unit Number	Name of the Unit	Safe Deposit Box	Postal Code	Address	Tel	Fax
165	Kaohsiung City	705	Qianzhen Branch	*	80652	No. 33, Yixin 2nd Rd., Qianzhen Dist., Kaohsiung City	07-3358231	07-3358229
166		706	Kaohsiung Po Ai Branch	*	80759	No. 150, Jiuru 2nd Rd., Sanmin Dist., Kaohsiung City	07-3113531	07-3117297
167		707	Nan Kaohsiung Branch	*	80655	No. 153, Sanduo 3rd Rd., Qianzhen Dist., Kaohsiung City	07-3368101	07-3319473
168		708	Tung Kaohsiung Branch	*	80055	No. 78, Liuhe 1st Rd., Xinxing Dist., Kaohsiung City	07-2385901	07-2369016
169		709	Dachang Branch		80765	No. 57, Dachang 2nd Rd., Sanmin Dist., Kaohsiung City	07-3806150	07-3805050
170		710	Pei Kaohsiung Branch		81367	No. 6, Bo'ai 3rd Rd., Zuoying Dist., Kaohsiung City	07-3464601	07-3459682
171		711	Nanzi Branch		81167	No. 336, Xingnan Rd., Nanzi Dist., Kaohsiung City	07-3513299	07-3512511
172		712	Zuoying Branch		81369	No. 166, Bo'ai 4th Rd., Zuoying Dist., Kaohsiung City	07-3438911	07-3431617
173		719	Gangshan Branch		82041	No. 331, Gangshan Rd., Gangshan Dist., Kaohsiung City	07-6211091	07-6215435
174		720	Fengshan Branch	*	83058	No. 145, Zhongshan Rd., Fengshan Dist., Kaohsiung City	07-7472121	07-7425282
175		721	Luzhu Branch		82141	No. 90-2, Dashe Rd., Luzhu Dist., Kaohsiung City	07-6072233	07-6072299
176		722	Renwu Branch		81451	No. 41, Zhongzheng Rd., Renwu Dist., Kaohsiung City	07-3711101	07-3712638
177		751	Lizunei Branch	*	80642	No. 132, Banchao Rd., Qianzhen Dist., Kaohsiung City	07-7112366	07-7611267
178		752	Wujia Branch		83085	No. 642, Wujia 2nd Rd., Fengshan Dist., Kaohsiung City	07-8414495	07-8110602
179		753	Guanghua Branch		80253	No. 148-19, Guanghua 1st Rd., Lingya Dist., Kaohsiung City	07-7161601	07-7161323
180		760	Xiaogang Branch		81249	No. 180, Erling Rd., Xiaogang Dist., Kaohsiung City	07-8013993	07-8062293
181		765	Kaohsiung Guilin Branch		81274	No. 44, Guiyang Rd., Xiaogang Dist., Kaohsiung City	07-7913916	07-7915898
182	Pingtung County	800	Pingtung Branch		90078	No. 36, Fuxing Rd., Pingtung City, Pingtung County	08-7323831	08-7325474
183		801	Neipu Branch		91248	No. 187, Guangji Rd., Neitian Village, Neipu Township, Pingtung County	08-7799911	08-7790944
184		802	Chaozhou Branch	*	92046	No. 71, Xincheng Rd., Chaozhou Township, Pingtung County	08-7883001	08-7892002
185		813	Jiadong Branch		93142	No. 155, Jiachang Rd., Jiadong Township, Pingtung County	08-8662811	08-8664970
186	Hualien County	820	Hualien Branch	*	97048	No. 78, Zhongshan Rd., Hualien City, Hualien County	038-323181	038-355105
187	Taitung County	830	Taitung Branch		95046	No. 347, Sec. 1, Zhonghua Rd., Taitung City, Taitung County	089-310121	089-327050

(II) Basic information for overseas operating units

LOS ANGELES BRANCH

707 Wilshire Blvd., Suite 3100, Los Angeles, CA 90017, U.S.A.

Tel: 1-213-3626666 Fax: 1-213-3626617

NEW YORK AGENCY

Address : 330 Madison Ave., 38th Floor, New York, NY 10017, U.S.A.

Tel: 1-212-2861999 Fax: 1-212-2861212

LONDON BRANCH

Address : 6th Floor, 140 Fenchurch Street, London EC3M 6BL, U.K.

