

 HUA NAN FINANCIAL HOLDINGS CO., LTD.

2019

ANNUAL REPORT

HUA NAN FINANCIAL HOLDINGS CO., LTD.



108



ANNUAL REPORT

2019

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: <https://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: <https://www.hncb.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: <https://www.entrust.com.tw/>
3. South China Insurance Co., Ltd.
Address: 5F, No. 560, Sec. 4, Zhongxiao E.
Rd., Xinyi Dist., Taipei City
Website: <https://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: <https://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: <https://www.hnamc.com.tw>

II. Spokesperson

Name of spokesperson: King-Huo, Lu
Title: Executive Vice President and Company Secretary
Tel No.: (02)2371-3111 Ext. 1865
E-mail: public@hnfhc.com.tw
Name of deputy spokesperson: Tien-Yu, Chen
Title: Executive Vice President
Tel No.: (02)2371-3111 Ext. 1862
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: <https://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: 20F, No. 100, Songren Rd., Xinyi Dist.,
Taipei City
Tel No.: (02)2725-9988
Website: <https://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: <https://www.taiwanratings.com>

CONTENTS

HUA NAN FINANCIAL HOLDINGS CO., LTD.

003

I | Letter to the Shareholders

- I. Organization Chart
- II. Directors and Management Team
- III. Status of Corporate Governance
- IV. Information on CPA Professional Fees
- V. CPA change information
- VI. If Chairman, President, or Chief Financial Officer Holding Positions at the Independent Audit Firm or its Affiliated Company within the Most Recent Fiscal Year
- 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, 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
- 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, 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.

061

IV | Capital Overview

- I. Stocks and Dividends
- II. Corporate Bonds
- III. Issuance of Preferred Stock
- IV. Issuance of Global Depositary Receipts
- V. New Issuance of Restricted Employee Shares
- VI. Merger by Other Financial Institutions or Acquisition of Other Financial Institutions
- VII. Execution of Fund Application Plans

068

V | Business Overview

- 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. The number of full-time non-management employees, the average and median salary of full-time non-management employees, and the difference of the three statistics compared to the previous 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

123

VI | The Company's Business

- 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

316

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

- I. Financial Status
- II. Financial performance
- III. Cash flow
- IV. Major Capital Expenditure for the Most Recent Year and Its Effect on Financial Position and Operation of the Company
- V. Company Reinvestment Policy for the Most Recent Fiscal Year, Main Reasons for Profits/Losses Generated Thereby, Plan for Improving Re-investment Profitability, and Investment Plans for Coming Year
- VI. Risk management
- VII. Crisis management and response mechanisms
- VIII. Other Important Issues

352

VIII | Other Special Notes

- I. Related Information for Subsidiaries
- II. Private Placement Securities of the Most Recent Year up to the Date of Publication of This Report
- 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
- IV. Any Events that Had Significant Impacts on Shareholder's Right or Security Prices
- V. Other Necessary Supplement

356

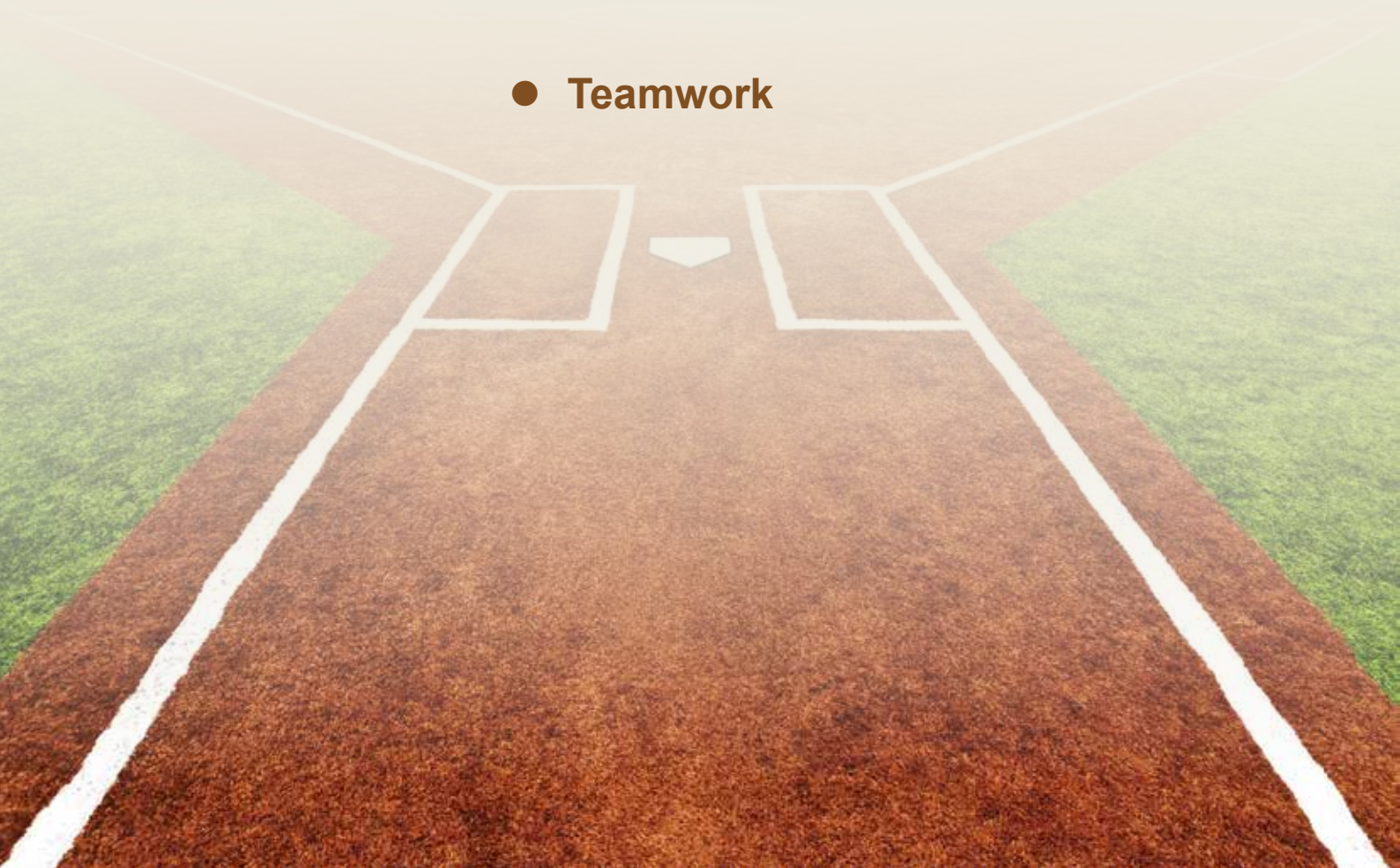
IX | Basic information for domestic and overseas operating units of the Group

- 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

2019 ANNUAL REPORT

HUA NAN FINANCIAL HOLDINGS CO., LTD.

- **Honesty**
- **Efficiency**
- **Activeness**
- **Responsibility**
- **Teamwork**



CHAIRMAN

Chang, Yuen-Peng

I | Letter to the Shareholders

I. The Group's Business Results for 2019

(I) Domestic and Foreign Financial Environment in 2019

The trade war between the United States and China has impacted global economic growth and trade in 2019, and manufacturing industries in major economies also suffered. IHS Markit estimates that the global economy in 2019 grew by around 2.6%, far lower than 3.2% achieved in 2018. Thus it's evident that the global economy is in a decline. However, reduced interest rates and monetary easing policies of several central banks across the world have boosted the financial market. However, there was optimism in new technologies (i.e., 5G, AI, IoT, and electric vehicles) coupled with the restart of trade negotiations between the United States and China. These have created a bull market as reflected in the Dow Jones continuously reaching record highs.

These international developments and the global supply chain reorganization spurred the return of Taiwanese businesses back to Taiwan with investments. Taiwan's stock market also benefited from tech company stocks and record highs in the American stock market and rise by 23% in the year. Estimates by the Directorate-General of Budget, Accounting and Statistics, Executive Yuan on February 12, 2020 show the annual economic growth rate in 2019 to be approximately 2.71%, a marginal decline of 0.04% from 2.75% in 2018. The marginal decline is a result of uncertainties in the global economy created by the trade war between the United States and China. The decline in international raw material prices also reduced exports. Consumer spending grew as a result of increased demand in the automobile market and smart phones and growth in the stock market. The return of Taiwanese businesses to Taiwan with investments and increased capital expenditure in the semiconductor industry also offset some of the unfavorable factors.



VICE CHAIRMAN

Ming Chen Zhi

(II) Changes to the Company Organization

Since its inception on December 19, 2001, HNFHC has operated financial services across professional fields like banking, securities, insurance, investment trusts, asset management, and venture capital. At the end of 2019, the Company gained 100% ownership control over all its six subsidiaries.

(III) Business Plan and Results of Business Strategies

The Group will carefully evaluate risks and follow the following strategies in response to domestic and international political and economic developments: 1. Assess business opportunities with the return of Taiwanese businesses and offshore capital to Taiwan. 2. Provide loans to small and medium enterprises and develop wealth-management plans for business owners. 3. Make suitable adjustments in investment strategies amid fluctuations in financial market to improve profitability. 4. Reduce exposure to China and increase bad debt provision owing to risks from a decelerating economy. 5. Increase the ratio of securities and life- insurance products to improve profitability.

6. Develop FinTech and attract young customers to face challenges posed by online banks. The significant involvement and professional guidance of Directors and Supervisors of the Group and the hard work put in by employees helped the Company grow its net profit after tax in 2019 to NT\$15.955 billion, a 9% increase over 2018. The earnings per share (EPS) were NT\$1.31 and the return on equity (ROE) 8.79%. The net profit after tax of the subsidiary HNCB was NT\$15.169 billion, an increase of 6% over the previous year. Its profitability reached new highs and the non-performing loan ratio reduced to 0.12% with outstanding asset quality. HNSC's net profit after tax was NT\$931 million, a 104% increase over the previous year. The brokerage and underwriting market share increased from 3.28% to 3.36% which ranked first among securities firms with government capital. South China Insurance's net profit after tax was NT\$651 million, a 3% increase over the previous year. The total premium income from written policies amounted to NT\$9.074 billion.

The Group continues to improve and work hard in corporate governance, green finance, environmental sustainability, corporate social responsibility, digital innovations in financial services, and high-quality consumer products. The significant achievements in 2019 are:



PRESIDENT

Lo, Pao-chu

1. Strengthened the Management

- (1) Asset quality: The non-performing loan and loan loss coverage ratios of the subsidiary HNCB were 0.12% and 1031.65%, respectively, which are superior to industry averages.
- (2) Capital adequacy ratio: The Group's capital adequacy ratio at the end of 2019 was 115.72%, and that of HNCB's 13.88%, with a Tier 1 capital adequacy ratio of 11.63%.
- (3) Corporate governance: The Company is part of the top 5% bracket in the 5th Corporate Governance Evaluation of the Taiwan Stock Exchange formed in 2018. It has also been 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:

A. Establishment of Legal Compliance Committee of the Group:

To effectively advance the Group's compliance operations, the Group's Legal Compliance Committee supervises all companies by paying attention to regulatory changes in the country and abroad and respond suitably.

B. Implementing key compliance matters of the Group:

The Group will formulate consistent anti-money laundering and counter-terrorism financing regulations and adopt consistent risk-assessment methodology to effectively offset money-laundering and terrorist-financing risks. The Company is committed to protecting personal data. In addition to creating group policies, the Company also organizes personal data-protection meetings and international certifications to protect personal data effectively.

C. Establishment of the legal compliance system of the Group:

Using the compliance data-reporting system the Group conducts real-time and regular online reporting and ensures legal compliance and effectiveness of the Group's business activities. In addition, the anti-money laundering information-sharing platform of the Group is used for comparison, review, confirm, transmit, and use the Group's AML information to effectively offset the Group's money-laundering and terrorism-financing risks.

2. Strengthened Cross-Selling

- (1) Group cross-selling benefits: The Group's cross-selling business operations as a percentage of contribution to income was 104% in 2019.
- (2) Strengthen the Group's Cross-Selling Businesses: The Group will pursue "simple product explanation", "key product recommendations", and "rapid logistics support" to integrate the channel's resources and improve cross-selling business volume.

3. Promoted Digital Finance

- (1) Develop FinTech Patents: By the end of 2019, the Group has received 91 FinTech patents in mobile platforms, big data, artificial intelligence, security and control mechanisms, and biometrics.
- (2) Create Smart Financial Products: The Group created the first conversational mobile bank powered by AI and promoted services, such as financial certification blockchains, facial recognition fund withdrawal, fund transfer, and mobile payment. We employ technologies to make financial services more efficient.
- (3) Promote Big-Data Business Applications: We established a Group-level Big-Data Business Development Team and trained dozens of data analysts to use big data to promote business and increase the value of data.
- (4) FinTech Innovation Contest: The Group organized the fourth "Hua Nan Financial Holdings' FinTech Innovation Contest" and consolidated the strength of industry, academia, researchers, and innovators. A total of 302 teams participated in the contests organized, the largest such nationwide FinTech innovation contest. The entries in the contest excelled in both quality and quantity. We hope that the contest can bring together campus and industry development ahead of time and bring innovation and creativity in the industry to attract future FinTech research-and-development talent.

4. Corporate Social Responsibility

- (1) Promote charitable activities:
 - A. The Group's goals for public welfare include caring for disadvantaged groups, popularizing knowledge and education, supporting sports activities, and nurturing cultural and creative industries. The Group sponsored or hosted over 30 charitable activities in 2019, including "Excellent Hua Nan Care for the Elderly" activity, "President Tsai Ing-Wen and High School Students Face-to-Face Forum", "Unified Invoice Cup for Road Running", "One Ball for One Dream" fundamental baseball attraction plan, and sponsored gymnasts Li, Chih-Kai, Huang, Ke-Chiang, and coach Lin, Yu-Hsin, the second "Little Gymnast Camp", and the French musical "Notre Dame de Paris" and paid their training fees.
 - B. In recognition of its support to sports activities, the Company was awarded the "Sports Activists Awards" of the Sports Administration of the Ministry of Education in 2019. It was the Company's eighth such award and the third consecutive award for Gold Sponsorship, Long-Term Sponsorship, and Promotional Bronze Awards.
- B. Support to green finance:
 - a. The subsidiary, HNCB, extended loans of NT\$95.8 billion to green-energy technology companies by the end of 2019, an increase of NT\$18.1 billion or 23.3% from NT\$77.7 billion by the end of 2018.
 - b. The subsidiaries HNCB and HNVC have invested NT\$1.283 billion in green-energy technology companies.
 - c. HNCB issued NT\$1 billion worth of green bonds, and invested NT\$5.46 billion in green bonds at face value by the end of 2019.
 - d. HNCB continues to support the development of green-energy technology companies, while South China Insurance focuses on the impact of climate change on the harvest of agricultural products. It supports the Council of Agriculture's initiatives by developing insurance policies for various agricultural products along with property insurance companies. South China Insurance launched "papaya insurance" and "lychee insurance" to help farmers mitigate the impact of climate change and create a safety net for agriculture in Taiwan.

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

In 2019, the Company and subsidiaries generated net income after tax of NT\$15.955 billion with an EPS of NT\$1.31. The consolidated return on assets ratio was 0.59% and the consolidated return on equity was 8.79%. The profitability of the subsidiaries is arrived as follows:

1. Hua Nan Commercial Bank

In 2019, the Bank posted a net profit after tax of NT\$15.169 billion, EPS of NT\$1.83, return on assets ratio of 0.57%, and return on equity of 7.94%.

2. Hua Nan Securities

In 2019, HNSC posted net profit after tax of NT\$931 million, EPS of NT\$1.15, return on assets ratio of 2.29%, and return on equity of 7.34%.

3. South China Insurance

In 2019, South China Insurance posted net profit after tax of NT\$651 million, EPS of NT\$3.25, return on assets ratio of 3.43%, and return on equity of 11.95%.

4. Hua Nan Investment Trust

In 2019, HNIT posted net profit after tax of NT\$7 million, EPS of NT\$0.21, return on assets ratio of 0.71%, and return on equity of 1.27%.

5. Hua Nan Venture Capital

In 2019, HNVC posted net profit after tax of NT\$24 million, EPS of NT\$0.12, return on assets ratio of 1.51%, and return on equity of 1.53%.

6. Hua Nan Assets Management Company

In 2019, HNAMC posted net profit after tax of NT\$20 million, EPS of NT\$0.20, return on assets ratio of 0.55%, and return on equity of 1.83%.

(V) Research & Development

1. Hua Nan Financial Holdings

Group-level "Big Data Business Development Team" and "Big Data Analysis Team" were created for monthly big-data analytics and communication among different subsidiaries to actively develop big-data business applications and increase the value of data. The Group created dozens of "customer product purchase tendency" machine learning models by analyzing customer behavioral patterns based on the characteristics of subsidiaries' industries. The models are used to predict customer preferences and demand for financial products. We use data-driven and science-based methods to help promote front-line business development to reduce marketing costs and increase customer response rate.

2. Hua Nan Commercial Bank

The Bank continuously encouraged employees to actively participate in research and development. In 2019, employees submitted a total of 227 R&D proposals, of which 35 have been adopted.

3. Hua Nan Securities

- (1) In response to FinTech trends, HNSC provides customers with more thoughtful services. In addition to continuous optimization of the "Hua Nan Securities" Line@ official account, HNSC also plans to provide more innovative smart customer services and provide customers with a broad range of service channels.
- (2) HNSC continues to optimize the Hua Nan e-counter app to help customers apply for services without visiting the counter. For online account opening, HNSC provides an OPT online account opening password certification service with enhanced security; for bilateral loans, HNSC provides customers with more high-quality interest rates; in fixed time and amount securities trading, HNSC added more ETF products to help customers invest with ease.
- (3) HNSC has improved the Hua Nan Precision app to provide for increased ETF transactions to make it a prominent feature in the securities investment market. The company plans to add smart ETF securities selection functions, smart ETF investment modules, and live trading strategy subscription services to the mobile platform to offer customers more high-quality services and satisfy their needs.
- (4) The continuous trading system was launched on March 23, 2020, and the trading server and computers of sales personnel were upgraded at the end of 2019 to effectively increase the efficiency in processing trade orders and help accelerate the delivery of customers' orders to the exchange house matching ideal prices. HNSC also improved the performance and expanded the functions of electronic order software and added functions for programmable trading. Customer can now set order conditions based on their own investment strategies.
- (5) Implement the openness policy of the competent authority. Offer unlimited money borrowing, fixed time and amount securities trading, and digital central depository book assignment to provide diversified services to customers.
- (6) 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 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 direction and understand the ideal trading times to maximize profits.

- (7) To promote Offshore Securities Units (OSUs), we will employ additional professionals to promote relevant businesses and increase our niche.
- (8) We will pursue diverse management techniques as per risk-based approach followed for international anti-money laundering standards and strengthen training. We will conduct system review and functional tests of the "Anti Money Laundering (AML)" system developed by SAS Institute Inc. (United States) to ensure its effectiveness and enhance system functions based on practical operational requirements.
- (9) Improve and strengthen information security: Procure Fortinet network equipment with VPN two-factor authentication to improve information security. Replace the VPN connection system for IT personnel. Allocate budget for system upgrade and plan the system replacement schedule.
- (10) Implement the following system plans for related information systems:
 - A. In conjunction with the planning of the blueprint of the Company and the Bank's 3.0 digital financial environment, we built a complete digital financial 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 engagement and marketing.
 - e. Master 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 sub-brokerage 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 corporate customers.
- (11) The subsidiary Hua Nan Securities Investment Management conducts in-depth research on the basic, technical, and funding aspects of the global financial system, domestic and foreign macroeconomic development, industries, and individual companies to gain insights into investment trends and avoid risky industries. In addition to regularly bringing out related investment publications and organization of investment seminars, we also provide related units of HNFHC with information that serves as the basis for investments and reference for credit extension.

4. South China Insurance

In response to suggestions from 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 2019, 154 new products were developed, of which 123 are being marketed. In addition to learning about market demand, we are able to provide comprehensive professional services to policy holders. South China Insurance has long been committed to professional management and active participation in social-welfare activities. It has won two major awards in the "Faith, Hope & Love Awards of Insurance" including the "Best Product Creativity Award" and "Best Communication Office Award" and was selected for the "Best Insurance Professionalism Award", "Best Social Responsibility Award", and "Best Professional Consultant". In addition, South China Insurance has won the "Information Security Excellence Award" consecutively in the "biennial Taiwan Insurance Excellence Award" organized by the Taiwan Insurance Institute and was promoted to the Gold Award. It also received the Gold Award in "Talent Development Excellent Performance Award" and Silver Award in "Risk Management Project Planning Excellence Award". Its outstanding performance won the trust of the society.

Integrity, precision, and transparency are the DNA of the core values of our risk-management culture. We have also employed audit, legal compliance and discipline, as also risk- management unit collaborative platform to promote specific risk-management mechanisms for higher corporate governance and risk management.

Solid operation is SCIC's business principle, 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, 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, profitability, and excellence in business performance.

A spirit of business innovation, customer orientation, efficient service, and the collective efforts of all employees helped fuel SCIC's steady growth in 2019. In the future, SCIC's business strategy is to make improvements in business efficiency. The company keeps looking for new developments that will offer customers a full range of services. SCIC will also continue information hardware and software expansion, digital application optimization, and improvement

of overall information management effectiveness, and fulfillment of corporate social responsibility to achieve excellence.

5. Hua Nan Investment Trust

At the end of 2019, the overall investment trust fund size was approximately NT\$4 trillion, an increase of approximately NT\$1.43 trillion or 55.7% increase compared to 2018. The Company's public fund collection at the end of 2019 was NT\$36.184 billion, an increase of approximately NT\$2.5 billion over that of 2018 and we were ranked 25th in the market. The relative decline is attributed to the rapid development of ETFs in the overall bond market in 2019. Many investment trust companies under financial holding companies have joined the rush improving their rankings and affecting the Company's market ranking.

In overall performance of different categories of funds on the market, the funds with the largest increase in scale in 2019 were international ETFs, followed by general international bond funds with an increase of approximately NT\$224.9 billion in the year. The increase was mainly due to the increase in the scale of target maturity bond funds. The third type is the domestic money market fund which increased by more than NT\$110 billion compared to 2018.

The top three fund categories with the largest decreases were international money market funds, principal-protected funds, and general domestic bonds, which fell by NT\$4.3 billion, NT\$3.4 Billion, and NT\$1.6 billion, respectively.

6. Hua Nan Venture Capital

The Company keeps abreast of 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 promotes strategic alliances and partnerships for smooth market listing and profitability.

7. Hua Nan Assets Management Company

Hua Nan Assets Management Company has a diversified business model. It has three core businesses: "NPL investment and disposal business", "real estate direct investment business", and "trust management business." It is flexible in its business strategies and uses human resources suitably according to changes in market conditions not to miss business opportunities and avoid risks arising from concentrated business operations.

To acquire properties and for earnings growth, Hua Nan Assets Management Company actively participated in the evaluation of real estate auctioned by government. It has acquired land in Xindian Yang-Pei redevelopment zone in May 2018 and July 2019. The acquisition marks the first large-scale government land tender offer with investment from an asset management company of a financial holding company.

The amendment to the "Principles for the Operations of Asset Management Companies Invested by Financial Holding Companies (Banks)" promulgated by the Financial Supervisory Commission on May 24, 2019, relaxed restrictions on the participation of asset-management companies in projects involving urban renewal, and dangerous and old buildings. HNAMC also actively evaluated such projects referred to by construction-management companies or banks and officially approved the creation of a fund in November 2019 to make advance payments for the reconstruction of dangerous and old buildings. The fund was established to support government policies for urban renewal and improvements for dangerous and old buildings, help citizens improve their living safety standards, and for increased public welfare.