Tel: 44-207-2207979 Fax: 44-207-6261515

SYDNEY BRANCH

Address : Suite 603 Level 6, 60 Carrington Street, Sydney NSW 2000 Australia

Tel: 61-2-82960100 Fax: 61-2-82960188

SINGAPORE BRANCH

Address : 80 Robinson Road, #14-03, Singapore 068898

Tel: 65-63242566 Fax: 65-63242155

HO CHI MINH CITY BRANCH

Address : 10th Floor, Royal Tower, 235 Nguyen Van Cu Street, District 1, Ho Chi Minh City, Vietnam

Tel: 84-28-38371888 Fax: 84-28-38371999

HANOI REPRESENTATIVE OFFICE

Address : Suite 303, DMC Tower, 535 Kim Ma Street, Ba Dinh, Hanoi, Vietnam

Tel: 84-24-22203168 Fax: 84-24-22203169

HONG KONG BRANCH

Address : Suite 5601-05, 56th Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong

Tel: 852-28240288 Fax: 852-28242573

MACAU BRANCH

Address : Avenida Doutor Mario Soares, Finance and IT Center of Macau, 17th Floor B, C, Macau

Tel : 853-28757136 Fax : 853-28755915

SHANGHAI BRANCH

Postal Code : 200040

Address : Unit 03-04, 35 Floor, No.1788 Nan-Jing West Road, Jing-An District, Shanghai, China 200040

Tel : 86-21-60100855 Fax : 86-21-60100850

**FUZHOU BRANCH**

Postal Code : 350000

Address: Suite 2808, 28 Floor, Sheng Long Building, No. 1, Guangming South Road, Taijiang District, Fuzhou City, Fujian Province, China 350000

Tel: 86-591-28301688 Fax: 86-591-28301500

SHENZHEN BRANCH

Postal Code : 518048

Address : Room 03-04, 18th Floor Tower One, Kerry Plaza, 1 Zhongxinsi Road, Futian District, Shenzhen, China 518048

Tel: 86-755-25832208 Fax: 86-755-25832398

SHENZHEN BAOAN SUB-BRANCH

Postal Code : 518101

Address : Unit 1901A.B.C, Block D, Wealth Harbour Building, Baoyuan Road, Xixiang Street, Baoan District, Shenzhen, China 518101

Tel: 86-755-23007117 Fax: 86-755-23007127

MANILA BRANCH

Address: Unit 2 & 3, 26F, NO.6789 Ayala Ave. Makati City, Metro Manila, Philippines

Tel: 63-2-812-8168 Fax: 63-2-816-3800

YANGON REPRESENTATIVE OFFICE

Address: International Commercial Centre 422/426 Corner of Strand Road and Botahtaung Pagoda Road #10-06, Botahtaung Township, Yangon, Republic of the Union of Myanmar

Tel: 95-1-202052 Fax: 95-1-202110

II. Hua Nan Securities

Operating office address for headquarter and branch offices by December 31, 2018.

Serial Number	County or City	Company Name	Address	Telephone
1		Headquarter	5F, No. 54, Sec. 4, Minsheng E. Rd., Songshan Dist., Taipei City	(02)2545-6888
2	Keelung City	Kungcheng Branch Office	11F, No. 87, Ai 3rd Rd., Ren'ai Dist., Keelung City	(02)2420-1201
3	Yilan County	Changhung Branch Office	2F, No. 155, Gongzheng Rd., Luodong Township, Yilan County	(03)957-4101
4	Taipei City	Nanjing Branch Office	9F & 9F-1, No. 225, Sec. 3, Nanjing E. Rd., Zhongshan Dist., Taipei City	(02)2717-6999
5		Daan Branch Office	4F., No. 368, Sec. 1, Fuxing S. Rd., Daan Dist., Taipei City	(02)2754-9696
6		Guting Branch	2F, No. 91, Sec. 2, Roosevelt Rd., Da'an Dist., Taipei City (Partial)	(02)2369-9588
7		World Trade Center Branch Office	2F & 3F, No. 91, Sec. 2, Keelung Rd., Xinyi Dist., Taipei City	(02)2739-6266
8		Dunnan Branch Office	8F-2, No. 107, Sec. 4, Zhongxiao E. Rd., Daan Dist., Taipei City	(02)2741-5858
9		Zhongxiao Branch Office	3F-1, No. 130, Sec. 2, Zhongxiao E. Rd., Zhongzheng Dist., Taipei City	(02)2358-7488
10		Zhongzheng Branch Office	4F, No. 38, Sec. 1, Chongqing S. Rd., Taipei City	(02)2382-1788
11		Heping Branch Office	2F, No. 177-1 & 2F, No. 177-2, Sec. 1, Heping E. Rd., Da'an Dist., Taipei City	(02)2395-1515
12	New Taipei City	Tamsui Branch Office	4F & 5F, No. 28, Zhongzheng Rd., Tamsui Dist., New Taipei City	(02)2625-5566
13		Sanchong Branch Office	B1, No. 731, Ren'ai St., Sanchong Dist., New Taipei City	(02)2857-6789
14		Xinzhuang Branch Office	4F, No. 306 & 4F, No. 308, Zhonggang Rd., Xinzhuang Dist., New Taipei City	(02)2279-5688
15		Hotai Branch Office	4F, No. 10, Sec. 1, Zhongshan Rd., Banqiao Dist., New Taipei City	(02)2956-1688
16		Linkou Branch Office	3F, No. 46, Linkou Rd., Linkou Dist., New Taipei City	(02)2601-8288
17		Yingge Branch Office	3F & 4F, No. 101, Guoqing St., Yingge Dist., New Taipei City	(02)2677-6000
18	Taoyuan County	Taoyuan Branch Office	4F, No. 79, Nanhua St., Taoyuan Dist., Taoyuan City	(03)347-8168
19		Neili Branch Office	2F, No. 262, Huanzhong E. Rd., Zhongli Dist., Taoyuan City	(03)451-9888
20	Hsinchu County	Chupei Branch Office	No. 89, Shengli 1st Rd., Zhubei City, Hsinchu County	(03)658-0066
21	Miaoli County	Toufen Branch Office	2F, No. 1167, Zhonghua Rd., Toufen City, Miaoli County	(037)667-999
22		Miaoli Branch Office	2F, No. 686, Zhongzheng Rd., Miaoli City, Miaoli County	(037)376-118
23		Yuanli Branch Office	No. 70, Sec. 1, Shijie Rd., Yuanli Township, Miaoli County	(037)860-678
24	Taichung City	Taichung Branch Office	1F, No. 131, Sec. 2, Wuquan W. Rd., Nantun Dist., Taichung City	(04)2471-9488
25		Dongshi Branch Office	No. 280, Sanmin St., Dongshi Dist., Taichung City	(04)2588-1811
26	Changhua County	Changhua Branch Office	5F, No. 156, Chenleng Rd., Changhua City, Changhua County	(04)722-9770
27	Yunlin County	Douliu Branch Office	4F, No. 7, Taiping Rd., Douliu City, Yunlin County	(05)533-0777
28		Huwei Branch Office	3F, 4F, 5F, No. 1, Heping Rd., Huwei Township, Yunlin County	(05)633-4888
29		Dounan Branch Office	No. 112, Nanchang Rd., Dounan Township, Yunlin County	(05)595-0121
30	Chiayi City	Chiayi Branch Office	5F, No. 85, Wenhua Rd., East Dist., Chiayi City	(05)222-6848
31	Chiayi County	Puzi Branch Office	2F, No. 2, Wenhua N. Rd., Puzi City, Chiayi County	(05)370-7688
32	Tainan City	Tainan Branch Office	1F & 2F, No. 612, Sec. 2, Fuqian Rd., Anping Dist., Tainan City	(06)295-9988
33		Madou Branch Office	4F & 5F, No. 36, Zhongshan Rd., Madou Dist., Tainan City	(06)572-0168
34	Kaohsiung City	Kaohsiung Branch Office	3F, No. 80 & 82, Wufu 3rd Rd., Kaohsiung City	(07)272-8688
35		Minquan Branch Office	B1 & 6F, No. 385, Minquan 2nd Rd., Qianzhen Dist., Kaohsiung City	(07)333-3133