II. 2020 Group Business Plan, Future Development Strategies, and Impact of the External Competitive Environment, Regulatory Environment, and Macroeconomic Conditions:

The global economy is feared to decline in 2020 and changes will be mainly based on subsequent development of the COVID-19 pandemic, the implementation and progress on phase 1 trade agreement between the United States and China, decline in the economy of Mainland China, fluctuations in the international stock exchange and bond markets, changes in oil prices and other commodities, and the effect of geopolitics on the global economy.

The uncertainty created by the COVID-19 epidemic in Taiwan has affected production, consumption, trade, and other regular economic activities and thus lowered foreign trade and impacted private consumption. However, continuous investments in the semiconductor industry, continuous increase in the inflow of Taiwanese businesses, and establishment of 5G networks have spurred investments. The Directorate General of Budget, Accounting and Statistics, Executive Yuan estimates that the economic growth rate of 2020 will be 2.37%, a slight decline from 2019.

The finance industry will see the following opportunities and challenges: 1. Domestic monetary easing means the interest spread of banks will continue to decline. 2. The global supply-chain reorganization will accelerate the return of Taiwanese businesses to Taiwan or redirect them from China to Southeast Asia. 3. The finance industry will become more regional and will be dependent on both innovation and policy support. 4. FinTech development and competition from Internet-only banks. 5. Greater importance for compliance, anti-money laundering, and information security. 6. Investors will focus more on the implementation of CSR and EGS of companies. 7. The COVID-19 pandemic will cut supply chains and increase non-performing loans for banks.

The Group aims to become a "high-quality financial institution with FinTech development and innovation, profitability, legal compliance, and risk management". We have established 6 major operating strategies to benefit from these opportunities and be ready to face challenges: 1. Generate earnings from diverse sources. 2. Balance profit contribution within the Group and increase benefits using assets and capital. 3. Plan additional overseas operations and expand the scale of these operations. 4. Intensify FinTech development to increase operating efficiency and competitiveness. 5. Establish a culture of governance, risk management, and compliance culture (GRC).

6. Fulfill corporate social responsibility, strengthen corporate governance, and attract talent. The Group aims to effectively improve its operating performance, make Securities and SCIC become the Group's second and third profit engines, and use big-data analytics to expand the target customer base and strengthen the Group's cross-selling and digital marketing capabilities.

Although the international economic conditions are full of challenges, we are optimistic about Taiwan's economic development. Once COVID-19 comes under control and the trade war between the United States and China deescalates, the purchase orders reverted to Taiwan and the return of Taiwanese businesses and new technological development (5G, AI, Internet of Things, and electric vehicles) will improve Taiwan's economic outlook. We expect the Group's profitability to continue to grow and we shall achieve greater growth than the economic growth rate to meet the expectations of customers, shareholders, and employees.

III. Impact of the Legal Environment:

The finance industry is highly regulated by the competent authority, which pursued corporate governance, legal compliance, and anti-money laundering measures in 2019. The Group will continue to improve corporate governance, legal compliance, and anti-money laundering and counter-terrorism financing systems and pay close attention to changes in the regulatory environment and responses as we pursue business development. The Company aims to make full use of the functions of legal compliance, risk management, internal auditing and self-examination to create a close-knit safety net, effectively preventing any violation in our business expansion, and ensure that the Company's operations meet regulatory requirements.

IV. Credit Rating

Assessed Institution	Rating Agency	Long-term Credit Rating	Short-term Debt Rating	Future Outlook
Hua Nan Financial Holdings	Taiwan Ratings (2020/05)	twAA-	twA-1+	Stable
Hua Nan Commercial Bank	Taiwan Ratings (2020/05)	twAA+	twA-1+	Stable
	Moody's Ratings (2020/02)	A2	P-1	Stable
	Standard & Poor's (2019/06)	A-	A-2	Stable
Hua Nan Securities	Taiwan Ratings (2019/06)	twAA-	twA-1+	Stable
South China Insurance	Taiwan Ratings (2020/01)	twAA	-	Stable
	A.M. Best (2020/01)	A	a	Stable

Chairman

Chang, Yun-Peng

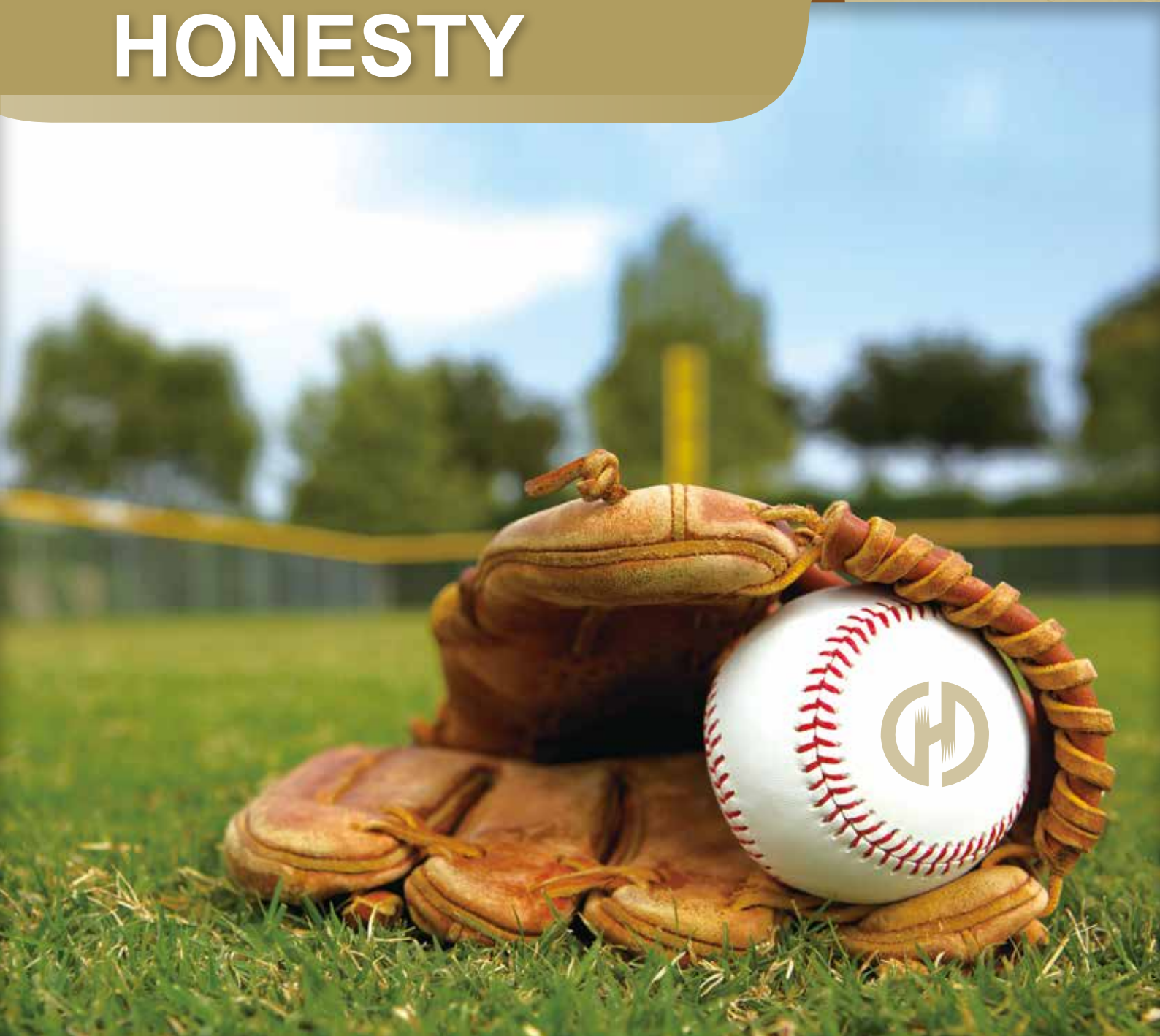
Vice Chairman

Ming Chao Zuo

President

Lo, Pao-chu

HONESTY HONESTY



II | Company Profile

I. Date of Establishment

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 a 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: None.

III. Significant transfer or changes of stock ownership by Board of Directors 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, President Pao-Chu Lo, Chairman Yun-Peng Chang, Vice Chairman Ming-Cheng Lin, Executive Vice President King-Huo Lu, Executive Vice President Tien-Yu-Chen (from left)

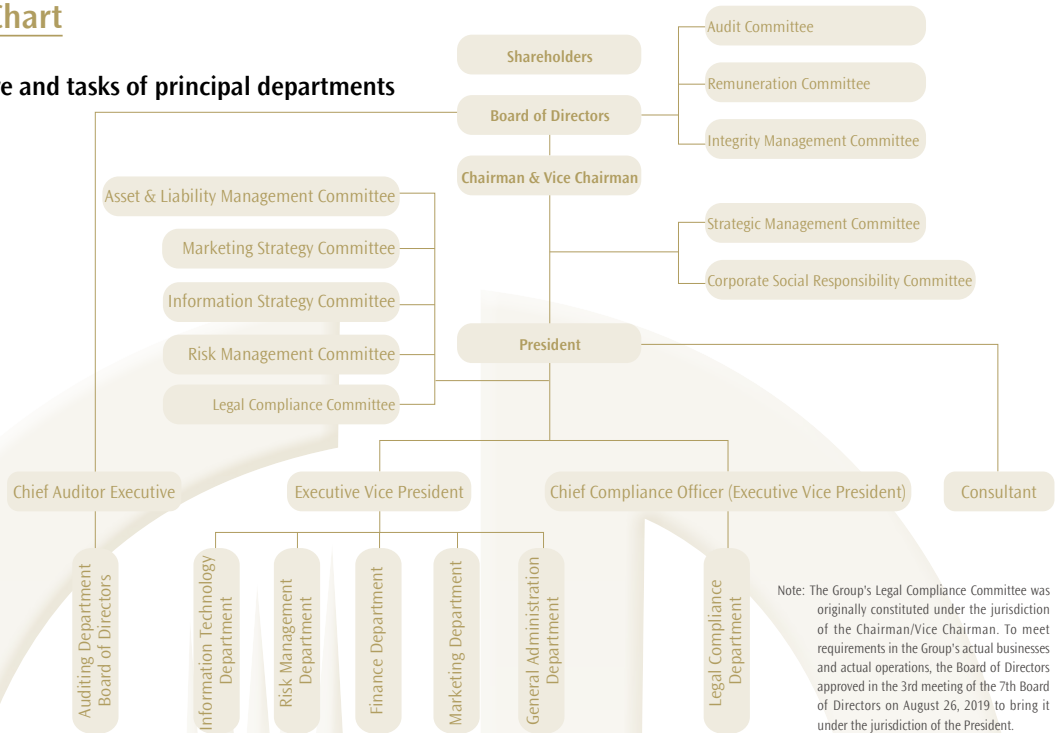
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III | Corporate Governance

I. Organization Chart

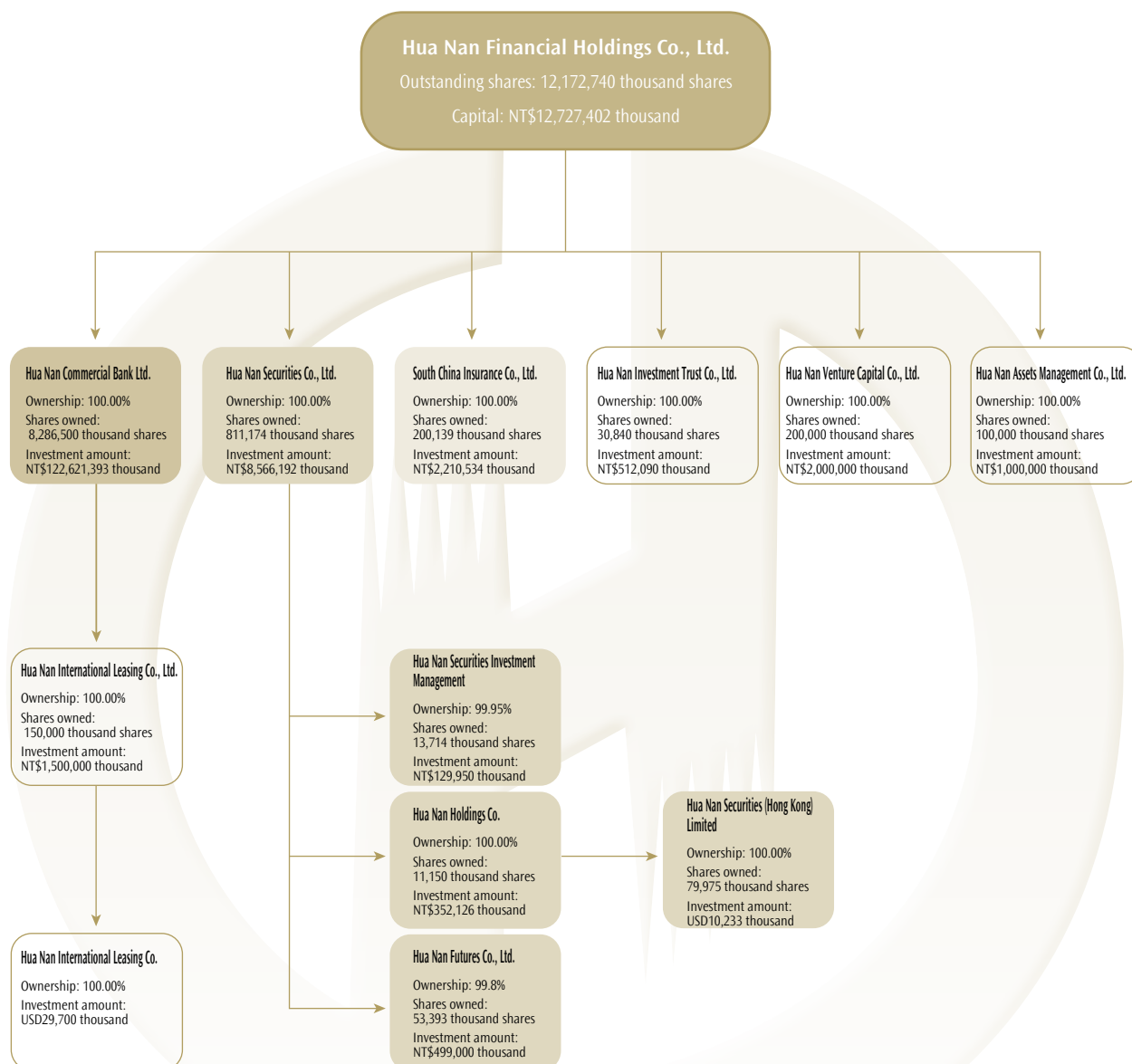
(I) Company structure and tasks of principal departments



 Audit Committee	<ol style="list-style-type: none"> 1. The fair representation of the Company's financial statements; 2. Appointment (dismissal), independence and performance of the Certified Public Accountants (CPAs); 3. Effective implementation of the Company's internal control; 4. The Company's compliance with relevant laws and regulations; 5. Control over the Company's existing or potential risks. 	 Information Strategy Committee	<ol style="list-style-type: none"> 1. Study the Group's short, mid and long-term information strategy planning reports. 2. Study the subsidiaries' information core system deployment planning. 3. Monitor the execution of subsidiaries' information strategies. 4. Monitor the deficiency handling status of the Group's material loss reporting concerning information technology. 5. Study key topics associated with information development of the Group.
 Remuneration Committee	<ol style="list-style-type: none"> 1. Prescribe and periodically review the policies, systems, standards, and structures for performance evaluation and remuneration for directors and managers. 2. Periodically evaluate and prescribe the remuneration of directors and managers. 		<ol style="list-style-type: none"> 1. Study the rules and regulations relating to the management of the Group's credit, market and operational risks. 2. Study limits relating to the Group's credit and market risks. 3. Study the Group's new financial instruments or product plans.
 Integrity Management	<ol style="list-style-type: none"> 1. Help incorporate business integrity and ethics into the business strategies. 2. Establish anti-fraud measures according to the laws and regulations to ensure ethical corporate management. 3. Develop a whistle-blowing system and ensure its operating effectiveness. 4. Promote and coordinate integrity policy training. 5. Execute matters relating to the development and supervision of the integrity policy. 	 Risk Management Committee	<ol style="list-style-type: none"> 1. Study the Group's mid and long-term development strategies. 2. Study the Group's major investment decisions. 3. Study capital raising and mid and long-term financing. 4. Study the Group's annual budgets. 5. Study the annual performance evaluation of subsidiaries.
 Strategic Management Committee		 Legal Compliance Committee	<ol style="list-style-type: none"> 1. Study the Group's legal compliance system. 2. Review the implementation of the Group's legal compliance system. 3. Review the evaluation results of the Group's legal compliance system. 4. Study the Group's AML/CFT plan. 5. Review the Group's AML/CFT plan and its implementation. 6. 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. 7. Report the implementation of major legal compliance projects. 8. Review other matters requested by the Legal Compliance Committee.
 Corporate Social Responsibility Committee	<ol style="list-style-type: none"> 1. Formulate major strategies that shall be adopted by the Group in fulfilling its corporate social responsibility. 2. Supervise the implementation of corporate social responsibility. 3. Monitor the preparation and review of the annual corporate social responsibility report. 4. Assess relevant corporate social responsibility regulations. 5. Study other significant matters associated with corporate social responsibility fulfillment. 	 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.
 Asset & Liability Management Committee	<ol style="list-style-type: none"> 1. Provide macroeconomic analysis and interest rate forecasts. 2. Study rules and regulations relating to the asset and liability management of the Group. 3. Study limits relating to the asset and liability management of the Group. 4. Adjust, control and manage the exposure positions of assets and liabilities on the non-trading book of the Group. 5. Monitor various liquidity indicators of the Group. 6. Study and execute capital management strategies of the Group. 7. Review the composition and performance of the Group's investment portfolios. 8. Review the Group's asset and liability management report submitted to the Board of Directors. 9. Study topics relating to the interest rate risk, liquidity risk, exchange rate risk, investment portfolio strategies, economic profits and capital management of the Group. 	 Marketing Department	Handle marketing 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.
 Marketing Strategy Committee	<ol style="list-style-type: none"> 1. Study the "Directions for Cross-Selling Management of Hua Nan Financial Group". 2. Study the "Directions for Wealth Management Product Assessment of Hua Nan Financial Group". 3. Study the annual sales target of cross-selling. 4. Study the annual plans for the development and management of cross-selling channels. 5. Study the annual development plans for compound instruments. 6. Study the annual development plans for customer relationship management of the Group. 7. 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. 8. Study other significant marketing-related topics 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.
		 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.
		 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.

(II) Company Organization

2020/03/31



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	2019.06.14	Term expires on 2022.06.13	2015.07.03 (Note: Term was interrupted from June 1, 2017 to April 25, 2019)	196,225,460	1.70	206,919,747	1.70	0	0
Vice Chairman	R.O.C.	The Memorial Scholarship Foundation to Mr. Lin Hsiung-Chen Representative: Ming-Cheng Lin	Male	2019.06.14	Term expires on 2022.06.13	2001.12.19	203,868,643	1.77	214,979,484	1.77	0	0
Director	R.O.C.	Ministry of Finance Representative: Pao-Chu Lo	Female	2019.06.14	Term expires on 2022.06.13	2017.06.01	196,225,460	1.70	206,919,747	1.70	0	0
Director	R.O.C.	Bank of Taiwan Representative: Shih-Ching Jeng	Female	2019.06.14	Term expires on 2022.06.13	2016.07.01	2,450,853,525	21.23	2,584,425,042	21.23	0	0
Director	R.O.C.	Bank of Taiwan Representative: Lin, Ming-Yu	Male	2019.06.19	Term expires on 2022.06.13	2019.06.19	2,450,853,525	21.23	2,584,425,042	21.23	0	0
Director	R.O.C.	Bank of Taiwan Representative: Wang, Chou-Wen	Male	2019.06.14	Term expires on 2022.06.13	2019.06.14	2,450,853,525	21.23	2,584,425,042	21.23	0	0
Director	R.O.C.	Bank of Taiwan Representative : Chen, Ho-Chyuan	Male	2019.06.14	Term expires on 2022.06.13	2019.06.14	2,450,853,525	21.23	2,584,425,042	21.23	0	0
Director	R.O.C.	Bank of Taiwan Representative : Yen, Yu-Min	Male	2019.06.14	Term expires on 2022.06.13	2019.06.14	2,450,853,525	21.23	2,584,425,042	21.23	0	0
Director	R.O.C.	Bank of Taiwan Representative : Vacancy	None	2019.06.14	Term expires on 2022.06.13	None	2,450,853,525	21.23	2,584,425,042	21.23	0	0
Director	R.O.C.	The Memorial Scholarship Foundation to Mr. Lin Hsiung-Chen Representative: T. Lin	Male	2019.06.14	Term expires on 2022.06.13	2001.12.29	203,868,643	1.77	214,979,484	1.77	0	0
Director	R.O.C.	The Memorial Scholarship Foundation to Mr. Lin Hsiung-Chen Representative: Chih-Yang Lin	Male	2019.06.14	Term expires on 2022.06.13	2005.01.14 (Note: Term was interrupted from July 1, 2013 to June 30, 2016)	203,868,643	1.77	214,979,484	1.77	0	0
Director	R.O.C.	The Memorial Scholarship Foundation to Mr. Lin Hsiung-Chen Representative: Chih-Yu Lin	Male	2019.06.14	Term expires on 2022.06.13	2016.07.01	203,868,643	1.77	214,979,484	1.77	0	0
Director	R.O.C.	He Quan Investment Co., Ltd. Representative: An-Lan Hsu Chen	Female	2019.06.14	Term expires on 2022.06.13	2001.12.19	3,203,231	0.03	3,377,807	0.03	0	0
Director	R.O.C.	He Quan Investment Co., Ltd. Representative: Michael, Yuan-Jen Hsu	Male	2019.06.14	Term expires on 2022.06.13	2009.05.16	3,203,231	0.03	3,377,807	0.03	0	0
Director	R.O.C.	China Man-Made Fiber Corporation Representative: Vivien, Chia-Ying Shen	Female	2019.06.14	Term expires on 2022.06.13	2005.08.31	61,291,654	0.53	64,632,049	0.53	0	0
Independent Director	R.O.C.	Kuei-Sun Wu	Male	2019.06.14	Term expires on 2022.06.13	2016.07.01	0	0	0	0	0	0
Independent Director	R.O.C.	Lin, Kuo-Chuan	Male	2019.06.14	Term expires on 2022.06.13	2019.06.14	0	0	0	0	0	0
Independent Director	R.O.C.	Yang, Ming Hsien	Male	2019.06.14	Term expires on 2022.06.13	2019.06.14	0	0	0	0	0	0
Independent Director	R.O.C.	Chen, Sung-Tung	Male	2019.06.14	Term expires on 2022.06.13	2019.06.14	0	0	0	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.

Note 4: When the chairman and the general manager or the equivalent (the Highest manager) are the same person, relatives such as spouse or one parent, the reasons, rationality, necessity and corresponding measures (such as increasing the number of independent directors, and the More than half of the directors did not serve as employees or managers, etc.).

Shareholding Date : 2020.04.21

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			(note 4)
Number of shares	Shareholding Percentage			Position	Name	Relationship	
0	0	President and Director of HNFHC; Managing Director and President of HNCB; Chairman and President of Hua Nan Venture Capital; Chairman of Bank of Kaohsiung (Department of Commerce, National Taiwan University)	Chairman of Hua Nan Commercial Bank	None	None	None	None
0	0	Chairman of HNFHC; Chairman of Hua Nan Commercial Bank; Director of Central Bank; Chairman of The Bankers 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	None
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	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	None
0	0	Principal of Fengyang Junior High School and Zhongping Junior High School of Taichung City : Director of Education Department of Changhua County Government : Deputy County Mayor of Changhua County Government (Master of National Chin-Yi University of Technology Industrial Engineering & Management)	Deputy Minister, Ministry of Labor	None	None	None	None
0	0	Professor, Department of Finance , National Kaohsiung University of Science and Technology, (Ph. D (Money and Banking), National Cheng Chi University)	Professor & Chairman, Department of Finance, National Sun Yat-Sen University	None	None	None	None
0	0	Professor & Chairman, Department of Finance, Professor of Department of Risk Management and Insurance and Chairman(Proxy) of Department of Finance, National Kaohsiung University of Science and Technology (Ph. D of Economics, Texas A&M University, U.S.A)	Professor & Chairman of Economics Department, National Chung Cheng University	None	None	None	None
0	0	Assistant Professor, Department of International Business, National Cheng Chi University (Ph.D in Finance, London School of Economics and Political Science, UK)	Associate Professor, Department of International Business, National Cheng Chi University	None	None	None	None
0	0	None	None	None	None	None	None
0	0	Fund Manager of Mercury Asset Management (Master of Real Estate Economics and Finance, 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	None
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	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	None
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	None
0	0	Vice Chairman of Hua Nan Securities (MBA from the Wharton School of the University of Pennsylvania)	Director of Hua Nan Commercial Bank; Director 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	None
280,000	0.002	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 : Director of SHUO-RONG Investment Co., Ltd.	None	None	None	None
0	0	General Manager of Accounting Department, Central Bank; Chairman of Taiwan Clearing House Development Foundation (Master of Business Administration, National Taiwan University)	None	None	None	None	None
0	0	Associate Professor, Department of Public Administration ,Tamkang University : Associate Professor, College of Law, National Cheng Chi University; Committee Member of FSC; Chairman of Financial Ombudsman Institution : Professor& Dean, National Cheng Chi University (PHD, Kobe University)	Professor, College of Law, National Cheng Chi University	None	None	None	None
0	0	Vice President and Chairman of Deloitte & Touche Taiwan (Master of Accounting Department of National Taiwan University)	Director of SIRTEC INTERNATIONAL CO.,LTD : Independent Director of HNCB	None	None	None	None
0	0	Prosecutor of Yunlin, Taichung, Hsinchu District Prosecutors Office (Department of Law, National Chengchi University)	Chairman of Shunlong Kiln Industry Co., Ltd : Independent Director of Grand Pacific Petrochemical Corp : Partner Lawyer of ChengTai Law Office : Independent Director of HNCB : Director of BO-CHIH Investment Co., Ltd.	None	None	None	None



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

(1) Major Shareholders of the Institutional Shareholders

Date: 2019. 12, 31

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	The legacy of Mr. Lin Hsiung-Chen (100%)
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%), JPMorgan Chase Bank N.A., Taipei Branch in Custody of Vanguard Total International Stock Index Fund, a Series of Vanguard Star Funds (1.36%), 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 (1.33%), Standard Chartered Bank (Taiwan) Ltd. in Custody for iShares Core MSCI Emerging Markets ETF (0.87%), CITI in Custody for EMERGING MARKETS CORE EQUITY PORTFOLIO OF DFA INVESTMENT DIMENSIONS. (0.84%), Lin Gao Huang (0.81%).
He Quan Investment Co., Ltd.	An-Lan Hsu Chen (99%) : Yuan-Ling Hsu (1%)

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.

Note 3: If the entity shareholder is not a company organizer, the name and shareholding ratio of the shareholder that should be disclosed beforehand is the name of the funder or donor and its contribution or contribution ratio.

(2) Major Institutional Shareholders of Institutional Shareholders

Date : 2019.12.31

Name of the Institutional Shareholder (Note 1)	Major Shareholders of the Institutional Shareholders (Note 2)
Taiwan Financial Holdings Co., Ltd.	Ministry of Finance (100%)
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%), Liao Guang Xian (0.91%), The Employees' Welfare Committee of Pan Asia Chemical Corporation(0.62%), Chien-Hsing Wu (0.57%), Li Yu Sheng (0.33%).
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(46.25%), Ta Fa Investment Co., Ltd.(26.78%), Yu Hui Co., Ltd.(10.8%), Pan Hsu Investment Co., Ltd.(3.81%), Te Hsing Investment Co., Ltd.(2.47%), Chou Chin Industrial Co., Ltd. treasury stock(1.20%), 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%)
JPMorgan Chase Bank N.A., Taipei Branch in Custody of Vanguard Total International Stock Index Fund, a Series of Vanguard Star Funds	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
Standard Chartered Bank (Taiwan) Ltd. in Custody for iShares Core MSCI Emerging Markets ETF	Not applicable
CITI in Custody for EMERGING MARKETS CORE EQUITY PORTFOLIO OF DFA INVESTMENT DIMENSIONS.	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.

Note 3: If the entity shareholder is not a company organizer, the name and shareholding ratio of the shareholder that should be disclosed beforehand is the name of the funder or donor and its contribution or contribution ratio.

2. Directors' Professional Qualifications and Independence Analyses

Date: 2020.04.21

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	11	12	
Yun-Peng Chang			V	V		V	V	V	V		V	V	V	V		0
Ming-Cheng Lin			V	V	V				V		V	V	V	V		0
Pao-Chu Lo			V		V	V	V	V	V		V	V	V	V		0
T. Lin		V	V	V		V	V	V	V	V	V	V	V	V		0
Chih-Yu Lin			V		V		V	V	V	V	V	V	V	V		0
Chih-Yang Lin		V	V	V	V	V	V	V	V	V	V	V	V	V		0
An-Lan Hsu Chen			V	V	V	V	V	V	V	V	V	V	V	V		0
Michael, Yuan-Jen Hsu			V	V	V		V	V	V	V	V	V	V	V		0
Vivien, Chia-Ying Shen			V	V		V	V	V	V	V	V	V	V	V		0
Shih-Ching Jeng	V		V	V	V	V	V	V	V	V	V	V	V	V		0
Wang, Chou-Wen	V		V	V	V	V	V	V	V	V	V	V	V	V		0
Chen, Ho-Chyuan	V		V	V	V	V	V	V	V	V	V	V	V	V		0
Yen, Yu-Min	V		V	V	V	V	V	V	V	V	V	V	V	V		0
Lin, Ming-Yu			V	V	V	V	V	V	V	V	V	V	V	V		0
Kuei-Sun Wu			V	V	V	V	V	V	V	V	V	V	V	V		0
Lin, Kuo-Chuan	V		V	V	V	V	V	V	V	V	V	V	V	V		0
Yang, Ming Hsien		V	V	V	V	V	V	V	V	V	V	V	V	V		0
Chen, Sung-Tung		V	V	V	V	V	V	V	V	V	V	V	V	V		1

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. (this restriction does not apply to independent directors in the Company, its parent company, subsidiaries, or subsidiaries of the same parent company which have been appointed in accordance with the Securities and Exchange Act or local laws of the registered country).
- (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.
Not the manager listed in (1) or the spouse, relatives within the second degree of kinship, or the lineal relative within the third degree of kinship listed in (2), (3).
- (5) Not a director, supervisor, or employee of a corporate shareholder who directly holds more than 5% of the total number of issued shares of the Company or is ranked top five in terms of the number of shares held or is designated as a Director or Supervisor of the Company pursuant to Paragraph 1 or 2, Article 27 of the Company Act (this restriction does not apply to independent directors in the Company, its parent company, subsidiaries, or subsidiaries of the same parent company which have been appointed in accordance with the Securities and Exchange Act or local laws of the registered country).
- (6) Not a director, supervisor, or employee of another company where the majority of Board seats, or more than half of the voting shares are controlled by a single person (this restriction does not apply to independent directors in the Company, its parent company, subsidiaries, or subsidiaries of the same parent company which have been appointed in accordance with the Securities and Exchange Act or local laws of the registered country).
- (7) Not a director, supervisor, or employee of a company or institution with the same chairperson of the board, president, or equivalent position, or a spouse thereof, (this restriction does not apply to independent directors in the Company, its parent company, subsidiaries, or subsidiaries of the same parent company which have been appointed in accordance with the Securities and Exchange Act or local laws of the registered country).
- (8) Not a director, supervisor, manager, or shareholder holding 5% or more of the shares of a specified company or institution that has a financial or business relationship with the company (this restriction does not apply to independent directors in the Company, its parent company, subsidiaries, or subsidiaries of the same parent company which have been appointed in accordance with the Securities and Exchange Act or local laws of the registered country).
- (9) Not a professional individual, or an owner, partner, director, supervisor, or manager of a sole proprietorship, partnership, company, or institution that, provides auditing services to the company or any affiliate of the company, or that provides commercial, legal, financial, accounting or related services to the company or any affiliate of the company for which the provider in the past 2 years has received cumulative compensation exceeding NT\$500,000, or a spouse thereof; provided, this restriction does not apply to a member of the remuneration committee, public tender offer review committee, or special committee for merger/consolidation and acquisition, who exercises powers pursuant to the Securities and Exchange Act or to the Business Mergers and Acquisitions Act or related laws or regulations.
- (10) Not having a marital relationship, or a relative within the second degree of kinship to any other director of the Company.
- (11) Not been a person of any conditions defined in Article 30 of the Company Law.
- (12) 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, 2020, 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, 6 directors are 31~50 years old, and 12 directors are 51 years old or older. In addition, the Company values gender equality. The Board of Directors consists of 4 female directors, accounting for 22.2%. The diversification of the Board of Directors is as follows:

Director	Gender	1. Industry experience													2. Professional skills									
		Financial holding	Banking	Securities	Insurance	Asset management	Investment	Education	Venture capital	Real estate development	Notes exchange	Law Firm	Manufacturing and Catering	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	V	V	V	V	
Kuei-Sun Wu	Male	V	V							V					V	V	V	V	V	V	V	V	V	
Lin, Kuo-Chuan	Male	V							V						V		V	V	V	V	V	V	V	
Chen, Sung-Tung	Male					V					V						V					V	V	
Yang, Ming Hsien	Male	V	V	V	V		V								V	V	V	V	V		V	V	V	
Shih-Ching Jeng	Female	V	V		V										V	V	V	V	V	V	V	V	V	
Lin, Ming-Yu	Male						V										V				V		V	
Wang, Chou-Wen	Male	V	V	V			V	V	V						V	V	V	V	V	V	V	V	V	
Chen, Ho-Chyuan	Male	V							V				V		V	V	V	V	V	V	V	V	V	
Yen, Yu-Min	Male		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	V	V	V	
Chih-Yu Lin	Male	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	V	
An-Lan Hsu Chen	Female	V	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	

Note: The professional capabilities listed in this table are listed according to the capabilities that the board of directors should possess according to Article 32 of the Company's Corporate Governance Practices.

58 years of age (inclusive) and below is 50 years old, and 58 years of age is between 31 and 50 years old

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

Position (Note 1)	Nationality	Name	Gender	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	Female	2017.06.01	119,227	0	0	0	0	0
Executive Vice President and Company Secretary	R.O.C.	King-Huo Lu	Male	2017.06.01	0	0	0	0	0	0
Executive Vice President and G.M. of Law and Ordinance Compliance Department	R.O.C.	Tien-Yu Chen	Male	2019.01.23	48,806	0	0	0	0	0
Chief Auditor	R.O.C.	Pi-E Huang	Female	2019.01.16	108,682	0	0	0	0	0
Chief Secretary of Board of Directors	R.O.C.	Hui-Ling Hsu	Female	2015.12.01	103,730	0	0	0	0	0
G.M. of Risk Management Department	R.O.C.	Chin-Hua Yang	Female	2019.01.01	0	0	0	0	0	0
G.M. of Marketing Director	R.O.C.	Chao-Chi Yeh	Male	2017.07.01	74,091	0	1,408	0	0	0
G.M. of Finance Department	R.O.C.	Ping-Hui Chang	Male	2020.01.01	143,636	0	29,857	0	0	0
G.M. of Administration Department	R.O.C.	Po-Hsun Chen	Male	2020.01.01	37,499	0	0	0	0	0
G.M. of Information & Technology Department	R.O.C.	Michael Duh	Male	2008.03.01	64,259	0	0	0	0	0
G.M. of the Audit Office of Board of Directors	R.O.C.	Fang-Ling Chou	Female	2016.11.01	123,040	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.

Note 3: If the general manager or equivalent (the Highest Manager) and the chairman are the same person, relatives such as spouse or one parent, they should explain the reasons, rationality, necessity and corresponding measures (such as increasing the number of independent directors, and should have More than half of the directors did not serve as employees or managers, etc.).

(III) Reappointment of Retiring Chairman and President as Consultants

Title	Nationality	Name	Gender	Position before Retirement		Date of Service	Purpose of Employment	Segregation of Duties	Remuneration	Ratio of Total Remuneration to Income after Tax
				Institution and Title	Date of Retirement					
No retiring chairman or president was reappointed as consultant in 2019.	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Shareholding Date : 2020.04.21

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	Note 3
		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 Supervisor of Taipei Financial Center Corp.	None	None	None	Not issued	None
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 Chairman of Hua Nan Investment Trust Corp.	None	None	None	Not issued	None
Manager of Trust Department/Associate Manager of Corporate Finance Marketing Department/Senior Secretary of the Board of Hua Nan Commercial Bank Department of Accounting and Statistics, Aletheia University	Supervisor of Hua Nan Securities Investment Management	None	None	None	Not issued	None
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 of Hua Nan Commercial Bank Department of Business Administration, National Taiwan University	None	None	None	None	Not issued	None
Manager of Gong Guan Branch/Manager of South San Chong Branch 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 Nan Commercial Bank	None	None	None	Not issued	None
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 and HNFHC Master of Accounting, Utah State University	None	None	None	None	Not issued	None
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	None
Manager of Sydney Branch/Manager of SHIH MAO Branch Master of Accounting, Drexel University	Manager of Finance and Accounting Department of Hua Nan Commercial Bank Supervisor of Hua Nan Securities	None	None	None	Not issued	None
Senior Secretary of the Board of HNFHC Master of Economics, National Chi Nan University	None	None	None	None	Not issued	None
Vice President of Information Department of Taishin International Bank Master of Electrical Engineering, National Taiwan University	Director of CDIB Partners Investment Holding Corp.	None	None	None	Not issued	None
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	None



(IV) Remuneration Paid to Directors (Including Independent Directors), President and Vice President, and Distribution of Employees' Remuneration for 2019

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 (Discharged from 2019.04.08)										
	Yun-Peng Chang (Appointed at 2019.04.26)										
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 (Discharged from 2019.06.14)										
	Wang, Chou-Wen (Appointed at 2019.06.14)										
Director	Bank of Taiwan										
	Chun-Liang Lin (Discharged from 2019.06.14)										
	Chen, Ho-Chyuan (Appointed at 2019.06.14)										
Director	Bank of Taiwan										
	I-Hui Lee (Discharged from 2019.06.14)										
	Yen, Yu-Min(Appointed at 2019.06.14)										
Director	Bank of Taiwan										
	Keh-Her Shih (Resignation from 2019.04.22) (Appointment and Resignation at 2019.06.14)										
	Lin, Ming-Yu (Appointed at 2019.06.19)										
Director	Bank of Taiwan										
	Lung-Huei Tai(Discharged from 2019.06.14)										
	Chang, Chiao-Hsiang (Appointed at 2019.06.14)										
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 (2019.01.01~2019.06.14)										
	He Quan Investment Co., Ltd. (2019.06.14~2019.12.31)										
	An-Lan Hsu Chen										
Director	Entrust Foundation (2019.01.01~2019.06.14)										
	He Quan Investment Co., Ltd. (2019.06.14~2019.12.31)										
	Michael, Yuan-jen Hsu										
Director	China Man-Made Fiber Corporation										
	Vivien, Chia-Ying Shen										
Subtotal		11,577	26,634	1,099	4,841	160,988	160,988	7,034	10,857	1.13%	1.27%
Independent Director	Kuei-Sun Wu										
Independent Director	Ching-Hsiu Chen (Discharged from 2019.06.14)										
Independent Director	Chung-Yuan Hsu (Discharged from 2019.06.14)										
Independent Director	Chun-Pin Chen (Discharged from 2019.06.14)										
Independent Director	Lin, Kuo-Chuan(Elected at 2019.06.14)										
Independent Director	Yang, Ming Hsien (Elected at 2019.06.14)										
Independent Director	Chen, Sung-Tung (Elected at 2019.06.14)										
Subtotal		2,880	4,080	0	0	0	0	840	840	0.02%	0.03%
Total		14,457	30,714	1,099	4,841	160,988	160,988	7,874	11,697	1.15%	1.30%

- The main responsibilities of independent directors of the company are to participate in the board of directors, audit committee and integrity management committee, and participate in the salary and compensation committee and other functional committees in accordance with relevant regulations. The compensation standards for independent directors are based on Letter (2010) No. 09903518290 is processed, and the monthly remuneration is fixed and no director remuneration is supported.
- 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	
	Director	Independent Director	Director	Independent Director	Director	Independent Director	Director	Independent Director
Less than NT\$ 1,000,000	Tang-Chieh Wu, Pao-Chu Lo, Chih-Wen Hsu, Wang, Chou-Wen, Chun-Liang Lin, Chen, Ho-Chyuan, I-Hui Lee, Yen, Yu-Min, Keh-Her Shih, Lin, Ming-Yu, Lung-Huei Tai, Chang, Chiao-Hsiang, Shih-Ching Jeng, T. Lin, Chih-Yu Lin, Chih-Yang Lin, An-Lan Hsu Chen, Yuan-Jen Hsu, Chia-Ying Shen	Kuei-Sun Wu, Ching-Hsiu Chen, Chung-Yuan Hsu, Chun-Pin Chen, Lin, Kuo-Chuan, Yang, Ming Hsien, Chen, Sung-Tung	Pao-Chu Lo, Chih-Wen Hsu, Wang, Chou-Wen, Chun-Liang Lin, Chen, Ho-Chyuan, I-Hui Lee, Yen, Yu-Min, Keh-Her Shih, Lin, Ming-Yu, Lung-Huei Tai, Chang, Chiao-Hsiang, Shih-Ching Jeng, Chih-Yu Lin, Chih-Yang Lin, An-Lan Hsu Chen, Chia-Ying Shen	Kuei-Sun Wu, Ching-Hsiu Chen, Chung-Yuan Hsu, Chun-Pin Chen, Lin, Kuo-Chuan	Tang-Chieh Wu, Chih-Wen Hsu, Wang, Chou-Wen, Chun-Liang Lin, Chen, Ho-Chyuan, I-Hui Lee, Yen, Yu-Min, Keh-Her Shih, Lin, Ming-Yu, Lung-Huei Tai, Chang, Chiao-Hsiang, Shih-Ching Jeng, T. Lin, Chih-Yu Lin, Chih-Yang Lin, An-Lan Hsu Chen, Yuan-Jen Hsu, Chia-Ying Shen	Kuei-Sun Wu, Ching-Hsiu Chen, Chung-Yuan Hsu, Chun-Pin Chen, Lin, Kuo-Chuan, Yang, Ming Hsien, Chen, Sung-Tung	Chih-Wen Hsu, Wang, Chou-Wen, Chun-Liang Lin, Chen, Ho-Chyuan, I-Hui Lee, Yen, Yu-Min, Keh-Her Shih, Lin, Ming-Yu, Lung-Huei Tai, Chang, Chiao-Hsiang, Shih-Ching Jeng, Chih-Yang Lin, An-Lan Hsu Chen, Chia-Ying Shen	Kuei-Sun Wu, Ching-Hsiu Chen, Chung-Yuan Hsu, Chun-Pin Chen, Lin, Kuo-Chuan
NT\$1,000,000 (including) to NT\$2,000,000 (excluding)				Yang, Ming Hsien, Chen, Sung-Tung				Yang, Ming Hsien, Chen, Sung-Tung
NT\$2,000,000 (including) to NT\$3,500,000 (excluding)							Chih-Yu Lin	
NT\$3,500,000 (including) to NT\$5,000,000 (excluding)								
NT\$5,000,000 (including) to NT\$10,000,000 (excluding)	Yun-Peng Chang, Ming-Cheng Lin, Entrust Foundation, He Quan Investment Co., Ltd. China Man-Made Fiber Corporation		Tang-Chieh Wu, Yun-Peng Chang, Ming-Cheng Lin, T. Lin, Yuan-Jen Hsu, Entrust Foundation, He Quan Investment Co., Ltd. China Man-Made Fiber Corporation		Yun-Peng Chang, Ming-Cheng Lin, Pao-Chu Lo, Entrust Foundation, He Quan Investment Co., Ltd. China Man-Made Fiber Corporation		Tang-Chieh Wu, Yun-Peng Chang, Ming-Cheng Lin, Pao-Chu Lo, T. Lin, Yuan-Jen Hsu, Entrust Foundation, He Quan Investment Co., Ltd. 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)								
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		34		34		34		34

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 Company's Subsidiarythe
		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 (Retired from 2019.01.16)													
Chief Auditor	Pi-E Huang (Appointed at 2019.01.16)													
Executive Vice President	Hsin-Tien Ting (Retired from 2019.01.16)													
Executive Vice President	Tien-Yu Chen (Appointed at 2019.01.23)													
Executive Vice President	King-huo Lu													
Executive Vice President	Sarah C.T. Hsu													
Total		15,486	15,486	23,262	23,262	12,886	13,402	2,355	0	2,355	0	0.34%	0.34%	214

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\$1,000,000		
NT\$1,000,000 (including) to NT\$2,000,000 (excluding)		
NT\$2,000,000 (including) to NT\$3,500,000 (excluding)		
NT\$3,500,000 (including) to NT\$5,000,000 (excluding)	Sarah C.T. Hsu	Sarah C.T. Hsu
NT\$5,000,000 (including) to NT\$10,000,000 (excluding)	Pao-Chu Lo, Pi-E Huang, Tien-Yu Chen, King-huo Lu	Pao-Chu Lo, Pi-E Huang, Tien-Yu Chen, King-huo Lu
NT\$10,000,000 (including) to NT\$15,000,000 (excluding)	Neng-Tung Lin, Hsin-Tien Ting	Neng-Tung Lin, Hsin-Tien Ting
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	7	7

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:

- Percentage of Remuneration Paid to the Company's Directors, President, and Vice President to Income after Tax
 - Total remuneration paid to Directors by the Company for 2019 accounted for 1.15% of net income after tax, 0.02 percentage points lower than 1.13% in 2018; total remuneration paid to directors by all companies in financial statements accounted for 1.30% of net income after tax 0.01 percentage points lower than 1.31% in 2018.
 - Total remuneration paid to Presidents and Vice Presidents by the Company for 2019 accounted for 0.34% of net income after tax, 0.11 percentage points higher than 0.23% in 2018; total remuneration paid to presidents and vice presidents by all companies in financial statements accounted for 0.34% of net income after tax, 0.11 percentage points lower than 0.23% in 2018.
- Remuneration Policies, Standards and Packages, Procedures for Determining Remuneration and Their Correlations with Its Business Performance and Future Risk Exposure
 - 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.
 - The Company only pays Directors a fixed transportation allowance every month, and fixed remuneration to independent directors every month. The Company has formulated the Chairman and Vice Chairman Remuneration Standards. The Remuneration Committee will propose the apportion of remuneration for the chairman and vice chairman to the Board of Directors for approval based on common performance indicators set out in the Directions for Employee Bonus Management and their business performance and risk management, internal audit, and legal compliance practices.
 - 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 0.02% to 0.15% of income before tax as employee remuneration; if the Company has accumulated losses, however, it has to set aside certain amount to offset the accumulated losses. The Remuneration Committee will 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 is decided by institutional shareholders. Independent directors are not entitled for director remuneration.
 - The remuneration to presidents and vice presidents is determined based on market standards of the benchmark enterprises and the Manager Remuneration Standards of the Company. The Remuneration Committee will propose the remuneration for presidents and vice presidents of 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.