Serial Number	County or City	Company Name	Address	Telephone
36	Kaohsiung City	Xiaogang Branch Office	2F, No. 339, Hanmin Rd., Xiaogang Dist., Kaohsiung City	(07)806-8988
37		Nanzi Branch Office	B1, No. 201, Nanzi Rd., Nanzi Dist., Kaohsiung City	(07)354-2030
38		Gangshan Branch Office	B1 & 1F, No. 88, Minzu Rd., Gangshan Dist., Kaohsiung City	(07)625-5911
39		Fengshan Branch Office	4F, No. 138, Zhongshan Rd., Fengshan Dist., Kaohsiung City	(07)747-7600
40	Taitung City	Tungsheng Branch Office	2F, No. 347, Sec. 1, Zhonghua Rd., Taitung City, Taitung County	(089)332-339
41	Pingtung County	Chaozhou Branch Office	4F & 5F, No. 71, Xinsheng Rd., Chaozhou Township, Pingtung County	(08)780-5888

Underwriting offices

		Address	Telephone
1	Taichung Underwriting Office	28F-2, No. 489, Sec. 2, Taiwan Blvd., West Dist., Taichung City	(04) 2323-1112
2	Kaohsiung Underwriting Office	5F-2, No. 178, Wufu 4th Rd., Yancheng Dist., Kaohsiung City	(07) 521-6026

Stock Transfer Agency

Name: Hua Nan Securities Stock Affairs Department

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

Tel: (02)2718-6425

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

Independent Auditor of the Financial Reports for last year

Name of Office: Deloitte & Touche

Address: 20F, No. 100, SongRen Rd., Taipei City

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

Name of CPA: Hai-Yueh Huang, Yung-Fu Liu

Tel : (02)2545-9988

III. South China Insurance

Unit	Postal Code	Address	Tel	Fax
Headquarter	11071	5F, No. 560, Sec. 4, Zhongxiao E. Rd., Xinyi Dist., Taipei City	(02)2758-8418	(02)2758-7150
Taipei Branch Office	22069	18F, No. 31, Sec. 2, Sanmin Rd., Banqiao Dist., New Taipei City	(02)2954-7373	(02)2954-3455
Taoyuan Branch Office	33053	8F, No. 332, Xianfu Rd., Taoyuan Dist., Taoyuan City	(03)333-1412	(03)336-1672
Hsinchu Branch Office	30041	No. 161, Zhongyang Rd., Hsinchu City	(03)532-4500	(03)532-4283
Taichung Branch Office	40651	5F, No. 698, Sec. 4, Wenxin Rd., Beitun Dist., Taichung City	(04)2238-7818	(04)2237-8133
Yuanlin Branch Office	51050	3F, No. 2, Sec. 2, Datong Rd., Yuanlin City, Changhua County	(04)835-4531	(04)835-3010
Tainan Branch Office	70048	3F, No. 154, Sec. 2, Yongfu Rd., West Central Dist., Tainan City	(06)226-2131	(06)226-0050
Kaohsiung Branch Office	80055	5F, No. 78, Liuhe 1st Rd., Xinxing Dist., Kaohsiung City	(07)238-0909	(07)238-7215
International Insurance Business Branch Office	11071	5F, No. 560, Sec. 4, Zhongxiao E. Rd., Xinyi Dist., Taipei City	(02)2756-2200	(02)7718-5726
Chengchung District Agency	10049	8F, No. 3, Shaoxing N. St., Zhongzheng Dist., Taipei City	(02)2321-3889	(02)2321-2329
Chung Lun District Agency	10561	No. 73, Sec. 4, Bade Rd., Songshan Dist., Taipei City	(02)2761-3693	(02)2756-6834
Shihlin District Agency	11167	11F, No. 192-1, Sec. 4, Chengde Rd., Shilin Dist., Taipei City	(02)2883-7072	(02)2883-0723
Nangang District Agency	11553	No. 140, Xinghua Rd., Nangang Dist., Taipei City	(02)2788-6209	(02)2788-8239