(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	King-huo Lu				
Executive Vice President	Tien-Yu Chen (Appointed at 2019.01.23)				
Chief Auditor	Pi-E Huang (Appointed at 2019.01.16)				
Executive Vice President	Hsin-Tien Ting (Retired from 2019.01.16)				
Chief Auditor	Neng-Tung Lin (Retired from 2019.01.16)				
General Manager	Fang-Ling Zhou				
General Manager	Chao-Chi Yeh				
General Manager	Chin-Hua Yang				
General Manager	Michael Duh				
Total		0	4,341	4,341	0.027%

Note: Employees' remuneration was estimated based on the 2019 employee remuneration to be distributed upon approval of the Board of Directors.

(VII) Name, Position, and Total Remuneration of Top 10 Receiving Employees' Remuneration for 2019

Unit: NT\$1,000

Serial Number	Title	Name	Share Amount	Cash Amount
1	Executive Vice President	King-huo Lu		
2	Chief Auditor	Pi-E Huang (Appointed at 2019.01.16)		
3	Executive Vice President	Tien-Yu Chen (Appointed at 2019.01.23)		
4	General Manager	Fang-Ling Zhou		
5	General Manager	Michael Duh		
6	General Manager	Chin-Hua Yang		
7	General Manager	Chao-Chi Yeh		
8	Senior Secretary	Po-Hsun Chen		
9	Division Chief	Tsung-Sheng Hu		
10	Senior Secretary	Fu-Xing, Guo		
Total			0	5,347

Note: Employees' remuneration for 2019 is to be distributed by the Company in cash.

III. Status of Corporate Governance

(I) Board of Directors Meeting status:

The board convened 16(A) meetings in the past year. The attendance record of directors is as below:

Jan 1, 2019~Dec 31, 2019

Position	Name (Note 1)	Attendance in Person B	By Proxy	Attendance Rate in Person (%) [B/A] (Note 2)	Remarks
Chairman	Tang-Chieh Wu (Ministry of Finance)	3	3	100%	Dismissed from 2019.04.08, Should attend 3 meetings.
Chairman	Yun-Peng Chang (Ministry of Finance)	11	0	100%	Appointed at 2019.04.26, Should attend 11 meetings.
Vice Chairman	Ming-Cheng Lin (Memorial Scholarship Foundation to Mr. Lin Hsiung-Chen)	16	0	100%	None
Director and President	Pao-Chu Lo (Ministry of Finance)	16	0	100%	None
Director	T. Lin (Memorial Scholarship Foundation to Mr. Lin Hsiung-Chen)	15	1	94%	None
Director	Chih-Yu Lin (Memorial Scholarship Foundation to Mr. Lin Hsiung-Chen)	16	0	100%	None
Director	Chih-Yang Lin (Memorial Scholarship Foundation to Mr. Lin Hsiung-Chen)	16	0	100%	None
Director	An-Lan Hsu Chen (Yongchang Charity Foundation 2019.01.01~2019.06.14) He Quan Investment Co., Ltd. (2019.06.14~2019.12.31)	15	1	94%	None
Director	Yuan-Jen Hsu (Yongchang Charity Foundation 2019.01.01~2019.06.14) He Quan Investment Co., Ltd. (2019.06.14~2019.12.31)	15	1	94%	None
Director	Chia-Ying Shen (China Man-Made Fiber Corporation)	13	3	81%	None
Director	Chih-Wen Hsu (Bank of Taiwan)	7	1	88%	Discharged from 2019.06.14, Should attend 8 meetings.
Director	Lung-Huei Tai (Bank of Taiwan)	6	2	75%	Discharged from 2019.06.14, Should attend 8 meetings.
Director	Keh-Her Shih (Bank of Taiwan)	3	2	60%	Resigned at 2019.04.22, Should attend 5 meetings.
Director	Chun-Liang Lin (Bank of Taiwan)	6	2	75%	Discharged from 2019.06.14, Should attend 8 meetings.
Director	I-Hui Lee (Bank of Taiwan)	6	2	75%	Discharged from 2019.06.14, Should attend 8 meetings.
Director	Lin, Ming-Yu (Bank of Taiwan)	5	0	71%	Appointed at 2019.06.19, Should attend 7 meetings.
Director	Shih-Ching Jeng (Bank of Taiwan)	14	2	88%	None
Director	Wang, Chou-Wen (Bank of Taiwan)	7	1	88%	Appointed at 2019.06.14, Should attend 8 meetings.
Director	Chen, Ho-Chyuan (Bank of Taiwan)	8	0	100%	Appointed at 2019.06.14, Should attend 8 meetings.
Director	Chang, Chiao-Hsiang (Bank of Taiwan)	8	0	100%	Appointed at 2019.06.14, Should attend 8 meetings.
Director	Yen, Yu-Min (Bank of Taiwan)	7	1	88%	Appointed at 2019.06.14, Should attend 8 meetings.
Independent Director	Ching-Hsiu Chen	6	2	75%	Discharged from 2019.06.14, Should attend 8 meetings.
Independent Director	Chung-Yuan Hsu	7	1	88%	Discharged from 2019.06.14, Should attend 8 meetings.

Position	Name (Note 1)	Attendance in Person B	By Proxy	Attendance Rate in Person (%) [B/A] (Note 2)	Remarks
Independent Director	Chun-Pin Chen	8	0	100%	Discharged from 2019.06.14, Should attend 8 meetings.
Independent Director	Kuei-Sun Wu	16	0	100%	None
Independent Director	Lin, Kuo-Chuan	7	1	88%	Elected at 2019.06.14, Should attend 8 meetings
Independent Director	Yang, Ming Hsien	8	0	100%	Elected at 2019.06.14, Should attend 8 meetings
Independent Director	Chen, Sung-Tung	8	0	100%	Elected at 2019.06.14, Should attend 8 meetings

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 4.
- III. Listed and Over-the-counter Financial Holding Companies should disclose information such as the evaluation cycle and period, evaluation scope, methods, and evaluation contents of the Board's self (or peer) evaluation: note 3.
- IV. 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.HNHC.COM.TW). The audit committee is established and consists four independent directors.

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

Note 2: (1) If any 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.

(2) If any director is re-elected by the end of the year, the original and new director shall be both listed. Whether the 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.

Note 3: Board of Directors Evaluation Status

Evaluation Cycle	Evaluation Period	Evaluation Scope	Evaluation Method	Evaluation Contents
The self-evaluation of the Board of Directors shall be conducted once every year. The Company shall appoint an external professional independent institution or a team of external experts and scholars to conduct an external performance evaluation of the Board of Directors at least once every three years.	The Company's Board of Directors shall conduct an internal performance evaluation for the current year at the end of each year. The period for the performance evaluation of the Board of Directors is from January 1, 2019 to December 31, 2019.	The scope of evaluation covers the performance of the Board of Directors and functional committees.	The performance evaluation methods include self-evaluation of the Board of Directors, appointment of external professional institutions or experts, or other appropriate methods.	The Company's evaluation items for the performance evaluation of the Board of Directors and functional committees include five major dimensions: (1) Understanding of the Company's goals and tasks and level of participation in corporate operations. (2) Understanding of the duties and functions of directors and improvement of the quality of the Board of Directors' decisions. (3) Composition and structure of the Board of Directors. (4) The election of directors and their professional and continuing education (5) Internal control. The Company's evaluation items for the performance evaluation of functional committees include five major dimensions: (1) Level of participation in the operations of the functional committee. (2) Knowledge of the duties of the functional committee. (3) Improvement of the quality of functional committee's decisions. (4) Functional committee composition and election of members. (5) Internal control.

Note 4: Evaluation of the Implementation of the Board of Directors:

	Term and Session	Director Name	Content of Proposal	Reason for Recusal	Participation in Voting
1	33rd Meeting of the 6th Board of Directors	Pao-Chu Lo	2018 performance appraisal on the President	The motion involves the interest of the party	Active recusal from the discussion and resolution of the motion
2	34th Meeting of the 6th Board of Directors	Ming-Cheng Lin, Pao-Chu Lo, T. Lin, Chih-Yu Lin	Issuance of the 2018 performance bonus and salary adjustment for employees of director level and above	The motion involves the interest of the party	Active recusal from the discussion and resolution of the motion
3	35th Meeting of the 6th Board of Directors	Yun-Peng Chang, Pao-Chu Lo, Kuei-Sun Wu, Shih-Ching Jeng, Ming-Cheng Lin, T. Lin, Chih-Yu Lin, Chih-Yang Lin, An-Lan Hsu Chen, Michael Yuan Jen Hsu, Vivien Chia-Ying Shen	Candidates for directors and independent directors nominated by shareholders holding more than 1% of the Company's shares	The motion involves the interest of the party	Active recusal from the discussion and resolution of the motion
4	35th Meeting of the 6th Board of Directors	Pao-Chu Lo, Hsu Chen, An-Lan, Michael Yuan Jen Hsu, Chih-Yang Lin	Proposal for the release of the non-competition clause for the 7th Board of Directors in the Annual General Shareholders' Meeting this year (2019).	The motion involves the interest of the party	Active recusal from the discussion and resolution of the motion
5	36th Meeting of the 6th Board of Directors	Yun-Peng Chang	Establishment of a fixed monthly salary for the Chairman and the number of days of special leave	The motion involves the interest of the party	Active recusal from the discussion and resolution of the motion
6	1st Special Meeting of the 7th Board of Directors	Pao-Chu Lo	The Company plans to continue to appoint Pao-Chu Lo as President	The motion involves the interest of the party	Active recusal from the discussion and resolution of the motion
7	1st Special Meeting of the 7th Board of Directors	Kuei-Sun Wu, Kuo-Chuan Lin, Ming-Hsien Yang, Sung-Tung Chen	Appointment of the four independent directors as members of the Company's Remuneration Committee	The motion involves the interest of the party	Active recusal from the discussion and resolution of the motion
8	4th Meeting of the 7th Board of Directors	An-Lan Hsu Chen, Michael Yuan Jen Hsu	Proposal for the appointment of the subsidiary Hua Nan Securities Co., Ltd. to serve as the underwriter of the Company's issuance of ordinary corporate bonds	The motion involves the interest of the party	Active recusal from the discussion and resolution of the motion

**(II) Audit Committee Meeting Status:**

The audit committee convened 12 meetings (A) in 2019. The attendance record of independent directors is as below:

Position	Name	Attendance in Person (B)	By Proxy	Attendance Rate in Person (%) (B/A) (Note)	Remarks
Independent Director	Chung-Yuan Hsu	6	0	100%	Previous
Independent Director	Ching-Hsiu Chen	6	0	100%	Previous
Independent Director	Chun-Pin Chen	5	1	83%	Previous
Independent Director	Kuei-Sun Wu	12	0	100%	Continue
Independent Director	Lin, Kuo-Chuan	6	0	100%	(Elected at 2019.06.14)
Independent Director	Yang, Ming Hsien	6	0	100%	(Elected at 2019.06.14)
Independent Director	Chen, Sung-Tung	6	0	100%	(Elected at 2019.06.14)

Other required disclosures:

I. With regard to the implementation of the Audit Committee, if any of the following circumstances occur, the dates, terms of the meetings, contents of motions, all Audit Committee resolutions, and the Company's handling of such resolutions shall be specified.

(I) Items prescribed by Article 14-5 of the Securities and Exchange Act as detailed in the table below:

(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 communicate 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:

- The motion to hold the forum for independent directors and internal auditors for the first half of 2019 was reported in 31st meeting of the second Audit Committee held on February 18, 2019. Major business and financial deficiencies discovered through internal and external audit were communicated. The independent directors recommended improvements in the systematic structure of the contents of the reports made in the forum.
- The meeting minutes of the forum was reported in the 33rd meeting of the sixth Board of Directors on February 25, 2019.
- The Company held the forum for independent directors and auditors for the second half of 2019 on August 16, 2019, and communicated on major business and financial deficiencies discovered through internal and external audit. The independent directors did not have opinions on the meeting.
- The meeting minutes of the forum was reported in the 3rd meeting of the 7th board of directors meeting on August 26, 2019.

IV. Key Work Items of the Audit Committee in 2019:

(I) Formulation of or amendments to the internal control system in accordance with Article 14-1 of the Securities and Exchange Act.

(II) Assessment of the effectiveness of the internal control system.

(III) Adoption or amendment, pursuant to Article 36-1 of the Act, of handling procedures for financial or operational actions of material significance, such as acquisition or disposal of assets, derivatives trading, extension of monetary loans to others, and endorsements or guarantees for others.

(IV) Matters in which a Director is an interested party.

(V) Major assets or derivatives trading.

(VI) Significant lending, endorsement or provision of guarantees.

(VII) Raising, issuing, or private placing of equity-type securities.

(VIII) Appointment, dismissal, and compensation of CPAs.

(IX) Appointment and dismissal of finance, accounting, or internal audit supervisors.

(X) Annual and interim financial reports.

(XI) Other significant matters set forth by the Company or the competent authority.

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.	Resolution of Audit Committee meeting and the Company's response to audit committee's opinion	Date of Board of Directors' meeting	Session of Board of Directors
2019.1.14	The 30th meeting of the second Audit Committee	Approving the engagement and proposed service fees for 2019 financial reports audit and corporate income tax report audit	Approved and sent to Board of Directors for resolution	2019.1.28	The 32nd meeting of the sixth Board of Directors
2019.2.18	The 31st meeting of the second Audit Committee	Approving amendments to the "Procedures for the Acquisition or Disposal of Assets".	Approved and sent to Board of Directors for resolution	2019.2.25	The 33rd meeting of the sixth Board of Directors
2019.3.15	The 32nd meeting of the second Audit Committee	Approving the Company's 2018 financial statements and business report. Approving the Company's 2018 Statement of Internal Control System	Approved and sent to Board of Directors for resolution	2019.3.25	The 34th meeting of the sixth Board of Directors
2019.4.16	The 33rd meeting of the second Audit Committee	Approving the Company's follow-up improvement status for inspection opinions specified in Table A of the general business inspection report (No. 106H057) filed by the Financial Supervisory Commission (FSC). Approving amendments of the Company's "Articles of Incorporation". The Company's 2018 earnings distribution proposal. Proposal for the issuance of new shares through capitalization of the 2018 earnings. Approving amendments of certain articles in the "Rules of Procedure for Shareholders' Meetings".	Approved and sent to Board of Directors for resolution	2019.4.29	The 35th meeting of the sixth Board of Directors
2019.5.13	The 34th meeting of the second Audit Committee	Approving the Company's follow-up improvement status for inspection opinions specified in Table A of the general business inspection report (No. 106H057) filed by the Financial Supervisory Commission (FSC). Approving amendments to the "Principle in Management of Related Party Transactions Between Hua Nan Financial Holdings and its Subsidiaries". Approving amendments of certain articles in the "Self-Disciplinary Guidelines for the Disclosure of Information on Mergers and Acquisitions". Approving the establishment of the "Standard Operating Procedures for Requests Filed by Directors".	Approved and sent to Board of Directors for resolution	2019.5.27	The 36th meeting of the sixth Board of Directors
2019.6.11	The 35th meeting of the second Audit Committee	Approving the amendment of the Company's "Rules Governing the Scope of Powers of Independent Directors".	Approved and sent to Board of Directors for resolution	2019.6.24	The 1st meeting of seventh Board of Directors
2019.7.22	The 1st meeting of third Audit Committee	Approving the Company's follow-up improvement status for inspection opinions specified in Table A of the general business inspection report (No. 106H057) filed by the Financial Supervisory Commission (FSC).	Approved and sent to Board of Directors for resolution	2019.7.29	The 2nd meeting of seventh Board of Directors
2019.8.16	The 2nd meeting of third Audit Committee	Approving amendments of the Company's Equity Investment Management Guidelines. Approving the Company's 2019 Q2 financial statements. Approving the amendment of the "Establishment Guidelines for Legal Compliance Committee of the Group".	Approved and sent to Board of Directors for resolution	2019.8.26	The 3rd meeting of seventh Board of Directors
2019.11.11	The 4th meeting of third Audit Committee	Approving amendments of the Company's "Rules of Organization". Approving amendments of the Company's "Level of Authority". The Group's Institutional Risk Assessment (IRA) for money laundering and terrorism financing risks in 2018, risk appetite statement, and the 2019 anti-money laundering and counter terrorism financing plan and action plans.	Approved and sent to Board of Directors for resolution	2019.11.25	The 6th meeting of seventh Board of Directors
2019.12.16	The 5th meeting of third Audit Committee	Approving the Company's 2020 audit plan. Approving the appointment of the Company's finance and accounting officers.	Approved and sent to Board of Directors for resolution	2019.12.30	The 7th meeting of seventh Board of Directors

(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: <https://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 Article 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
(II) Does the financial holding company listed on TWSE or TPEx formulate evaluation regulations and methods to evaluate the Board's performance? Is the performance evaluation conducted annually and regularly? Are the results of the performance evaluation reported to the Board of Directors and used as a reference for directors' salary and remuneration and the reelection nomination? (Note 2)	V		(II) 1. The Company established the "Regulations Governing the Evaluation of the Performance of the Board of Directors". The scope of evaluation covers the performance evaluation of the Board of Directors and functional committees. The self-evaluation is conducted once every year and an evaluation is conducted by an external professional independent institution once every three years. The results are reported to the Board of Directors within 3 months of the end of the year. 2. The Company only pays Directors a fixed monthly compensation and does not pay additional remuneration for Directors.	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	
(III) Does the financial holding company regularly evaluate its external auditors' independence?	V		(III) 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 set up a qualified and appropriate number of personnel responsible for corporate governance matters, from whom an executive is designated (matters include but not limited to providing directors and supervisors with the necessary information to perform their duties, assisting directors and supervisors in regulatory compliance, handling matters concerning board meetings and shareholders' meetings in accordance with the law, and producing minutes thereof)?	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. The main duties for the corporate governance officer are as follows: (1) Notify board members of the latest amendments and development to laws and regulations relating to the Company's businesses and corporate governance and provide regular updates. (2) Review the confidentiality level of the relevant information and provide corporate information required by the directors to maintain smooth communication and interaction between directors and managers. (3) Assist independent directors and general directors in drawing up annual continuing education plan and making arrangements for courses. (4) Report the implementation of corporate governance to the Board of Directors, independent directors and Audit Committee, and confirm whether the meetings of the Company's Board of Shareholders and Board of Directors are held in compliance with relevant laws and regulations and the Corporate Governance Best Practice Principles. (5) Assist in and remind directors of the regulations to be complied with when performing their duties or officially voting on resolutions by the Board of Directors, and offer suggestions when the Board of Directors is going to vote on an illegal resolution. (6) Issues concerning the issuance of material information messages to ensure the legality and accuracy of the content of the material so as to maintain information symmetry for investor trading. (7) The Company conducted registration of the date of the shareholders' meeting in accordance with laws, along with preparation of meeting notices, the agenda handbook, meeting minutes, and change in any registration matters for the amendment to the Company's Articles of Incorporation and any new elections of Directors.	Compliant
IV. Has the financing holding company established a communication channel with stakeholders (including but not limited to shareholders, employees, and customers)? Has a stakeholders' area been established in the company's website? Are major Corporate Social Responsibility (CSR) topics that the stakeholders are concerned with addressed appropriately by the company?	V		The relevant departments of the Company communicate on various business items. The Company also set up a stakeholder area on the website and assigned dedicated personnel to respond to relevant issues.	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
(III) Does the financial holding company announce and declare the annual financial statements within the stipulated deadline in accordance with the relevant provisions of the Financial Holding Company Act and the Securities and Exchange Act? Does it announce and declare the Q1, Q2, Q3 financial statements and operating results of each month prior to the stipulated deadline according to the same?	V		(III) The Company announces and declares the annual financial statements within the stipulated deadline in accordance with the relevant provisions of the Financial Holding Company Act and the Securities and Exchange Act.	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. 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		<p>(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.</p> <p>(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.</p> <p>(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.</p> <p>(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.</p> <p>(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.</p> <p>(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.</p> <p>(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.</p>	<p>Compliant</p> <p>Compliant</p> <p>Compliant</p> <p>Compliant</p> <p>Compliant</p> <p>Compliant</p> <p>Compliant</p>
VII. Describe improvements made according to the corporate governance assessment made in the latest fiscal year by the Corporate Governance Center of the Taiwan Stock Exchange Corporation, and specify prioritized improvements and measures to be taken for improvements that have yet to be carried out. (Note 3)	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 was assessed as the top 6% to 20% of listed companies in the sixth Corporate Governance Evaluation by TWSE.	Compliant

Note 1: Regardless of whether "Yes" or "No" is selected, provide a brief description in the Brief Description column.

Note 2: (I) According to the results of the sixth Corporate Governance Evaluation, the Company was assessed as the top 6% to 20% of listed companies.

(II) Indicators already improved

Indicators already improved in 2019	Improvement status
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 appointed the Corporate Governance Officer on May 27, 2019.

Indicators with no points or additional points in 2019	Improvement and actions
Has the Company set up an Audit Committee in compliance with the regulations? (Disclose the key work items and implementation status of the Audit Committee in the year in the Annual Report)	The Company plans to disclose the key work items and implementation status of the Audit Committee in the 2019 Annual Report.

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

January 1, 2019 to December 31, 2019

Title	Name	Date of Appointment	Training Start Date	Training End Date	Organizer	Name of Training	Duration	Does the duration comply with requirements?	Remarks
Chairman	Yun-Peng Chang	June 14, 2019	December 30, 2019	December 30, 2019	Taiwan Corporate Governance Association	2020 International Finance Industry Responsible Investment (ESG Investments) Development Trends	1.0	Yes	None
			October 4, 2019	October 4, 2019	Taiwan Academy of Banking and Finance	Corporate Governance Seminar 2019 Information Security Training	3.0	Yes	None
			June 11, 2019	June 11, 2019	Taipei Foundation of Finance	Legal Compliance - Fair Customer Treatment Principle in the Finance Industry	3.0	Yes	None
			May 24, 2019	May 24, 2019	Taipei Foundation of Finance	Corporate Governance - Practical Analysis of Financial Crimes	3.0	Yes	None
			April 19, 2019	April 19, 2019	Taiwan Corporate Governance Association	FinTech, Practical Financial Supervision Technologies, and Case Studies	3.0	Yes	None
Vice Chairman	Ming-Cheng Lin	June 14, 2019	December 3, 2019	December 3, 2019	Taiwan Corporate Governance Association	Analysis of the Global Top 10 Risks in 2019	3.0	Yes	None
			August 28, 2019	August 28, 2019	Chinese National Association of Industry and Commerce, Taiwan (CNAIC)	Analysis and Response to the 2019 Global Business Crisis Survey	3.0	Yes	None
Director and President	Pao-Chu Lo	June 14, 2019	December 30, 2019	December 30, 2019	Taiwan Corporate Governance Association	2020 International Finance Industry Responsible Investment (ESG Investments) Development Trends	1.0	Yes	None
			September 10, 2019	September 10, 2019	Taipei Foundation of Finance	Corporate Governance Training - United Nations Convention against Corruption, Fraud Prevention, and Whistleblower Protection	3.0	Yes	None
			May 24, 2019	May 24, 2019	Taipei Foundation of Finance	Corporate Governance - Practical Analysis of Financial Crimes	3.0	Yes	None
			January 30, 2019	January 30, 2019	Taiwan Academy of Banking and Finance	Seminar on Anti-money Laundering Practices	2.0	Yes	None
			January 30, 2019	January 30, 2019	Hua Nan Bank	Hua Nan Commercial Bank 2019 Offshore Legal Compliance Officer Seminar (Afternoon)	2.0	Yes	None
Independent Director	Kuei-Sun Wu	June 14, 2019	December 30, 2019	December 30, 2019	Taiwan Corporate Governance Association	2020 International Finance Industry Responsible Investment (ESG Investments) Development Trends	1.0	Yes	None
			May 24, 2019	May 24, 2019	Taipei Foundation of Finance	Corporate Governance - Practical Analysis of Financial Crimes	3.0	Yes	None
			May 14, 2019	May 14, 2019	Securities & Futures Institute	Discussions on Information Security Governance of Companies - Focusing on Legal Practices	3.0	Yes	None
			May 3, 2019	May 3, 2019	Taiwan Corporate Governance Association	Actual Operations of the Audit Committee	3.0	Yes	None
			January 30, 2019	January 30, 2019	Taiwan Academy of Banking and Finance	Seminar on Anti-money Laundering Practices	2.0	Yes	None
			January 30, 2019	January 30, 2019	Hua Nan Bank	Hua Nan Commercial Bank 2019 Offshore Legal Compliance Officer Seminar (Afternoon)	2.0	Yes	None
Independent Director	Yang, Ming Hsien	June 14, 2019	December 30, 2019	December 30, 2019	Taiwan Corporate Governance Association	2020 International Finance Industry Responsible Investment (ESG Investments) Development Trends	1.0	Yes	None
			October 1, 2019	October 1, 2019	Taiwan Academy of Banking and Finance	Corporate Governance Seminar 2019 Information Security Training	3.0	Yes	None
			September 4, 2019	September 4, 2019	Securities & Futures Institute	Principles and Applications 5G Digital Communication and IoT	3.0	Yes	None
			September 3, 2019	September 3, 2019	Taiwan Corporate Governance Association	Impact of IFRS 17 on the Insurance Industry and Response Strategies	3.0	Yes	None
			August 14, 2019	August 14, 2019	Securities & Futures Institute	Exploring the Implementation of Strategies and Tools for Rewarding Employees	3.0	Yes	None
			June 28, 2019	June 28, 2019	Taipei Foundation of Finance	Legal Compliance - Fair Customer Treatment Principle in the Finance Industry	3.0	Yes	None
Independent Director	Lin, Kuo-Chuan	June 14, 2019	December 30, 2019	December 30, 2019	Taiwan Corporate Governance Association	2020 International Finance Industry Responsible Investment (ESG Investments) Development Trends	1.0	Yes	None
			November 27, 2019	November 27, 2019	Taiwan Corporate Governance Association	15th International Forum on Corporate Governance - Strengthening the Corporate Governance Environment and Implement the Independent Director System	6.0	Yes	None
			August 15, 2019	August 15, 2019	Securities & Futures Institute	Enterprise Financial Crisis Early Warning and Type Analysis	3.0	Yes	None
			August 14, 2019	August 14, 2019	Securities & Futures Institute	Corporate Strategy and Key Performance Indicators	3.0	Yes	None
Independent Director	CHEN, SUNG-TUNG	June 14, 2019	December 30, 2019	December 30, 2019	Taiwan Corporate Governance Association	2020 International Finance Industry Responsible Investment (ESG Investments) Development Trends	1.0	Yes	None
			October 1, 2019	October 1, 2019	Taiwan Academy of Banking and Finance	Corporate Governance Seminar 2019 Information Security Training	3.0	Yes	None
			June 28, 2019	June 28, 2019	Taipei Foundation of Finance	Legal Compliance - Fair Customer Treatment Principle in the Finance Industry	3.0	Yes	None
Director	T. Lin	June 14, 2019	December 30, 2019	December 30, 2019	Taiwan Corporate Governance Association	2020 International Finance Industry Responsible Investment (ESG Investments) Development Trends	1.0	Yes	None
			October 4, 2019	October 4, 2019	Taiwan Academy of Banking and Finance	Corporate Governance Seminar 2019 Information Security Training	3.0	Yes	None
			September 10, 2019	September 10, 2019	Taipei Foundation of Finance	Corporate Governance Training - United Nations Convention against Corruption, Fraud Prevention, and Whistleblower Protection	1.5	Yes	None
			June 28, 2019	June 28, 2019	Taipei Foundation of Finance	Legal Compliance - Fair Customer Treatment Principle in the Finance Industry	3.0	Yes	None
			May 24, 2019	May 24, 2019	Taipei Foundation of Finance	Corporate Governance - Practical Analysis of Financial Crimes	3.0	Yes	None
			January 30, 2019	January 30, 2019	Hua Nan Bank	Hua Nan Commercial Bank 2019 Offshore Legal Compliance Officer Seminar (Afternoon)	2.0	Yes	None
Director	Chih-Yu Lin	June 14, 2019	December 30, 2019	December 30, 2019	Taiwan Corporate Governance Association	2020 International Finance Industry Responsible Investment (ESG Investments) Development Trends	1.0	Yes	None
			October 1, 2019	October 1, 2019	Taiwan Academy of Banking and Finance	Corporate Governance Seminar 2019 Information Security Training	3.0	Yes	None
			September 10, 2019	September 10, 2019	Taipei Foundation of Finance	Corporate Governance Training - United Nations Convention against Corruption, Fraud Prevention, and Whistleblower Protection	3.0	Yes	None
			June 14, 2019	June 14, 2019	Taiwan Corporate Governance Association	How Directors and Supervisors Perform Fraud Detection and Prevention and Establish Whistleblower Mechanisms to Strengthen Corporate Governance	3.0	Yes	None
			June 11, 2019	June 11, 2019	Taipei Foundation of Finance	Legal Compliance - Fair Customer Treatment Principle in the Finance Industry	3.0	Yes	None
			May 24, 2019	May 24, 2019	Taipei Foundation of Finance	Corporate Governance - Practical Analysis of Financial Crimes	3.0	Yes	None
			April 19, 2019	April 19, 2019	Taiwan Corporate Governance Association	FinTech, Practical Financial Supervision Technologies, and Case Studies	3.0	Yes	None
			January 30, 2019	January 30, 2019	Taiwan Academy of Banking and Finance	Seminar on Anti-money Laundering Practices	2.0	Yes	None
Director	Chih-Yang Lin	June 14, 2019	October 1, 2019	October 1, 2019	Taiwan Academy of Banking and Finance	Corporate Governance Seminar 2019 Information Security Training	3.0	Yes	None
			September 10, 2019	September 10, 2019	Taipei Foundation of Finance	Corporate Governance Training - United Nations Convention against Corruption, Fraud Prevention, and Whistleblower Protection	3.0	Yes	None
			June 11, 2019	June 11, 2019	Taipei Foundation of Finance	Legal Compliance - Fair Customer Treatment Principle in the Finance Industry	3.0	Yes	None
			May 24, 2019	May 24, 2019	Taipei Foundation of Finance	Corporate Governance - Practical Analysis of Financial Crimes	3.0	Yes	None
			January 30, 2019	January 30, 2019	Taiwan Academy of Banking and Finance	Seminar on Anti-money Laundering Practices	2.0	Yes	None

Title	Name	Date of Appointment	Training Start Date	Training End Date	Organizer	Name of Training	Duration	Does the duration comply with requirements?	Remarks
Director	An-Lan Hsu Chen	June 14, 2019	April 10, 2019	April 10, 2019	Taiwan Insurance Institute	Green Finance	3.0	Yes	None
			March 11, 2019	March 11, 2019	Taiwan Insurance Institute	Discussions on the Responsibilities and Obligations of Directors and Supervisors and Liability Insurance for Key Officers	3.0	Yes	None
Director	Michael, Yuan-Jen Hsu	June 14, 2019	December 12, 2019	December 12, 2019	Securities & Futures Institute	Enterprise Financial Crisis Early Warning and Type Analysis	3.0	Yes	None
			October 1, 2019	October 1, 2019	Taiwan Academy of Banking and Finance	Corporate Governance Seminar 2019 Information Security Training	3.0	Yes	None
			September 20, 2019	September 20, 2019	Taipei Foundation of Finance	Corporate Governance Training - United Nations Convention against Corruption, Fraud Prevention, and Whistleblower Protection	3.0	Yes	None
			June 28, 2019	June 28, 2019	Taipei Foundation of Finance	Legal Compliance - Fair Customer Treatment Principle in the Finance Industry	3.0	Yes	None
			June 25, 2019	June 25, 2019	Taiwan Corporate Governance Association	The Reforms and Prospects for Corporations under the Amendments of the Company Act	3.0	Yes	None
			May 28, 2019	May 28, 2019	Taipei Foundation of Finance	Corporate Governance - Practical Analysis of Financial Crimes	3.0	Yes	None
			January 30, 2019	January 30, 2019	Taiwan Academy of Banking and Finance	Seminar on Anti-money Laundering Practices	2.0	Yes	None
Director	Chia-Ying Shen	June 14, 2019	October 4, 2019	October 4, 2019	Taiwan Academy of Banking and Finance	Corporate Governance Seminar 2019 Information Security Training	3.0	Yes	None
			September 6, 2019	September 6, 2019	Taiwan Corporate Governance Association	Digital Technology and Artificial Intelligence Trends and Risk Management	3.0	Yes	None
			June 28, 2019	June 28, 2019	Taipei Foundation of Finance	Legal Compliance - Fair Customer Treatment Principle in the Finance Industry	3.0	Yes	None
			January 30, 2019	January 30, 2019	Taiwan Academy of Banking and Finance	Seminar on Anti-money Laundering Practices	2.0	Yes	None
			January 10, 2019	January 10, 2019	Corporate Operation Association of the Republic of China	Discussion on the Future Development of the Capital Market and Opportunities for Industrial Consolidation, Mergers and Acquisitions in Taiwan Based on Domestic and International Political and Economic Conditions	3.0	Yes	None
Director	Shih-Ching Jeng	June 14, 2019	September 20, 2019	September 20, 2019	Taipei Foundation of Finance	Corporate Governance Training - United Nations Convention against Corruption, Fraud Prevention, and Whistleblower Protection	3.0	Yes	None
			May 24, 2019	May 24, 2019	Taipei Foundation of Finance	Corporate Governance - Practical Analysis of Financial Crimes	3.0	Yes	None
			January 30, 2019	January 30, 2019	Taiwan Academy of Banking and Finance	Seminar on Anti-money Laundering Practices	2.0	Yes	None
Director	Wang, Chou-Wen	June 14, 2019	December 30, 2019	December 30, 2019	Taiwan Corporate Governance Association	2020 International Finance Industry Responsible Investment (ESG Investments) Development Trends	1.0	Yes	None
			December 18, 2019	December 18, 2019	Institute of Internal Auditors, ROC	How Internal Auditors Analyze Business Performance and Risks Based on IFRS Financial Statements	6.0	Yes	None
			October 7, 2019	October 7, 2019	Institute of Internal Auditors, ROC	Internal Audit Guidelines for Legal Compliance	6.0	Yes	None
Director	Chen, Ho-Chyuan	June 14, 2019	December 30, 2019	December 30, 2019	Taiwan Corporate Governance Association	2020 International Finance Industry Responsible Investment (ESG Investments) Development Trends	1.0	Yes	None
			October 17, 2019	October 17, 2019	Securities & Futures Institute	Discussions on Information Security Governance of Companies - Focusing on Legal Practices	3.0	Yes	None
			October 17, 2019	October 17, 2019	Securities & Futures Institute	Enterprise Financial Crisis Early Warning and Type Analysis	3.0	Yes	None
			October 15, 2019	October 15, 2019	Securities & Futures Institute	Principles and Applications of Artificial Intelligence	3.0	Yes	None
			October 2, 2019	October 2, 2019	Securities & Futures Institute	Principles and Applications of Blockchains	3.0	Yes	None
Director	Chang, Chiao-Hsiang	June 14, 2019	December 30, 2019	December 30, 2019	Taiwan Corporate Governance Association	2020 International Finance Industry Responsible Investment (ESG Investments) Development Trends	1.0	Yes	None
			December 12, 2019	December 12, 2019	Corporate Operation Association of the Republic of China	Corporate Governance and Enterprise Risk Management Seminar - Actual Case Studies for FinTech Supervision	3.0	Yes	None
			November 8, 2019	November 8, 2019	Securities & Futures Institute	Corporate Merger Case Study - From a Corporate Governance Perspective	3.0	Yes	None
			October 17, 2019	October 17, 2019	Securities & Futures Institute	Responsibilities of Directors and Supervisors in Securities Fraud Cases	3.0	Yes	None
			October 15, 2019	October 15, 2019	Securities & Futures Institute	Principles and Applications of Artificial Intelligence	3.0	Yes	None
			May 17, 2019	May 17, 2019	Securities & Futures Institute	Corporate Governance and Securities Regulations	3.0	Yes	None
			March 21, 2019	March 21, 2019	Securities & Futures Institute	Corporate Financial Information Analysis and Usage for Decision-Making	3.0	Yes	None
Director	Yen, Yu-Min	June 14, 2019	December 30, 2019	December 30, 2019	Taiwan Corporate Governance Association	2020 International Finance Industry Responsible Investment (ESG Investments) Development Trends	1.0	Yes	None
			December 19, 2019	December 19, 2019	Securities & Futures Institute	Corporate Governance and Latest Changes in Regulations	3.0	Yes	None
			August 15, 2019	August 15, 2019	Securities & Futures Institute	Enterprise Financial Crisis Early Warning and Type Analysis	3.0	Yes	None
			August 5, 2019	August 5, 2019	Securities & Futures Institute	Anti-Money Laundering and Counter Terrorism Financing Case Studies	3.0	Yes	None
			July 17, 2019	July 17, 2019	Securities & Futures Institute	2019 Seminar on Legal Compliance for Stock Transactions by Internal Personnel of Listed Companies and Non-Listed Companies	3.0	Yes	None
Director	Lin, Ming-Yu	June 19, 2019	December 12, 2019	December 12, 2019	Corporate Operation Association of the Republic of China	Corporate Governance and Enterprise Risk Management Seminar - Actual Case Studies for FinTech Supervision	3.0	Yes	None
			October 1, 2019	October 1, 2019	Securities & Futures Institute	Legal Risks and Responses of Directors and Supervisors - Material Corporate Frauds Case Studies	3.0	Yes	None
			September 3, 2019	September 3, 2019	Securities & Futures Institute	Principles and Applications of Artificial Intelligence	3.0	Yes	None
			August 13, 2019	August 13, 2019	Securities & Futures Institute	New Rules and Trends in Corporate Governance Essential for Directors and Supervisors in 2019	3.0	Yes	None



2. Continuing Education/Training of Managers

January 1, 2019 to December 31, 2019

Title	Name	Name of Training	Duration
President	Pao-Chu Lo	2020 International Finance Industry Responsible Investment (ESG Investments) Development Trends	1
		Corporate Governance Training - United Nations Convention against Corruption, Fraud Prevention, and Whistleblower Protection	3
		Corporate Governance - Practical Analysis of Financial Crimes	3
		Seminar on Anti-money Laundering Practices	2
		Hua Nan Commercial Bank 2019 Offshore Legal Compliance Officer Seminar (Afternoon)	2
		2019 Elite Keynote Speech: 1st Session- National Judges Trial Together. 2nd Session- Out of the box to play creative thinking. 3rd Session- The third session-Judicial Aspects. 4th Session-World Flip-change.	8
Executive Vice President and G.M. of Finance Department	King-huo Lu	International Celebrity Seminar	3
		Corporate Governance Training - United Nations Convention against Corruption, Fraud Prevention, and Whistleblower Protection	3
		Continuing Training Class for Principal Accounting Officers of Issuers, Securities Firms, and Securities Exchanges	12
		2019 Elite Keynote Speech: 1st Session- National Judges Trial Together. 2nd Session- Out of the box to play creative thinking. 3rd Session- The third session-Judicial Aspects. 4th Session-World Flip-change.	8
Executive Vice President and G.M. of Legal Compliance Department	Tien-Yu Chen	Legal Compliance Personnel Pre-Job Seminar	30
		International FinTech Forum - Drawing on International Experience: Create Setting-Based Financial Opportunities in the Open Banking Era	4
		The CSBF Conference on Cross-strait Banking and Finance - Anti-money Laundering & Combating the Financing of Terrorism Practices	4
		The CSBF Conference on Cross-strait Banking and Finance - Financial Risks and Response in Trade Disputes	4
		The CSBF Conference on Cross-strait Banking and Finance - Mainland Financial Openness and Operational Risks of Foreign Banks	4
		How to Identify the Next Investment Opportunity in the Volatile International Stock and Bond Markets	3
		Corporate Governance Training - United Nations Convention against Corruption, Fraud Prevention, and Whistleblower Protection	3
		New Opportunities for Taiwan in the Escalation of the U.S.-China Trade War	3
		2019 Annual Anti-Money Laundering Practical Case Analysis and Legal Compliance Forum (Full Day)	6
		VIGOR Compliance Training Program - Latest Applications of RegTech and AI in Case Studies of Money Laundering Transaction Monitoring	3
		Chinese Elite Leadership Class - The Art and Strategy of Leadership	4
		2019 Elite Keynote Speech: 1st Session- National Judges Trial Together. 2nd Session- Out of the box to play creative thinking. 3rd Session- The third session-Judicial Aspects. 4th Session-World Flip-change.	8
Executive Vice President and G.M. of Administration Department and Company Secretary	Sarah C.T. Hsu	Green Financing Taiwan	3
		2019 Taiwan Institute of Directors Annual Meeting - FAST100	4
		International Celebrity Seminar	3
		17th Meeting of Directors and CEO Seminar	2
		Responsibilities and Obligations of Directors and Supervisors Based on the Securities and Exchange Act	3
		Corporate Governance Training - United Nations Convention against Corruption, Fraud Prevention, and Whistleblower Protection	3
		Response and Strategies for Issues in Financing Offshore Wind Farms in Taiwan	3.5
		Mr. Sho-Chieh Tsiang Commemorative Seminar	4
		2019 Asian Financial Supervisors Summit Forum	3
		Towards 2020 - Index X ETP Investment Trends Forum	2.5
		Functions and Liabilities of the Corporate Governance Officer	3
		2019 Elite Keynote Speech: 1st Session- National Judges Trial Together. 2nd Session- Out of the box to play creative thinking. 3rd Session- The third session-Judicial Aspects. 4th Session-World Flip-change.	8
Chief Auditor	Pi-E Huang	2019 Internal Auditor Workshop	20
		Corporate Governance Training - United Nations Convention against Corruption, Fraud Prevention, and Whistleblower Protection	3
		Corporate Governance-Analysis of Financial Crime Practice	3
		Anti-money Laundering Practice	2
		HNFC Internal Audit Seminar	2
		2019 Elite Keynote Speech: 1st Session- National Judges Trial Together. 2nd Session- Out of the box to play creative thinking. 3rd Session- The third session-Judicial Aspects. 4th Session-World Flip-change.	8
G.M. of the Audit Office of Board of Directors	Fang-Ling Chou	International Anti-Money Laundering Seminar (10th Edition)	6
		2019 Internal Auditor Workshop	20
		2019 Elite Keynote Speech: 1st Session- National Judges Trial Together. 2nd Session- Out of the box to play creative thinking. 4th Session- World Flip-change.	6
G.M. of the Marketing Department	Chao-Chi Yeh	International FinTech Forum - Drawing on International Experience: Taiwan's Finance Strategy for the Era of Internet-Only Banks	4
		International FinTech Forum - Drawing on International Experience: Create Setting-Based Financial Opportunities in the Open Banking Era	4
		Asia Blockchain Summit	16
		The Road to Transformation - Bank Development Strategy and Insights from Lessons from Mainland China	8
		When Libra came out, How does the central bank compete?	3
		2019 Elite Keynote Speech: 1st Session- National Judges Trial Together. 2nd Session- Out of the box to play creative thinking. 3rd Session- The third session-Judicial Aspects. 4th Session-World Flip-change.	8
G.M. of the Risk Management Department	Chin-Hua Yang	Ubiquinomics	3
		Basel Overview and Liquidity Risk Management	8
		Impact of the U.S.-China Trade War on Taiwan	3
		Asia Blockchain Summit	16
		The CSBF Conference on Cross-strait Banking and Finance - Financial Risks and Response in Trade Disputes	4
		2019 Public Enterprise Senior Executive Talent Training Course	52
		Studies of Emerging Risk Factors in the Taiwanese Banking Industry from the Perspective of Credit Ratings	4
		Warnings of Global Negative Interest Rate Trends	3
		Witness Digital Transformation Through a Time Machine	3
		Analysis of Big Data Applications in China's Finance Industry	3
		Under the turmoil in Hong Kong, the response and challenges of Taiwan-funded financial institutions	2
		2019 Elite Keynote Speech: 1st Session- National Judges Trial Together. 2nd Session- Out of the box to play creative thinking. 3rd Session- The third session-Judicial Aspects. 4th Session-World Flip-change.	8
G.M. of the Information Technology Department	Michael Duh	Asia Blockchain Summit	16
		2019 Elite Keynote Speech: 1st Session- National Judges Trial Together. 2nd Session- Out of the box to play creative thinking. 3rd Session- The third session-Judicial Aspects. 4th Session-World Flip-change.	8

(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 (Note 1)	Criteria Name	At Least Five Years Work Experience and Meets the Following Professional Qualification Requirements			Criteria (Note 2)										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	9	10		
Independent Director	Kuei-Sun Wu			V	V	V	V	V	V	V	V	V	V	V	0	
Independent Director	Chung-Yuan Hsu (Discharged from 2019.06.14)	V	V	V	V	V	V	V	V	V	V	V	V	V	1	
Independent Director	Chun-Pin Chen (Discharged from 2019.06.14)	V	V	V	V	V	V	V	V	V	V	V	V	V	0	
Independent Director	Ching-Hsiu Chen (Discharged from 2019.06.14)	V	V	V	V	V	V	V	V	V	V	V	V	V	0	
Independent Director	Yang, Ming Hsien (Elected at 2019.06.14)		V	V	V	V	V	V	V	V	V	V	V	V	0	
Independent Director	Chen, Sung-Tung (Elected at 2019.06.14)		V	V	V	V	V	V	V	V	V	V	V	V	1	
Independent Director	Lin, Kuo-Chuan (Elected at 2019.06.14)	V		V	V	V	V	V	V	V	V	V	V	V	0	

Note 1: Fill "Director", "Independent Director" or "Others" in the Title column.

Note 2: Please tick the corresponding boxes that apply to a member during the two years prior to being elected or during the term(s) of office.