Unit	Postal Code	Address	Tel	Fax
Sanchong District Agency	24161	Room B, 11F, No. 66, Sec. 1, Chongyang Rd., Sanchong Dist., New Taipei City	(02)2983-4455	(02)2985-4026
Wenshan District Agency	23150	No. 45, Zhongyang Rd., Xindian Dist., New Taipei City	(02)2218-1212	(02)2218-9292
Shulin District Agency	23867	No. 258, Zhongzheng Rd., Shulin Dist., New Taipei City	(02)2689-1008	(02)2689-2062
Nankan District Agency	33392	No. 139, Nanshang Rd., Guishan Dist., Taoyuan City	(03)222-5698	(03)222-1519
Zhongli District Agency	32068	No. 175, Zhongyuan Rd., Zhongli Dist., Taoyuan City	(03)434-5936	(03)434-5940
Toufen District Agency	35151	No. 403, Minzu Rd., Toufen City, Miaoli County	(037)613-889	(037)613-969
Miaoli District Agency	36048	No. 365, Zhigong Rd., Miaoli City, Miaoli County	(037)337-557	(037)352-159
Fengyuan District Agency	42047	No. 181, Zhongshan Rd., Fengyuan Dist., Taichung City	(04)2529-0961	(04)2529-0996
Minquan District Agency	40041	Room 503, No. 102, Minquan Rd., Central Dist., Taichung City	(04)2225-9285	(04)2227-3189
Dajia District Agency	43747	4F, No. 10, Wenwu Rd., Dajia Dist., Taichung City	(04)2688-2218	(04)2688-2228
Shalu District Agency	43649	4F, No. 151-3, Zhonghua Rd., Qingshui Dist., Taichung City	(04)2627-3299	(04)2627-3298
Nantou District Agency	54062	3F, No. 236, Fuxing Rd., Nantou City	(049)223-3706	(049)223-3039
Caotun District Agency	54256	No. 493, Bo'ai Rd., Caotun Township, Nantou County	(049)236-7881	(049)236-7898
Changhua District Agency	50058	No. 300, Sec. 1, Zhongshan Rd., Changhua City, Changhua County	(04)711-5685	(04)711-0035
Lukang District Agency	50568	No. 90, Sec. 8, Zhanglu Rd., Lukang Township, Changhua County	(04)778-0780	(04)778-8580
Douliu District Agency	64043	No. 234, Zhuangjing Rd., Douliu City, Yunlin County	(05)532-3922	(05)533-1365
Chiayi District Agency	60054	4F-3, No. 762, Xinmin Rd., Chiayi City	(05)286-4599	(05)235-1672
Xinying District Agency	73061	No. 304, Sec. 2, Xinjin Rd., Xinying Dist., Tainan City	(06)656-2565	(06)656-2543
Rende District Agency	71752	No. 180, Zhongshan Rd., Rende Dist., Tainan City	(06)249-0707	(06)249-1102
Xinxing District Agency	80054	5F, No. 61, Zhongzheng 3rd Rd., Xinxing Dist., Kaohsiung City	(07)215-1998	(07)215-3655
Nanzi District Agency	81148	No. 292, Yuanzhong Rd., Nanzi Dist., Kaohsiung City	(07)360-8220	(07)360-8230
Pingtung District Agency	90053	1F, No. 105, Ren'ai Rd., Pingtung City	(08)735-3182	(08)735-3183
Fongshan District Agency	80770	No. 680, Chengqing Rd., Sanmin Dist., Kaohsiung City	(07)767-6879	(07)767-8109
Taitung District Agency	95055	No. 396, Hanyang N. Rd., Taitung City	(089)321-681	(089)321-679
Hualien District Agency	97346	No. 12, Sec. 1, Heping Rd., Ji'an Township, Hualien County	(03)856-0001	(03)856-3008
Luodong District Agency	26542	1F, No. 338-6, Gongzheng Rd., Luodong Township, Yilan County	(03)956-5621	(03)957-2344
Keelung District Agency	20051	4F, No. 305, Ren 1st Rd., Ren'ai Dist., Keelung City	(02)2420-1920	(02)2420-1927
Shenzhen Representative Office		Room 709, C Building, Xintian Century Business Center, Shixia North Second Street Futian District, Shenzhen, China	86-755-82092345	86-755-82092123

IV. Hua Nan Investment Trust

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

V. Hua Nan Venture Capital

Address: 3F, No. 143, Sec. 2, Mingsheng E. Rd., Zhongshan Dist., Taipei City

Tel No.: (02)2500-0622

Other operating unit: None

VI. Hua Nan Assets Management

Address: Room 405, 4F, No. 18, Sec. 1, Changan E. Rd., Taipei City

Tel No: (02)2511-2900

HONESTY. EFFICIENCY. **A**CTIVENESS. RESPONSIBILITY. **T**EAMWORK

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