- (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. (this restriction does not apply to independent directors in the Company, its parent company, subsidiaries, or subsidiaries of the same parent company which have been appointed in accordance with the Securities and Exchange Act or local laws of the registered country).
- (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.
Not the manager listed in (1) or the spouse, relatives within the second degree of kinship, or the lineal relative within the third degree of kinship listed in (2), (3).
- (5) Not a director, supervisor, or employee of a corporate shareholder who directly holds more than 5% of the total number of issued shares of the Company or is ranked top five in terms of the number of shares held or is designated as a Director or Supervisor of the Company pursuant to Paragraph 1 or 2, Article 27 of the Company Act (this restriction does not apply to independent directors in the Company, its parent company, subsidiaries, or subsidiaries of the same parent company which have been appointed in accordance with the Securities and Exchange Act or local laws of the registered country).
- (6) Not a director, supervisor, or employee of another company where the majority of Board seats, or more than half of the voting shares are controlled by a single person (this restriction does not apply to independent directors in the Company, its parent company, subsidiaries, or subsidiaries of the same parent company which have been appointed in accordance with the Securities and Exchange Act or local laws of the registered country).
- (7) Not a director, supervisor, or employee of a company or institution with the same chairperson of the board, president, or equivalent position, or a spouse thereof. (this restriction does not apply to independent directors in the Company, its parent company, subsidiaries, or subsidiaries of the same parent company which have been appointed in accordance with the Securities and Exchange Act or local laws of the registered country).
- (8) Not a director, supervisor, manager, or shareholder holding 5% or more of the shares of a specified company or institution that has a financial or business relationship with the company (this restriction does not apply to independent directors in the Company, its parent company, subsidiaries, or subsidiaries of the same parent company which have been appointed in accordance with the Securities and Exchange Act or local laws of the registered country).
- (9) Not a professional individual, or an owner, partner, director, supervisor, or manager of a sole proprietorship, partnership, company, or institution that, provides auditing services to the company or any affiliate of the company, or that provides commercial, legal, financial, accounting or related services to the company or any affiliate of the company for which the provider in the past 2 years has received cumulative compensation exceeding NT\$500,000, or a spouse thereof; provided, this restriction does not apply to a member of the remuneration committee, public tender offer review committee, or special committee for merger/consolidation and acquisition, who exercises powers pursuant to the Securities and Exchange Act or to the Business Mergers and Acquisitions Act or related laws or regulations.
- (10) Not having any of the 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 June 14, 2019 to June 13, 2022. Six (A) Remuneration Committee meetings were convened in the past year. The Committee members' qualifications and attendance status are as follows:

Title	Name	Attendance in Person (B)	By Proxy	Attendance Rate in Person (%) (B/A)	Remarks
Chairman	Kuei-Sun Wu	3	0	100	Replaced in the election held on June 14, 2019 Attended 3 meetings of the Remuneration Committee before the election in 2019
Committee Member	Chung-Yuan Hsu	3	0	100	Replaced in the election held on June 14, 2019 Attended 3 meetings of the Remuneration Committee while in office in 2019
Committee Member	Ching-Hsiu Chen	3	0	100	Replaced in the election held on June 14, 2019 Attended 3 meetings of the Remuneration Committee while in office in 2019
Committee Member	Chun-Pin Chen	2	1	66.67	Replaced in the election held on June 14, 2019 Attended 3 meetings of the Remuneration Committee while in office in 2019
Chairman	Yang, Ming Hsien	3	0	100	Newly elected in the election held on June 14, 2019
Committee Member	Kuei-Sun Wu	3	0	100	Reelected in the election held on June 14, 2019 Attended 3 meetings of the Remuneration Committee after the election in 2019
Committee Member	Chen, Sung-Tung	3	0	100	Newly elected in the election held on June 14, 2019
Committee Member	Lin, Kuo-Chuan	3	0	100	Newly elected in the election held on June 14, 2019
Other required disclosures:					
I. There was no recommendation of the Remuneration 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 Remuneration 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 2019 are as follows:

Remuneration Committee Meeting	Remuneration Committee Term	Content of Proposal	Resolution	The Company's Actions in Response to Opinions of the Remuneration Committee
17th meeting of the 3rd Remuneration Committee 2019.01.18	17th meeting of the 3rd	1. Approving the proposal for the subsidiary HNCB's amendment of the "Principle for Employee Bonuses".	Passed by all members.	This proposal was passed at the 32nd meeting of the 6th-term Board of Directors on January 28, 2019.
		2. Proposal of amendments to the Company's "Principle for Employee Bonuses".	Passed by all members.	This proposal was passed at the 32nd meeting of the 6th-term Board of Directors on January 28, 2019.
		3. Approving the proposal for the pension for the Company's Executive Vice President Hsin-Tien Ting and Chief Auditor Neng-Tung Lin.	Passed by all members.	This proposal was passed at the 32nd meeting of the 6th-term Board of Directors on January 28, 2019.
		4. Approving the proposal for the remuneration standards for the Company's newly-appointed Executive Vice President Tien-Yu Chen, Chief Auditor Pi-E Huang, and G.M. of the Risk Management Department Chin-Hua Yang.	Passed by all members.	This proposal was passed at the 32nd meeting of the 6th-term Board of Directors on January 28, 2019.
18th meeting of the 3rd Remuneration Committee on March 15, 2019	18th meeting of the 3rd	1. Approving the Company's 2018 Board of Directors' and employees' compensation and percentage.	Passed by all members.	This proposal was passed at the 34th meeting of the 6th-term Board of Directors on June 25, 2019.
		2. Approving 2019 salary adjustment and 2018 performance bonus for the Company's employees above director level.	Passed by all members.	This proposal was passed at the 34th meeting of the 6th-term Board of Directors on June 25, 2019.
19th meeting of the 3rd Remuneration Committee on May 13, 2019	19th meeting of the 3rd	Approving the remuneration standards for the Company's newly-appointed Chairman Yun-Peng Chang.	Passed by all members.	This proposal was passed at the 36th meeting of the 6th-term Board of Directors on May 27, 2019.
The 1st special meeting of fourth Remuneration Committee 2019.06.14	1st special meeting of the 4th	Election of the convener and chair of the Company's 4th Remuneration Committee.	All Commissioner Members in attendance unanimously elected the Independent Director Min-Hsien Yang to serve as the convener and chair of the Committee.	-
The 1st meeting of 4th Remuneration Committee 2019.10.28	1st meeting of the 4th	Approving the subsidiary Hua Nan Bank's amendments to the "Principle of Management in Hua Nan Bank Employee Bonus".	I. After full discussions by Committee Members in attendance, the proposal was passed in accordance with the "Remuneration Committee Charter". The scope of the rights of the Remuneration Committee is restricted to providing recommendations for the compensation of directors and managers. II. The proposal was conditionally passed. If the current earnings achievement rate of the current month does not reach the standards specified in the budget but reaches 85% of the target, the special bonus is distributed. The appropriateness of this measure should be reviewed at appropriate times in the future. III. The proposal must be considered for consistency between standards for general employees and managers in the remuneration system of the Bank. As a principle, the proposal is approved for discussions in the Board of Directors.	This proposal was passed at the 5th meeting of the 7th-term Board of Directors on October 28, 2019.
The 2nd meeting of 4th Remuneration Committee 2019.12.16	2nd meeting of the 4th	Approving the Company's amendments to the "Principle of Management in Employee Bonus".	I. The proposal was passed in accordance with the "Remuneration Committee Charter". The scope of the rights of the Remuneration Committee is restricted to providing recommendations for the compensation of directors and managers. II. After full discussions by Committee Members in attendance, the amendment of Article 5 of the proposal is provided in the Amendment Comparison Table in the Attachment. The amendment was passed.	This proposal was passed at the 7th meeting of the 7th-term Board of Directors on December 30, 2019.



(VII) Deviation in Corporate Social Responsibility (CSR) from the "Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies" and reasons for deviation

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. Has the company assessed the environmental, social, and corporate governance risks related to its operations based on the principle of materiality and established related risk management policies or strategies? (Note 4)	V		<p>(I) The Company periodically distributes questionnaires on environmental, social and corporate governance issues to stakeholders and analyzes the responses to the questionnaires to identify material issues of concern to stakeholders. The Company also assesses the risks associated with these issues and reports to the Corporate Social Responsibility Committee of the Group to formulate risk management policies or strategies.</p> <p>(II) The Company has followed the structure of climate risks and opportunities provided in the Task Force on Climate-Related Financial Disclosures (TCFD) published by the Financial Stability Board (FSB). We identified transition risks, physical risks, and climate-related opportunities and conducted related response measures.</p>	Compliant
II. 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		The Company has established a Group CSR Committee in which the Chairman serves as the convener and the Vice Chairman serves as the deputy convener. The members include the Presidents of the Company and subsidiaries. Meetings are convened at least once every six months. The main duties of the Committee include formulating major strategies which shall be adopted by the Group in fulfilling its corporate social responsibilities, supervising the implementation of corporate social responsibility and reviewing the results thereof, monitoring the preparation and review of the annual CSR report, reviewing relevant CSR regulations, and discussion of other material issues regarding the performance of CSR. The Administration Department is responsible for coordinating and planning matters related to CSR and reporting implementation plans and the implementation status to the Group's CSR Committee. It also reports implementation plans and implementation status to the Board of Directors in a timely manner based on the importance of the implementation.	Compliant
III. Environmental issues				
(I) Has the Company established an appropriate environmental management system according to the specific nature of the industry?	V		(I) The Company is in the financial service industry, and it is committed to improving the resource utilization as well as energy conservation and carbon reduction in its operating environment and business establishments. The level of impact of its business activities in terms of environmental pollution or impact on the natural environment is very low. The Company introduced ISO 14001 Environmental Management System in 2016 and has passed third-party certification each year to establish a certified environmental management system.	Compliant
(II) Has the Company endeavored to maximize the efficiency of various resources and utilize renewable materials that have the least environmental impact?	V		(II) 1. The Company abides by government energy conservation policies, adjusts the air-conditioning system temperatures, and use energy-saving lighting equipment 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
(III) Does the Company assess the potential risks and opportunities brought by climate changes, both for now and in the future, and take measures to cope with?	V		(III) The Company has followed the structure of climate risks and opportunities provided in the Task Force on Climate-Related Financial Disclosures (TCFD) published by the Financial Stability Board (FSB). We identified transition risks, physical risks, and climate-related opportunities and conducted related response measures.	Compliant
(IV) Does the Company conduct statistics on the greenhouse gas emissions, water consumption, and total weight of waste for the past two years, and correspondingly formulate policies for energy conservation, carbon reduction, greenhouse gas reduction, water use reduction, or other waste management?	V		(IV) The Company implements rigorous control over budgets and sets targets for water and electricity conservation for subsidiaries of the Group. It also uses various energy saving facilities and policy awareness campaigns to reduce the impact of climate change on its operations. The Company introduced ISO 14064-1 (Organization Quantification and Reporting of Green House Gases) in 2016, and completed the introduction of ISO 50001 (Energy Management System) by the end of 2018. We also obtained third-party certification each year and established related management policies based on the results of the inventory. Please refer to the Company's CSR Report for information on related emissions, water consumption, and total weight of waste.	Compliant

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	
IV. Social Issues				
(I) Has the Company drafted the management policy and procedures according to the relevant laws and the International Conventions on Human Rights?	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 the "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
(II) Has the company established and offered reasonable employee benefits (including compensation, leave, and other benefits) and reflected the business performance or results in employee compensation appropriately?	V		(II) The Group provides a competitive salary system in accordance with the structure of its rank and position system. It also distributes year-end bonuses and performance bonuses based on the performance for the year. Entry-level employees are paid no less than the statutory minimum wage. Other benefits are provided in accordance with labor laws and regulations, and Company provides a superior leave system and employee benefits than those required by law.	Compliant
(III) Has the Company provided employees with safe and healthy work environments as well as regular classes on health and safety?	V		(III) The Company has organized regular health check-ups for employees as well as fire safety checks in accordance with relevant laws and regulations to protect the safety and well-being of its employees.	Compliant
(IV) Has the Company established an effective competency development career training program for employees?	V		(IV) The Company plans diversified training courses for employees in different professional fields, and offer opportunities for rotation based on personal expertise, performance contribution, and career development. We encourage employees to continue their studies and provide resources for their development.	Compliant
(V) Has the Company followed relevant laws, regulations and international guidelines for the customer health and safety, customer privacy, and marketing and labeling of its products and services and established related consumer protection policies and grievance procedures?	V		(V) The Group has implemented ISO 27001 and related information security management systems and actively follows the government and competent authorities' information security plans. The Group and subsidiaries have become the members of the Financial Information Sharing and Analysis Center (F-ISAC). All subsidiaries have established comprehensive customer service management mechanisms and relevant training programs to help sales and customer service personnel pay attention to customer needs. They have also established customer satisfaction surveys to review and improve deficiencies each year.	Compliant
(VI) Has the Company formulated supplier management policies that require suppliers to comply with relevant regulations on environmental protection, occupational safety and health, and labor rights and request their reporting on the implementation of such issues?	V		(VI) The Company established "Hua Nan Financial Holdings Group Supplier Code of Conduct" in December 2017. The Code of Conduct requires all suppliers with business transactions with companies of the Group to sign "supplier acknowledgment letter" to commit themselves to related regulations therein in ethical management, promotional of environmental sustainability, and protection of basic human rights.	Compliant
V. Did the company, following internationally recognized guidelines, prepare and publish reports such as its Corporate Social Responsibility Report to disclose non-financial information of the Company? Has the company received assurance or certification of the aforesaid reports from a third-party accreditation institution?	V		The Company's 2019 Corporate Social Responsibility Report was compiled in accordance with Global Reporting Initiative Standards (GRI Standards) and was certified based on Assurance Engagements Type 1 (established based on ISAE 3000).	Compliant
VI. 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.				
VII. Additional important information that may assist in the understanding of CSR operations: Please refer to the "Major charitable events in 2019" in the Annual Report and 2019 CSR Report.				

Note 1: If "Yes" under the "Status of Operations" is ticked off, please explain the key policies, strategies, and measures adopted and their implementation results; if "No" is ticked off, please give the reason and specify related policies, strategies, and measures to be adopted in the future.

Note 2: Companies that have already prepared their own CSR reports may specify ways to access the report and indicate the page numbers of the cited content in place of the abovementioned summary description.

Note 3: Financial holding companies that are not listed on TWSE or TPEx do not need to fill in the "Deviation in Corporate Social Responsibility (CSR) from the "Corporate Governance Best Practice Principles for TWSE/TPEx Listed Companies" and reasons for deviation" column.

Note 4: The principle of materiality refers to those environmental, social and corporate governance issues that have a significant influence on the company's investors and other stakeholders.



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. The Group sponsored or hosted 32 charitable events in 2019. Major events are as below:

Item	Name	Date	Activity Content
1	Wiener Johann Strauss Orchester (WJSO) New Year Concert (Taipei Concert and Taichung Concert)	January 7 to 8, 2019	The Company sponsored the "Wiener Johann Strauss Orchester (WJSO) New Year Concert (Taipei Concert and Taichung Concert)" organized by Philharmonic Radio Taipei. We are committed to promoting international quality performances, so that people in Taiwan have access to more diverse cultural and artistic elements.
2	Anti-Money Laundering Full Citizen Mobilization Forum	January 16, 2019	The Company sponsored the "Anti-Money Laundering Full Citizen Mobilization Forum" organized by Wealth Magazine to promote anti-money laundering tasks, help Taiwan achieve financial transparency, and align with international standards.
3	2019 Planning for Taiwan's New Finance Forum	April to November, 2019	The Company sponsored the "2018 Planning for Taiwan's New Finance Forum" organized by Taiwan Competitiveness Forum Association which hosted 5 events. The forum invited experts and scholars from the industry, government, and academia in Taiwan to give speeches on topics related to FinTech, which helped in promoting interaction and cooperation in domestic financial industry.
4	"A Suitcase of Memories" stage play	March 7 to 10, 2019	The Group sponsored the "A Suitcase of Memories" stage play organized by the Image and Imagine Foundation and invited teachers and students of history courses in 6 senior high schools to view the performance so that young students can learn more about the modern history of Taiwan.
5	Daonan Cultural & Educational Foundation	March 15, 2019	The Company made donations for the funding of Daonan Cultural & Educational Foundation to help promote finance and taxation education.
6	2019 Invoice Cup Road Race of the Ministry of Finance (Nantou)	April 21, 2019	The Ministry of Finance, National Taxation Bureau of the Central Area, Nantou County Government, and Hua Nan Financial Holdings Group co-organized the "2019 Invoice Cup Road Race of Ministry of Finance (Nantou)" to encourage sports for all and raised 218,688 GUI invoices. All GUI invoices raised were donated to six social welfare organizations, including Yu An Retarded Children's Home in Miaoli, Taiwan Association of Women and Children, Changhua County Lien-Lien Half A Thread Association, Nantou County Trouble Angel Association, Nantou County Association of Parents of the Mentally Disabled, and Yunlin County Welfare Association of the Deaf. The event turned the GUI invoices obtained with no efforts after purchase into the love and strength that empowered disadvantaged groups.
7	Second Global Views Social Enterprise Award Ceremony and Joint Prosperity Forum	May 8, 2019	The Company sponsored the "Second Global Views Social Enterprise Award Ceremony and Joint Prosperity Forum" organized by Global Views Magazine to encourage social enterprises to adopt innovative business models and help promote positive development in society.
8	President Tsai Ing-Wen and High School Students Face-to-Face Forum	May 11, 2019	The Company sponsored the "President Tsai Ing-Wen and High School Students Face-to-Face Forum" organized by "Business Today". The President Ms. Ing-Wen Tsai was invited to give a speech and interact with representatives of high school students across the country.
9	2019 Hua Nan Financial Group Badminton and Table Tennis Tournaments	May 18, 2019	We organized the "2019 Hua Nan Financial Holding Group Badminton and Table Tennis Tournaments" at the National Taiwan University Sports Center. We encouraged employees of the Company to take part and invited teams from the FSC and the National Development Council to join us in the event, compete in friendly games, and encourage employees of the Group to exercise more.
10	2019 Hua Nan Financial Holdings Cup Junior Baseball Championship Games	May 18 to 26, 2019	The Company supported the Chinese Taipei Baseball Association in organizing the "2019 Hua Nan Financial Holdings Cup Junior Baseball Championship Games" so as to promote grassroots baseball development and select athletes for the national team.
11	2019 Taiwan Finance Association Annual Meeting and International Conference	May 24 to 25, 2019	The Company sponsored the Taiwan Finance Association Annual Meeting and International Conference held at the National Taiwan University School of Management based on the theme of "corporate innovation, government policies, and industrial transformation" to promote research on financial theories and practical operations.
12	Notre-Dame de Paris French Musical	June 1 to 9, 2019	The Company sponsored the "Notre Dame de Paris French Musical" organized by the United Daily News. We are committed to promoting international quality performances, so that people in Taiwan have access to more diverse cultural and artistic elements.
13	Scholarship for current graduate students of the baseball team of Gaotai Junior High School	June 11, 2019	The Company sponsored the scholarship for current graduate students of the baseball team of Gaotai Junior High School to promote baseball.
14	2019 Hua Nan Financial Holdings Cup Youth Baseball Championship Games	June 8 to 18, 2019	The Company supported the Chinese Taipei Baseball Association in organizing the "2019 Hua Nan Financial Holdings Cup Junior Baseball Championship Games" so as to promote grassroots baseball development and select athletes for the national team.
15	2019 Financial Services Caring for the Community Carnival (Tainan)	June 29, 2019	Participated in the "Financial Services Caring for the Community Carnival" (Tainan) organized by the Taiwan Financial Services Roundtable to make donations to the Tainan City Yeast Social Care Association and help local disadvantaged groups.
16	2019 Love from Financial Sector—Food (Goods) Bank	July 2019 to June 2020	The Company donated to the "2019 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.

Item	Name	Date	Activity Content
17	2019 Teacher Chang Foundation Teenagers Self-Challenge Camp	July to August, 2019	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.
18	2019 MLB CUP Taiwan	July 2 to 7, 2019	The Company sponsored the "2019 MLB CUP Taiwan" in Taiwan for the second consecutive year and organized the "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 Keelung City.
19	2019 Influence Forum	July 25, 2019	The Company sponsored the "2019 Influence Forum" organized by Wealth Magazine. The chief economist of Nomura Research Institute, Richard C. Koo, was invited to give a keynote speech in the topic of "Macro View of the Global Economy and Investment Opportunities".
20	The Fifth WBSC U-12 Baseball World Cup in 2019	July 26 to August 4, 2019	The Company supported the Chinese Taipei Baseball Association in organizing the "Fifth WBSC Junior Baseball Asia Cup" in 2019 and supported Chinese Taipei Team to win the championship and increase Taiwan's visibility in the baseball world.
21	"Duo Baldo Musical Comedy Team" Legendary Italian Pianist and Violinist Humorous Concert	October 2, 2019	The Company sponsored the "Duo Baldo Musical Comedy Team" Legendary Italian Pianist and Violinist Humorous Concert. We are committed to promoting international quality performances, so that people in Taiwan have access to more diverse cultural and artistic elements.
22	Excellent Hua Nan Care for the Elderly (Taoyuan)	October 3, 2019	The Company supported HonDao Senior Citizen's Welfare Foundation in organizing the "Excellent Hua Nan Care for the Elderly" (Taoyuan) dinner parties and donations, and sponsored home-delivered meal and breakfast subsidy programs to care for the elder leading a solitary life.
23	31st Accounting Elite Cup Debate Contest	October 4 to 6, 2019	The Company sponsored the "31st Accounting Elite Cup Debate Contest" organized by the Accounting Research and Development Foundation and the Department of Accountancy of National Taipei University to promote the development of professional accounting in Taiwan.
24	2019 Financial Services Caring for the Community Carnival (Hsinchu)	November 2, 2019	Participated in the "Financial Services Caring for the Community Carnival" (Hsinchu) organized by the Taiwan Financial Services Roundtable to make donations to the Hsinchu City Social Aid account and help local disadvantaged groups.
25	LA LA LAND in Concert	November 23 to 24, 2019	The Company sponsored the "LA LA LAND in Concert" organized by the Management of New Arts. We are committed to promoting international quality performances, so that people in Taiwan have access to more diverse cultural and artistic elements.
26	2019 Social Value International Conference	December 4 to 5, 2019	The Company sponsored the "2019 Social Value International Conference" organized by the Social Impact Institute of Taiwan to promote global sharing, learning, and forward-looking discussions on social impact and value.
27	Excellent Hua Nan Care for the Elderly (Kaohsiung)	December 19, 2019	The Company supported HonDao Senior Citizen's Welfare Foundation in organizing the "Excellent Hua Nan Care for the Elderly" (Kaohsiung) dinner parties and donations, and sponsored home-delivered meal and breakfast subsidy programs to care for the elder leading a solitary life.
28	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 sponsored gymnasts Li, Chih-Kai, Huang, Ko-Chiang, and coach Lin, Yu-Hsin 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 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 on November 9 and 10, 2019. 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.
29	Funding for the national team training and league matches managed by Chinese Taipei Football Association for this year	2018 to 2019	The Company sponsored the funding for national team training and league matches managed by Chinese Taipei Football Association for 2018-2019.
30	Funding for national team training for the Golf Association of R.O.C. for this year	2019	The Company sponsored the funding for national team training managed by the Golf Association of R.O.C. for 2019.
31	Academic activities of National Chengchi University	June to December, 2019	Sponsored the academic activities of National Chengchi University.
32	Activities of the Chinese National Association of Industry and Commerce, Taiwan	January to December, 2019	Sponsored the funding for activities of the Chinese National Association of Industry and Commerce, Taiwan



1. Photo of President Tsai Ing-Wen and high school students in the "President Tsai Ing-Wen and High School Students Face-to-Face Forum".
2. Group photo of the "Anti-Money Laundering Full Citizen Mobilization Forum" with, starting from the left, the Chief Editor of Wealth Magazine biweekly Yen-Chun Chen, Managing Partner of DTT Attorneys-at-Law Robin Lin, Taiwan Financial Holdings Chairman Joseph Jye-Cherng Lyu, Minister of Justice Ching-Hsiang Tsai, then FSC Vice Chairperson Tien-Mu Huang, then HNFHC Chairman Tang-Chieh Wu, and Executive Secretary Li-Chen Yu of the Anti-Money Laundering Office of the Executive Yuan.
3. Group photo of the "Second Global Views Social Enterprise Award Ceremony and Joint Prosperity Forum" with, starting from the left, Leezen President Miao-Ling Li, Merck Sharp & Dohme (I.A.) LLC CEO Rie Nakajima, then HNFHC Executive Vice President Sarah C.T. Hsu Global Views - Commonwealth Publishing Group Founder and CEO Cora Wang, Global Views Magazine President and Chief Editor Ma-Li Yang, Diageo Taiwan Inc. Public Relations Department Senior Associate Vice President Hung-Peng Hsu, Professor of the Department of Sociology, National Taiwan University Yen Feng, and DOMI Earth Green Energy Co-Founder Tammy Hu.
4. Group photo of the "2019 Influence Forum" with the Vice Premier of the Executive Yuan Chi-Mai Chen (6th from right), Minister of Finance Jian-Rong Su (5th from left), Deputy Minister of the National Development Council Cheng-Mount Cheng (4th from left), chief economist of Nomura Research Institute Richard C. Koo (4th from right), Wealth Magazine President Chin-Ho Hsieh (5th from right), Taiwan Research Institute Founder Tai-Ying Liu (3rd from right), Hong Kong Bellwether International Group Managing Director Christina Y. Liu (3rd from left), HNFHC Chairman Yun-Peng Chang (2nd from right), and representatives of sponsored companies.
5. Start of the "2019 Invoice Cup Road Race of the Ministry of Finance (Nantou)" with, starting from the left, the Legislator Pei-Hui Tsai, Nantou County Magistrate Ming-Chen Lin, Minister of Finance Jian-Rong Su, then acting Chairman of HNFHC Ming-Cheng Lin, and Sun Moon Lake National Scenic Area Administration Director Wei-Hsin Hung.
6. Group photo of the opening ceremony of the "2019 Hua Nan Financial Group Badminton and Table Tennis Tournaments" with Deputy Minister of the National Development Council Cheng-Mount Cheng (7th from left), HNFHC and Hua Nan Bank Chairman Yun-Peng Chang (5th from right), Vice Chairman of HNFHC Ming-Cheng Lin (8th from left), and heads of subsidiaries of HNFHC.
7. Promotional press group photo for the "2019 Hua Nan Financial Holdings Cup Junior Baseball Championship Games" with Chinese Taipei Baseball Association Vice Chairman George Shih-Chiang Chao (2nd row, 9th from right), HNFHC and Hua Nan Bank Chairman Yun-Peng Chang (2nd row, 10th from right), Hua Nan Bank Vice Chairman Chih-Yen Lin (2nd row, 11th from the right), HNFHC President Pao-Chu Lo (2nd row, 8th from the right), and participating athletes from all over Taiwan.





8. HNFHC President Pao-Chu Lo (6th from left) presented the championship trophy of the "2019 Hua Nan Financial Holdings Cup Junior Baseball Championship Games" to the Taoyuan City team.
9. Then HNFHC Executive Vice President Sarah C.T. Hsu (front row, right) and Chinese Taipei Baseball Association Secretary General Tsung-Cheng Lin (front row, left) jointly presented the championship trophy of the "2019 Hua Nan Financial Holdings Cup Junior Baseball Championship Games" to the Taitung County team.
10. HNFHC and Hua Nan Bank Chairman Yun-Peng Chang (front row, right) and Taipei Baseball Association Secretary General Tsung-Cheng Lin (front row, left) jointly presented the championship trophy of the "2019 MLB CUP Taiwan" to Taoyuan City Guishan Elementary School team.
11. HNFHC and Hua Nan Bank Chairman Yun-Peng Chang (6th from right) serves the first pitch in the U-12 Baseball World Cup and presented the popularity awards to teams of different countries.
12. The R.O.C. team selected in the Hua Nan Financial Holdings Cup Junior Baseball Championship Games successfully kept the World Cup Trophy in Taiwan.
13. HNFHC received the Gold Sponsorship, Long Term Sponsorship, and Promotional Bronze Awards in the 2019 "Sports Activists Awards" of the Sports Administration of the Ministry of Education. The award was presented by then Vice President Chien-Jen Chen (left) and received by the President of HNFHC Pao-Chu Lo (right).
14. Tainan City Mayor Wei-Che Huang (left) presented a certificate of gratitude at the 2019 Financial Services Caring for the Community Carnival (Tainan) to the Company's Chairman Yun-Peng Chang (right).
15. Hsinchu City Deputy Mayor Hui-Hung Shen (left) presented a certificate of gratitude at the 2019 Financial Services Caring for the Community Carnival (Hsinchu) to the Company's Chairman Yun-Peng Chang (right).
16. Group photo of the joint donation ceremony "2019 Love from Financial Sector—Food (Goods) Bank". HNFHC President Pao-Chu Lo (1st from right) and representatives of recipients jointly initiated the donation ceremony as then FSC Vice Chairperson Chuan-Chang Chang (5th from left) bore witness.
17. Group photo of HNFHC President Pao-Chu Lo (3rd row, center) and all participants in the Excellent Hua Nan Care for the Elderly (Kaohsiung).
18. The Company invited students from Taipei Municipal Fuxing Senior High School to a guided charity event for viewing the 'Notre-Dame de Paris French Musical'.





(VIII) Deviations of the implementation of ethical corporate management from the Ethical Corporate Management Best Practice Principles for TWSE/TPEx Listed Companies and reasons for deviation

Assessment Item	Implementation Status (Note 1)		Brief Description	Non-implementation of Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies, and its reasons (Note 2)
	Yes	No		
I. Establishment of Corporate Conduct and Ethics Policy and Implementation Measures				
(I) Has the company established the ethical corporate management policies approved by the Board of Directors and specified in its rules and external documents the ethical corporate management policies and practices and the commitment of the board of directors and senior management to rigorous and thorough implementation of such policies?	V		(I) 1. The company has "Employee Work Rules" and "Integrity Management Rules", which have been approved by the Board of Directors. These regulations are the company's integrity management policies. 2. This rule specifies the integrity behaviors that employees should abide by. The board of directors and management team also follow the company law, securities law, other relevant laws and internal procedures of the company to actively implement the company's integrity management.	Compliant
(II) Has the company established a risk assessment mechanism against unethical conduct, analyze and assess on a regular basis business activities within its business scope which are at a higher risk of being involved in unethical conduct, and establish prevention programs accordingly, which shall at least include the preventive measures specified in Paragraph 2, Article 7 of the "Ethical Corporate Management Best Practice Principles for TWSE/TPEx Listed Companies"?	V		(II) The company convenes at least once a year the Integrity Management Committee meeting composed of all independent directors, regularly checks whether the group members have punishment cases related to integrity management, based on the identified dishonest behavior-related business activities and integrity management committee recommendations, and establish relevant Precautions. In addition, the company's evaluation mechanism for the risk of dishonesty behavior also evaluates the activities that include the second paragraph of Article 7 of the "Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies", and identifies business activities that have a high risk of dishonesty behavior in procurement operations. (1) On April 18, 2018, the company's industry revised the relevant provisions of "Information on Supplier Behavior of South China Financial Group". (2) The action plan is as follows: a. In addition to requiring suppliers to sign supplier commitments, group members should complete a supplier checklist when signing a purchase contract to identify potential dishonest behavior. b. Regularly announce to the members of the group the various norms of the company's rule of integrity management. c. The company stipulates in the "Employee Work Rules" that it shall not be favoritism, accept gifts, rebates or other improper benefits; the company also has internal control procedures for donations. d. In addition to having legal specialist assist in reviewing various contracts to prevent the risk of violation of the signed contract, internal auditors also conduct irregular inspections and continuous tracking to improve the implementation.	Compliant
(III) 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? and regularly review the revised the plan?	V		(III) 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. And review or amend the above plan in a timely or regular manner.	Compliant
II. Ethic Management Practice				
(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		(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
(II) Has the company set up a dedicated unit under the Board of Directors to promote ethical corporate management and regularly (at least once every year) report to the Board of Directors the implementation of the ethical corporate management policies and prevention programs against unethical conduct?	V		(II) Since 2016, the company has set up the Integrity Management Committee under the Board of Directors, which is composed of all independent directors, to ensure the effectiveness of implementation, promotion and coordination of integrity policy advocacy training and other matters related to the formulation and supervision of integrity management policies. Meetings are held at least once a year, and a total of two meetings are held in 108. The minutes of the meetings are reported to the board of directors and placed into company's important files. 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
(III) Does the company establish policies to prevent conflict of interests, provide appropriate communication and complaint channels and implement such policies properly?	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
(IV) Has the company established effective accounting systems and internal control systems to implement ethical corporate management and had its internal audit unit, based on the results of assessment of the risk of involvement in unethical conduct, devise relevant audit plans and audit the compliance with the prevention programs accordingly or entrusted a CPA to conduct the audit?	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
(V) Does the company provide internal and external ethical conduct training programs on a regular basis?	V		(V) Otherwise, we use the elevator screen to propaganda the rules of integrity management to our colleagues.	Compliant
III. Implementation of Complaint Procedures				
(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		(I) The Company has stipulated the method, channel, and responsible department to report unethical conducts and announced them on the Company's website.	Compliant
(II) Has the company established the standard operating procedures for investigating reported misconduct, follow-up measures to be adopted after the investigation, and related confidentiality mechanisms?	V		(II) 1. 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. 2. Investigations may be conducted by accessing and viewing information, confidential interviews with related personnel, or other methods that may help clarify the facts of the case. They shall be conducted based on the principles of fairness and independence and, where necessary, the Company may appoint external professional independent personnel to assist in investigations. After investigations are concluded for reported cases, an investigation report shall be formulated and reported to a superior officer for approval.	Compliant
(III) Does the company adopt proper measures to prevent a complainant from retaliation for his/her filing a complaint?	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
IV. Strengthening Information Disclosure				
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		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
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: <https://www.hnfhc.com.tw/HNFHC/company/f.do>

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

Please refer to (5) 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: <https://www.hnfhc.com.tw>

(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, 2019 to December 31, 2019, 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: Yun-Peng Chang (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 23, 2020



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

Hua Nan Financial Holdings Co., Ltd.
Internal control system deficiencies pending improvement and corrective plan
(Baseline date: December 31, 2019)

Deficiencies pending improvement	Corrective action	Estimated date of completion
<p>[Subsidiary Hua Nan Commercial Bank Ltd.]</p> <p>I.</p> <p>A cashier of The Bank's Xindian Branch failed to make account entries for overcharge and intended to embezzle the cash. The case was penalized and corrected by the FSC:</p> <ol style="list-style-type: none"> 1. Failed to undertake deposit and withdrawal for customers appropriately. 2. Transferred customers' deposits in the name of cash withdrawal. 3. Supervisor of deposits and transfers and accounting personnel failed to fully complete account settlement operations. <p>Other improvement items:</p> <ol style="list-style-type: none"> 1. Set up related control measures. 2. Enhance training. 	<p>I.</p> <ol style="list-style-type: none"> 1. Added file creation, modification, and inquiry transactions to the "out-of-bank collection service" in the system and send statements of external collection and payment transactions for the current month in the following month. 2. Enhance employee training. 	<p>I.</p> <p>The improvement has been completed.</p>
<p>II.</p> <p>A former assistant manager of the Company's Xinsheng Branch allegedly embezzled customer funds and conducted irregular transactions with customers. The FSC imposed a penalty of NT\$10 million and corrections. It also suspended the acceptance of new monetary trust businesses of the Bank's Wanhua Branch from new customers for three months starting from the effective date of the penalty, and suspended the acceptance of new monetary trust businesses of the Bank's Nanshijiao and Xinsheng Branches from new customers.</p> <ol style="list-style-type: none"> 1. Failure to establish an adequate internal control system: <ol style="list-style-type: none"> (1) Failure to implement monitoring and management mechanisms for related accounts of wealth management personnel. (2) Improvements required for fraud prevention and tracking mechanisms in account settlement of wealth management customers. 2. Failure to fully implement the internal control system: <ol style="list-style-type: none"> (1) Failure to implement related operations, failure of the review and approval system, and failure of the supervisors to perform their supervisory duties. (2) Failure to effectively supervise bank employees in compliance with related provisions in the Bank's employee code of conduct. (3) Failure to effectively review cases of deficiencies found in past audits on the system level. (4) Failure to fully execute monitoring and control for suspected money-laundering patterns. <p>Other improvement items:</p> <ol style="list-style-type: none"> 1. Establish transaction information monitoring and control mechanisms for wealth management personnel and their related accounts. 2. Enhancement of fraud prevention and tracking mechanisms in account settlement of wealth management customers. 3. Strengthen the implementation and the review and approval system to fully utilize functions and improve the supervisory duties of supervisors. 4. Enhance supervision of employees' compliance with the employee code of conduct. 5. Enhance review of cases of deficiencies found in past audits on the system level. 6. Optimize review operation regulations and procedures for suspected money-laundering transactions. 7. Enhance training. 	<p>II.</p> <ol style="list-style-type: none"> 1. Establish the following transaction information monitoring and control mechanisms for wealth management personnel and their related accounts: <ol style="list-style-type: none"> (1) Establish a list of related accounts of wealth management personnel in the system. (2) When transactions between wealth management personnel or their related accounts engage and customers exceed a certain amount, the system produces an anomaly report for the business unit to review. (3) Include related operations into the self-inspection work draft for the business unit. 2. Enhance the following fraud prevention and tracking mechanisms in account settlement of wealth management customers: <ol style="list-style-type: none"> (1) Scan the name and content of the outgoing e-mails of wealth management personnel with the system, and if abnormal conditions are met, they will be blocked and a block control report will be issued. (2) Scan computers of wealth management personnel daily with the system. If abnormal conditions are met, the system produces a report for the supervisor of the business unit to conduct investigations. (3) The system automatically compiles a list of customers whose registered basic information at the Bank in the previous month include the emails, mobile phone number, telephone, correspondence address, business unit address, or telephone number of wealth management personnel. The business supervisor of wealth management operations is notified to conduct investigations. (4) Implement comprehensive statement integration to disclose the details of deposits and investment products (such as additional portfolio investment commodities in the month, termination of contracts, transactions upon maturity, and insurance contract subscription information, etc.) to the statements provided to wealth management customers. (5) Include related operations into the self-inspection work draft for the business unit. 3. Strengthen the spot checks on over-the-counter transactions of business units, payments in out-of-bank collection service, and received wealth management documents. <ol style="list-style-type: none"> (1) Establish regulations to prohibit deposits and transfer personnel from processing deposits and withdrawals processed by wealth management personnel holding customer data. (2) The head office unit conducts regular spot checks on the "wealth management business out-of-bank collection reference book" of business units regularly each month to learn about the implementation status of business units. (3) Establish regulations to require business units to assign supervisors to conduct thoughtful interviews with natural-person customers with expenditures from deposits, subscription or redemption of personal insurance, funds, or foreign bonds exceeding a certain amount. 4. To prevent this error from recurring, the company shall strengthen client management and its own management to enhance supervision of wealth management personnel's compliance with the employee code of conduct: <ol style="list-style-type: none"> (1) Supervisors of business units shall interview important wealth management customers. (2) Business management units assign dedicated personnel to review the interviews of customers placed on the list. (3) Establish a list of wealth management personnel for risk pattern monitoring in the system. 5. Enhance review of cases of deficiencies: <ol style="list-style-type: none"> (1) Related business management units responsible for the deficiencies found in inspections shall establish additional control points for deficiencies found in past inspections. (2) The audit unit regularly convenes the "communications meeting for the three lines of defense of internal controls" and discuss improvement measures for deficiencies that occurred more frequently with the business management units. 6. Establish the Bank's "Case Review Section Suspected AML/CFT Transaction Review and Reporting Operating Procedures" to enhance the review of the reasons for customers' transactions and the reasonableness of transaction activities. 7. Enhance employee training. 	<p>II.</p> <p>Improvement measures I, III (I), IV, and V (II) were completed. The Company then followed the instructions of the FSC and implemented improvements which are scheduled to be completed before March 31, 2020 while other improvements have been completed.</p>
<p>III.</p> <p>The following deficiencies were found in the operations of insurance agents and the FSC required improvements within 1 month and imposed a fine of NT\$200,000.</p> <p>Failure to fully implement KYC operations when soliciting life insurance products.</p> <p>Failure to understand the purpose and nature of the business relationship between the proposer and payer for large insurance premiums payments that are not paid by the parties to the insurance contract.</p> <p>Other improvement items:</p> <p>Set up related regulations and control procedures.</p> <p>Enhance training.</p>	<p>III.</p> <ol style="list-style-type: none"> 1. Established the following related control measures: <ol style="list-style-type: none"> (1) Added the field "The applicant hereby states that the Bank's personnel have not induced him/her to use loans to obtain funding for investments in financial products" in the personal loan business application documents. The compliance officer of business units shall confirm the aforementioned statements with the customer and affix his/her seal. (2) Amended the "insurance sales service explanation and items to be verified with customers" (applicable to life insurance policies). (3) Included related regulations into mandatory items in the special self-inspections of business units. (4) Added requirements in the Bank's insurance agency management system to review whether customers are loan customers, display the customer's latest loan date, and display an alert message when the business manager releases the loan. (5) For customers whose sources of funding for payment of insurance premiums are loans, the addition of the insurance policy requires the "loan review form" to help the company review the consistency of the personal annual income in the "loan review form" and "salesperson report". (6) For customers who purchase non-mortgage life insurance, the salesperson must ask the customer to attach a written statement "The salesperson did not induce or encourage the undersigned to purchase insurance with a loan and the undersigned understands the risks of purchasing insurance products". 2. Enhance employee training. 	<p>III.</p> <p>The improvement has been completed.</p>

Deficiencies pending improvement	Corrective action	Estimated date of completion
<p>IV.</p> <p>The following deficiencies were found in operations related to the deposits and transfers of related accounts of Run-Yin Group and the FSC imposed a fine of NT\$1.5 million.</p> <ol style="list-style-type: none"> Failure to enhance the confirmation of frequent outward remittances and large supply of funds paid by individuals who are not the payers in cases where the payer and the actual supplier of funds are different individuals. Failure to rigorously implement continuous risk assessments and review and undermine customer risk management operations. Failure to complete related procedures for processing irregularities in fund transfers and undermine the compliance of business units. Failure to include the pattern in cases where the payer and the actual supplier of funds are different individuals as factors for screening suspected money-laundering transactions. <p>Other improvement items:</p> <ol style="list-style-type: none"> Set up and amend related regulations. Enhance control over the system and statements. Enhance training. 	<p>IV.</p> <ol style="list-style-type: none"> Set up and amend related regulations: <ol style="list-style-type: none"> When adding outward remittances in which the payment deduction account name is different from the remitter's account name, the related operations are as follows: <ol style="list-style-type: none"> The following conditions must be met before the application can be accepted: <ol style="list-style-type: none"> Corporate account: Affiliate company or group enterprise Personal account: Relationship. The customer provides related certification documents (e.g., court documents or authorization letters). For remittances above NT\$30,000 and under NT\$500,000, the clerk is required to specify the payment deduction account number, account name, the relationship with the remitter, and the customer's motives for the operation. For remittance transactions above NT\$500,000, the clerk is required to fill out the "domestic outward remittance operation checklist" and review the relationship between the payment deduction account name and the remitter, the relationship between the remitter and the agent, the purpose of transaction, and the sources of funding. The "domestic outward remittance operation checklist" shall be retained for reference along with the remittance application form. Amend the Bank's "Centralized Operation Manual" and implement related operating procedures for compliance by business units. Enhance control over the system and statements: <ol style="list-style-type: none"> When executing remittances in the system, add reminders for cases where "the payment deduction account name is different from the remitter's account name" to remind business units to pay attention to related control and management measures. If "the payment deduction account name is different from the remitter's account name" and the "the outward remittance amount exceeds NT\$500,000" in outward remittance transactions, the system shall produce statements for the remittance bank, payment deduction bank, and credit extension bank to communicate and review the remittance. Add a statement of customers with irregular domestic transactions whose risk ratings have not been correctly classified. Review and correct the list of errors to ensure the correct implementation of related review operations. Enhance employee training. 	<p>IV.</p> <p>The improvement has been completed.</p>
<p>[Subsidiary Hua Nan Securities Co., Ltd.]</p> <p>I.</p> <p>The FSC conducted a regular business inspection of the Company from September 11 to October 3, 2018 and imposed a fine of NT\$500,000 on the Company on June 21, 2019 for the following deficiencies in anti-money laundering operations.</p> <ol style="list-style-type: none"> Failure to fully inquire, analyze, and correctly create files for politically exposed persons when conducting customer name and title reviews. Customers were permitted to open accounts even when no data are provided for basic customer information and occupation fields as HNSC failed to implement controls. Failure to include the item "where a payment of over NT\$500,000 was not wired to the securities firm by the account holder..." in anti-money laundering patterns for monitoring published by Taiwan Securities Association as an anti-money laundering pattern for monitoring. 	<p>I.</p> <ol style="list-style-type: none"> Establish clear operating procedures in operation manual and increase the awareness of employees. Use automatic programs in the information system to replace manual file creation operations. Establish mandatory file creation mechanisms for the occupation field when conducting account opening operating system settings to enhance control and management. Establish monitoring and control procedures for the specified pattern and include them in routine monitoring and control operations. 	<p>I.</p> <p>The improvement has been completed.</p>
<p>[Subsidiary South China Insurance Co., Ltd.]</p> <p>I.</p> <p>Failure to evaluate additional fees for commercial fire insurance businesses for co-underwritten cases and such cases affected healthy operations. The FSC required corrections.</p>	<p>I.</p> <ol style="list-style-type: none"> The Non-Life Insurance Association has convened a meeting on April 18, 2018 to specify the minimum commercial fire insurance surcharge rate which became effective on July 1, 2018. The new commercial fire insurance businesses underwritten by the Company starting from July 1, 2018 shall be processed in accordance with the aforementioned resolution. 	<p>I.</p> <p>The improvement has been completed.</p>
<p>[Subsidiary Hua Nan Futures Co., Ltd.]</p> <p>I.</p> <p>Failure to comply with regulations of the internal control system and executed write off operations on behalf of customers of high-risk accounts before organizing high-risk account notices for transaction counterparties. The following deficiencies were found and the FSC imposed a fine of NT\$240,000:</p> <ol style="list-style-type: none"> Failure to expressly provide the internal control system and the sequence of write off on behalf of customers when the risk indicators of the futures transaction counterparty's account fall below the standard value prescribed by the Company. The Company conducted write off procedures on behalf of customers before organizing high-risk account notices for customers which fail to meet requirements in the internal control system. 	<p>I.</p> <ol style="list-style-type: none"> Amended the Internal Control CA-21320 transaction deposit collection operation (V) write-off operations on behalf of customers. Specified the sequence of write off on behalf of customers when the risk indicators of the futures transaction counterparty's account fall below the standard value prescribed by the Company which is required to write off all positions of the futures transaction counterparty for products on the market to prevent disputes. <ol style="list-style-type: none"> The Company's high-risk account notification mechanism requires the Company to send information to the SMS service system of Mitake Information Corporation (hereinafter referred to as the Supplier) and use the system to deliver SMS to customers of different telecommunications operators. In the event of special market conditions such as those on February 6, 2018, congestion and other non-man-made uncertainties, it may cause delays in the deliveries of notices to customers. The Company optimized the transmission notification program interfaced with the SMS Supplier (after optimization, the rate was increased to 300 transmissions per second). 	<p>I.</p> <p>The improvement has been completed.</p>



(XIII) Penalty received by the financial holding company and its subsidiaries due to violation of regulations, the major deficiency and related improvement in past two years and until the date of publishing the annual report, and items below 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.	<p>Nane for HNFHC Hua Nan Bank manager of Xinsheng Branch, allegedly embezzled customer funds in violation of the special breach of trust offense set forth in the Banking Act and was indicted by a prosecutor of Taipei District Prosecutors Office.</p> <p>Improvement status:</p> <p>(I) Personnel review: Chang was penalized with two major demerits and dismissed.</p> <p>(II) Enhanced training for wealth management personnel and supervisors.</p> <p>(III) Established monitoring and control measures: for accounts of wealth management personnel and irregular transaction patterns.</p>
2. Penalty Fine Imposed by the Financial Supervisory Commission Due to Violation of Law or Rectification Imposed by the Financial Supervisory Commission, or Penalty Imposed by the Financial Supervisory Commission due to Violation of Article 54-1 of the Financial Holding Company Act or Sanctions imposed by the company upon its internal personnel for violations of internal control system provisions and where the sanctions may have a major impact on shareholder's interest or securities price or violation of Article 2 by FSC's measures to publish and clarify external punishment measures. The sanction, major deficiencies and improvements shall be disclosed.	<p>None for HNFHC</p> <p>Hua Nan Bank</p> <p>I. A former assistant manager of the Company's Xinsheng Branch allegedly embezzled customer funds and conducted irregular transactions with customers. The FSC imposed a penalty of NT\$10 million and corrections. It also suspended the acceptance of new monetary trust businesses of the Bank's Wanhua Branch from new customers for three months starting from the effective date of the penalty, and suspended the acceptance of new monetary trust businesses of the Bank's Nanshijiao and Xinsheng Branches from new customers. The following deficiencies were found:</p> <p>(I) Failure to establish an adequate internal control system:</p> <ol style="list-style-type: none"> 1. Failure to implement monitoring and management mechanisms for related accounts of wealth management personnel. 2. Improvements required for fraud prevention and tracking mechanisms in account settlement of wealth management customers. <p>(II) Failure to fully implement the internal control system:</p> <ol style="list-style-type: none"> 1. Failure to implement related operations, failure of the review and approval system, and failure of the supervisors to perform their supervisory duties. 2. Failure to effectively supervise bank employees in compliance with related provisions in the employee code of conduct. 3. Failure to effectively review cases of deficiencies found in past audits on the system level. 4. Failure to fully execute monitoring and control for suspected money-laundering patterns. Other improvement items: <p>Other improvement items</p> <p>(I) Establish transaction information monitoring and control mechanisms for wealth management personnel and their related accounts.</p> <p>(II) Enhancement of fraud prevention and tracking mechanisms in account settlement of wealth management customers.</p> <p>(III) Strengthen the implementation and the review and approval system to fully utilize functions and improve the supervisory duties of supervisors.</p> <p>(IV) Enhance supervision of employees' compliance with the employee code of conduct.</p> <p>(V) Enhance review of cases of deficiencies found in past audits on the system level.</p> <p>(VI) Optimize review operation regulations and procedures for suspected money-laundering transactions.</p> <p>(VII) Enhance training.</p> <p>Penalty date: August 7, 2019;</p> <p>Improvement status:</p> <p>(I) Establish the following transaction information monitoring and control mechanisms for wealth management personnel and their related accounts:</p> <ol style="list-style-type: none"> 1. Establish a list of related accounts of wealth management personnel in the system. 2. When transactions between wealth management personnel or their related accounts engage and customers exceed a certain amount, the system produces an anomaly report for the business unit to review. 3. Include related operations into the self-inspection work draft for the business unit. <p>(II) Enhance the following fraud prevention and tracking mechanisms in account settlement of wealth management customers:</p> <ol style="list-style-type: none"> 1. Scan the name and content of the outgoing e-mails of wealth management personnel with the system, and if abnormal conditions are met, they will be blocked and a block control report will be issued. 2. Scan computers of wealth management personnel daily with the system. If abnormal conditions are met, the system produces a report for the supervisor of the business unit to conduct investigations. 3. The system automatically compiles a list of customers whose registered basic information in the previous month include the emails, mobile phone number, telephone, correspondence address, business unit address, or telephone number of wealth management personnel. The business supervisor of wealth management operations is notified to conduct investigations. 4. Implement comprehensive statement integration to disclose the details of deposits and investment products (such as additional portfolio investment commodities in the month, termination of contracts, transactions upon maturity, and insurance contract subscription information, etc.) to the statements provided to wealth management customers. 5. Include related operations into the self-inspection work draft for the business unit. <p>(III) Strengthen the spot checks on over-the-counter transactions of business units, payments in out-of-bank collection service, and received wealth management documents:</p> <ol style="list-style-type: none"> 1. Establish regulations to prohibit deposits and transfer personnel from processing deposits and withdrawals processed by wealth management personnel holding customer data. 2. The head office unit conducts regular spot checks on the "wealth management business out-of-bank collection reference book" of business units regularly each month to learn about the implementation status of business units. 3. Establish regulations to require business units to assign supervisors to conduct thoughtful interviews with natural-person customers with expenditures from deposits, subscription or redemption of personal insurance, funds, or foreign bonds exceeding a certain amount.

Item	Case and Status of Improvement
<p>2. Penalty Fine Imposed by the Financial Supervisory Commission Due to Violation of Law or Rectification Imposed by the Financial Supervisory Commission, or Penalty Imposed by the Financial Supervisory Commission due to Violation of Article 54-1 of the Financial Holding Company Act or Sanctions imposed by the company upon its internal personnel for violations of internal control system provisions and where the sanctions may have a major impact on shareholder's interest or securities price or violation of Article 2 by FSC's measures to publish and clarify external punishment measures. The sanction, major deficiencies and improvements shall be disclosed.</p>	<p>(IV) To prevent this error from recurring, the company shall strengthen client management and its own management to enhance supervision of wealth management personnel's compliance with the employee code of conduct:</p> <ol style="list-style-type: none"> Supervisors of business units shall interview important wealth management customers. Business management units assign dedicated personnel to review the interviews of customers placed on the list. Establish a list of wealth management personnel for risk pattern monitoring in the system. <p>(V) Enhance review of cases of deficiencies:</p> <ol style="list-style-type: none"> Related business management units responsible for the deficiencies found in inspections shall establish additional control points for deficiencies found in past inspections. The audit unit regularly convenes the "communications meeting for the three lines of defense of internal controls" and discuss improvement measures for deficiencies that occurred more frequently with the business management units. <p>(VI) Establish the Bank's "Case Review Section Suspected AML/CFT Transaction Review and Reporting Operating Procedures" to enhance the review of the reasons for customers' transactions and the reasonableness of transaction activities.</p> <p>(VII) Enhance employee training.</p> <p>II. The following deficiencies were found in the operations of insurance agents and the FSC required improvements within 1 month and imposed a fine of NT\$200,000.</p> <p>(I) Failure to fully implement KYC operations when soliciting life insurance products.</p> <p>(II) Failure to understand the purpose and nature of the business relationship between the proposer and payer for large insurance premiums payments that are not paid by the parties to the insurance contract.</p> <p>Other improvement items:</p> <p>(I) Set up related regulations and control procedures.</p> <p>(II) Enhance training.</p> <p>Penalty date: September 16, 2019;</p> <p>Improvement status:</p> <p>(I) Established the following related control measures:</p> <ol style="list-style-type: none"> Added the field "The applicant hereby states that the Bank's personnel have not induced it to use loans to obtain funding for investments in financial products" in the personal loan business application documents. The compliance officer of business units shall confirm the aforementioned statements with the customer and affix his/her seal. Amended the "insurance sales service explanation and items to be verified with customers" (applicable to life insurance policies). Included related regulations into mandatory items in the special self-inspections of business units. Added requirements in the Bank's insurance agency management system to review whether customers are loan customers, display the customer's latest loan date, and display an alert message when the business manager releases the loan. For customers whose sources of funding for payment of insurance premiums are loans, the addition of the insurance policy requires the "loan review form" to help the company review the consistency of the personal annual income in the "loan review form" and "salesperson report". For customers who purchase non-mortgage life insurance, the salesperson must ask the customer to attach a written statement "The salesperson did not induce or encourage the undersigned to purchase insurance with a loan and the undersigned understands the risks of purchasing insurance products". <p>(II) Enhance employee training.</p> <p>III. The following deficiencies were found in operations related to the deposits and transfers of related accounts of Run-Yin Group and the FSC imposed a fine of NT\$1.5 million:</p> <p>(I) Failure to enhance the confirmation of frequent outward remittances and large supply of funds paid by individuals who are not the payers in cases where the payer and the actual supplier of funds are different individuals.</p> <p>(II) Failure to rigorously implement continuous risk assessments and review and undermine customer risk management operations.</p> <p>(III) Failure to complete related procedures for processing irregularities in fund transfers and undermine the compliance of business units. Failure to include the pattern in cases where the payer and the actual supplier of funds are different individuals as factors for screening suspected money-laundering transactions.</p> <p>Other improvement items:</p> <p>(I) Set up and amend related regulations:</p> <p>(II) Enhance control over the system and statements:</p> <p>(III) Enhance training.</p> <p>Penalty date: October 17, 2019; Improvement status:</p> <p>(I) Set up and amend related regulations:</p> <ol style="list-style-type: none"> When adding outward remittances in which the payment deduction account name is different from the remitter's account name, the related operations are as follows: <ol style="list-style-type: none"> The following conditions must be met before the application can be accepted: <ol style="list-style-type: none"> Corporate account: Affiliate company or group enterprise Personal account: Relationship. The customer provides related certification documents (e.g., court documents or authorization letters). For remittances above NT\$30,000 and under NT\$500,000, the clerk is required to specify the payment deduction account number, account name, the relationship with the remitter, and the customer's motives for the operation. For remittance transactions above NT\$500,000, the clerk is required to fill out the "domestic outward remittance operation checklist" and review the relationship between the payment deduction account name and the remitter, the relationship between the remitter and the agent, the purpose of transaction, and the sources of funding. The "domestic outward remittance operation checklist" shall be retained for reference along with the remittance application form. Amend the Bank's "Centralized Operation Manual" and implement related operating procedures for compliance by business units.



Item	Case and Status of Improvement
2. Penalty Fine Imposed by the Financial Supervisory Commission Due to Violation of Law or Rectification Imposed by the Financial Supervisory Commission, or Penalty Imposed by the Financial Supervisory Commission due to Violation of Article 54-1 of the Financial Holding Company Act or Sanctions imposed by the company upon its internal personnel for violations of internal control system provisions and where the sanctions may have a major impact on shareholder's interest or securities price or violation of Article 2 by FSC's measures to publish and clarify external punishment measures. The sanction, major deficiencies and improvements shall be disclosed.	<p>(II) Enhance control over the system and statements:</p> <ol style="list-style-type: none"> When executing remittances in the system, add reminders for cases where "the payment deduction account name is different from the remitter's account name" to remind business units to pay attention to related control and management measures. If "the payment deduction account name is different from the remitter's account name" and the "the outward remittance amount exceeds NT\$500,000" in outward remittance transactions, the system shall produce statements for the remittance bank, payment deduction bank, and credit extension bank to communicate and review the remittance. Add a statement of customers with irregular domestic transactions whose risk ratings have not been correctly classified. Review and correct the list of errors to ensure the correct implementation of related review operations. <p>(III) Enhance employee training.</p> <p>IV. A cashier of The Bank's Xindian Branch failed to make account entries for overcharge and intended to embezzle the cash. The case was penalized and corrected by the FSC due to the following deficiencies:</p> <ol style="list-style-type: none"> Failed to undertake deposit and withdrawal for customers appropriately; Transferred customers' deposits in the name of cash withdrawal in violation of related regulations; Supervisor of deposits and transfers and accounting personnel failed to fully complete account settlement operations. A bank clerk failed to make account entries for overcharge and intended to embezzle the cash; internal operating procedures and risk controls were not appropriately implemented. <p>Other improvement items:</p> <ol style="list-style-type: none"> Set up related control measures. Enhance training. <p>Penalty date: April 9, 2019;</p> <p>Improvement status:</p> <ol style="list-style-type: none"> Added file creation, modification, and inquiry transactions to the "out-of-bank collection service" in the system and send statements of external collection and payment transactions for the current month in the following month. Enhance employee training. <p>Hua Nan Securities</p> <p>I. The FSC's Chin-kuan-cheng-chuan-fa-tzu-ti-1080304250 Penalty dated June 21, 2019 stated that the Company had failed to execute customer name and title verification for AML operations and committed errors in the creation of files on politically exposed persons (PEPs) which affected the customers' risk ratings. The Company also left many blanks in the occupation fields of many brokerage business customers and failed to list suspected ML/TF transaction patterns published by the Taiwan Securities Association as AML patterns for management. The failures have been deemed as violations of Article 3, Subparagraph 4; Article 8, Subparagraph 1; Article 9, Subparagraph 5; and Article 10, Paragraph 1 of the Regulations Governing Anti-Money Laundering of Financial Institutions. The FSC therefore imposed a fine of NT\$500,000 in accordance with Article 7, Paragraph 5 of the Money Laundering Control Act.</p> <p>Improvement status: The Company has completed improvement operations and reported the improvements to the Board of Directors for passage and to the FSC for review.</p> <p>II. The FSC's Chin-kuan-cheng-chuan-fa-tzu-ti-1090361984 Penalty dated April 30, 2020 stated that the Company had failed to adequately conduct business operations in accordance with the hedging strategy and thus exceeded the limits specified for market risks. The Company also failed to establish comprehensive and effective warrant issuance and risk management systems, failed to report to the Board of Directors, and failed to take necessary measures. The failures have been deemed as violations of Article 2, Subparagraph 2 of the Regulations Governing Securities Firms. The FSC therefore imposed a fine of NT\$1.44 million in accordance with Article 178-1, Paragraph 1, Subparagraph 4 of the Securities and Exchange Act.</p> <p>Improvement status: The Company shall implement related improvement measures based on the opinions of the FSC.</p> <p>III. The FSC conducted regular business inspections of the Company's Taichung and Nanjing Branches from May 27, 2019 to June 5, 2019 and from June 6, 2019 to June 14, 2019. According to Chin-kuan-cheng-chuan-fa-tzu-ti 1080333472 letter dated January 30, 2020, it discovered violations of securities management regulations and required corrections.</p> <p>Main deficiencies:</p> <ol style="list-style-type: none"> Failure to review the existence of conflict of interests in commissioned transactions between internal personnel and important customers of the Company and retain audit logs. Accounts of internal personnel and accounts of customers used the same IP on the same day to order trading of securities. Hua Nan Investment Trust failed to investigate or clarify whether there were violations of related regulations on securities firms in this case. Acceptance of telephone instructions for the trading of securities from individuals other than the customer or the trader authorized by the customer. Acceptance of telephone instructions without price restrictions for the trading of securities from non-specific natural-person customers for which the operator set the price and issued orders. When processing customer-commissioned transaction limit financial resources and financing limit review operations, the Company failed to implement overall account control and management procedures for the maximum trading volume between customers' branch companies. <p>Improvement status:</p> <p>The Company has completed improvement operations and reported the improvements to the Board of Directors for passage and to the FSC for review.</p>

Item	Case and Status of Improvement
2. Penalty Fine Imposed by the Financial Supervisory Commission Due to Violation of Law or Rectification Imposed by the Financial Supervisory Commission, or Penalty Imposed by the Financial Supervisory Commission due to Violation of Article 54-1 of the Financial Holding Company Act or Sanctions imposed by the company upon its internal personnel for violations of internal control system provisions and where the sanctions may have a major impact on shareholder's interest or securities price or violation of Article 2 by FSC's measures to publish and clarify external punishment measures. The sanction, major deficiencies and improvements shall be disclosed.	<p>IV. The FSC conducted a regular business inspection of the Company. According to the Chin-kuan-cheng-chuan-tzu-ti 10803042501 letter dated June 21, 2019, it discovered violations of securities management regulations and required corrections.</p> <p>Main deficiencies:</p> <ol style="list-style-type: none"> 1. The Company had failed to execute customer name and title verification for AML operations and committed errors in the creation of files on politically exposed persons (PEPs) which affected the customers' risk ratings. 2. The Company also left many blanks in the occupation fields of many brokerage business customers and failed to adequately identify and verify customer identity. 3. Failure to fully include the item "where a payment of over NT\$500,000 was not wired to the securities firm by the account holder..." in anti-money laundering patterns for monitoring published by Taiwan Securities Association as an anti-money laundering pattern for monitoring. 4. When processing commissioned transaction limit review operations involving customers whose total account transaction amount exceeds NT\$5 million, the Company failed to require certification of financial resources for 30% of the total transaction amount. 5. When processing private placement sales, the Company failed to specify the subscribers, number of shares sold, notices for payment, or other related operating regulations and failed to retain work logs. <p>Improvement status:</p> <p>The Company has completed improvement operations and reported the improvements to the Board of Directors for passage and to the FSC for review.</p> <p>South China Insurance</p> <p>I. Errors committed in the establishment of rates for insurance products</p> <p>Penalty letter: Chin-kuan-bao-chan-tzu-ti-10704520192 dated February 9, 2018.</p> <p>Case: The Company has failed to correctly verify multiple coefficients and deductible adjustment coefficients for insurance product rates and pure insurance premiums of additional policies in accordance with the contents of the coverage in underwriting operations. The Company also failed to adopt the high-premium coefficients for main insurance contracts in accordance with the product calculation book submitted for review and failed to collect the full insurance premiums. The actions were in violation of Article 7, Paragraph 1, Subparagraph 8, item 2 and Article 17 of the "Regulations Governing Business Solicitation, Policy Underwriting and Claim Adjusting of Insurance Enterprises" which was established with the authorization of Article 148-3, Paragraph 1 of the Insurance Act. The Company was fined NT\$600,000 in accordance with Article 171-1, Paragraph 5 of the Insurance Act.</p> <p>Improvement status:</p> <ol style="list-style-type: none"> (I) Use this case as a reference and call for all underwriting personnel to discuss about deficiencies. (II) Enhance additional premium review mechanisms. Require precision and reasonableness in premium calculations. (III) Include the related deficiency cases in the annual national underwriters' meeting material. Increase the awareness of the importance of the accuracy of calculation and prevent the error from recurring. <p>II. Deficiency in car insurance premium collection</p> <p>Penalty letter: Chin-kuan-bao-chan-tzu-ti-10704520192 dated February 9, 2018.</p> <p>Case: While conducting automobile insurance payment collection and billing for underwriting insurance policies, there were cases where the payment or deposit date was later than the effective date, the cancellation of payments by insurance agents, and failure to cancel payments within one month of the period prescribed in the contract. These cases were violations of the "Operating Procedures and Notices for Automobile Insurance Payment Collection and Billing" and inconsistent with Article 5, Paragraph 1, Subparagraph 2 of the "Regulations Governing Implementation of Internal Control and Auditing System of Insurance Enterprises" which was established with the authorization granted in Article 148-3, Paragraph 1 of the Insurance Act. The Company was fined NT\$1.2 million in accordance with Article 171-1, Paragraph 4 of the Insurance Act.</p> <p>Improvement status:</p> <ol style="list-style-type: none"> (I) Where the delay is caused by the delay of sales personnel in returning paid premiums received from the customer to the Company: <ol style="list-style-type: none"> 1. 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. The Finance Department prepares a monthly exception report. The Car Business Department assists with the exception report follow-up. 2. 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 the sales personnel, in order not to affect customer's right, the policy will still be printed out after the payment. However, the Finance Department will include it in the violation report and the sales personnel will receive an administrative punishment. (II) 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"> 1. Where the delay is caused by insurance agent's delay in returning insurance premiums to the Company: <p>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.</p> 2. Where the policy was sold through the insurance agent, but the Company's own personnel caused the delay: <p>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 activities.</p>



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Deficiencies in failure to complete credit card payment operations</p> <p>Penalty letter: Chin-kuan-bao-chan-tzu-ti-10704520192 dated February 9, 2018.</p> <p>Case: While conducting credit card payment of insurance premiums operations, the Company failed to conduct additional investigations and verifications on anomalies involving different cardholders with the same card number. The failure was detrimental to the control and management of whether the insurance premiums were abused. The Company's failure to establish control and management mechanisms for anomalies involving cardholders was a violation of Article 5, Paragraph 1, Subparagraph 8 of the "Regulations Governing Implementation of Internal Control and Auditing System of Insurance Enterprises" which was established with the authorization granted in Article 148-3, Paragraph 1 of the Insurance Act. The Company was fined NT\$600,000 in accordance with Article 171-1, Paragraph 4 of the Insurance Act.</p> <p>Improvement status: 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 address the issue of same card number with different cardholder name. The list of same card numbers 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.</p> <p>IV. The registered "South China Insurance Diversified Automobile Insurance" product was found in violation of related regulations in the Insurance Act. Penalty letter: Chin-kuan-bao-chan-tzu-ti 10904900462 dated November February 11, 2020.</p> <p>Case: The registered South China Insurance Diversified Automobile Insurance product has a product premiums rate of 50% of the pure insurance premiums of self-use small passenger cars plus pure insurance premiums for periods in which cars are used as diverse passenger cars. The product was offered as an insurance product for diversified taxi services. However, the competent authority believed that such vehicles are still categorized as "small passenger car for business use" in accordance with the transportation vehicle registration management regulations. If the insurance premiums are relatively lower than small passenger car for business use or personal taxis, it fails to meet the principles of adequacy, reasonableness, and fairness of insurance premiums and is thus inconsistent with Article 6 and Article 8 of the "Regulations Governing Pre-sale Procedures for Insurance Products". The Company was fined NT\$600,000 in accordance with Article 171 of the Insurance Act.</p> <p>Improvement status:</p> <p>(I) After the Company explained the business to the competent authority on August 1, 2019, it has suspended the sales of the product on August 15, 2019 and removed the product from offers on February 1, 2020.</p> <p>(II) For the development of new similar products in response to new types of business models, the Company shall adopt a more cautious approach to analyze business operations. If there is any doubt, it shall first inquire the opinions of the Non-Life Insurance Association or the competent authority before commencing related operations.</p> <p>V. Failure to establish regular reviews for funds payable but unpaid to policyholders and active notification system</p> <p>Penalty letter: Chin-kuan-bao-chan-tzu-ti-10704520192 dated February 9, 2018.</p> <p>Case: Although the Company has established comparison and notification mechanisms in early 2017 for funds payable to customers that have not been paid, it only checked whether the recipients of payments transferred to miscellaneous income in the past three years have purchased new insurance policies and did not include all funds. In addition, the Company only issued 2 notifications for each account payable and failed to establish regular review and active notification mechanisms which were detrimental to the protection of consumer interests and impacts the Company's healthy management. The Company was thus corrected in accordance with Article 149, Paragraph 1 of the Insurance Act.</p> <p>Improvement status: The new and old payments are processed separately and handling personnel of old payments already transferred to miscellaneous income shall be responsible for notifying customers. If the funds still cannot be returned and if the front-end information contains new insurance purchase, compensation, or refund transaction records in the inward transfer database, the handling personnel shall notify the customer to repay the fund. If the match was not successful, a mail notice shall be sent. For the new accounts payable, the Company shall complete refunds within two months of the establishment of the payables. If the refunds cannot be successfully concluded, it shall issue two notifications to the customer through the mail (the notification time shall be six months and ten months after the establishment of the payment). If the funds still cannot be returned after the notification, it shall be entered into the database for the system to organize comparison. Once the recipient is found to engage in transactions through comparisons, the Company shall notify the customer to process the refund.</p> <p>VI. The actual commission rate paid was more than surcharge rate used in calculating the premium when conducting commission payment activity in group injury insurance.</p> <p>Penalty letter: Chin-kuan-bao-chan-tzu-ti-10704520192 dated February 9, 2018.</p> <p>Case: 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 operation. The Company was ordered to implement corrections in accordance with Article 149, Paragraph 1 of the Insurance Act.</p> <p>Improvement status: When providing quote for group injury insurance, the underwriter shall attach rate trial balance to calculate pure premium and surcharge rate. The quote review document shall be reviewed and approved according to level of authority in order 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.</p> <p>VII. Omission in stakeholder data filing.</p> <p>Penalty letter: Chin-kuan-bao-chan-tzu-ti-10704520192 dated February 9, 2018.</p> <p>Case: In 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 healthy operation. The Company was ordered to implement corrections in accordance with Article 149, Paragraph 1 of the Insurance Act.</p> <p>Improvement status:</p> <p>(I) Actively provide the "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.</p> <p>(II) The Company's responsible department collects stakeholders' related information from external sources and verify whether the information conforms with business data provided by directors and supervisors. The information is updated when there is any change in business data to ensure the timeliness and correctness of the data in system.</p>

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Violations of related items in the Insurance Act for commercial fire insurance operations.</p> <p>Penalty letter: Chin-kuan-bao-chan-tzu-ti 10804956813 dated November 11, 2018.</p> <p>Case: The When organizing commercial fire insurance businesses, the Company failed to fully review the surcharges of co-underwritten cases such as Insurance Policy No. 1408-06A00000004 in which the Company jointly undertook the comprehensive commercial fire insurance of Superalloy Industrial Co., Ltd. with Fubon Property & Casualty Insurance and 4 other companies (the insurance period was from January 18, 2017 to January 18, 2018). The failure was harmful to the healthy operations of the Company and the Company was ordered to implement corrections in accordance with Article 149, Paragraph 1 of the Insurance Act.</p> <p>Improvement status: The Company adjusted the commercial fire insurance surcharges as follows in accordance with the conclusion of discussions on the "Property Insurance Industry Self-Regulatory Organizations and Operating Standards" in the Non-Life Insurance Association on April 18, 2018: With the exception of direct businesses (public tenders), the surcharges of all channels (10, 20, 30) may not be lower than 22.6% of natural disaster insurance policies or 20.6% of non-natural disaster insurance policies. The non-direct solicitation rates for direct businesses (40) shall be the minimum surcharge submitted by each operator and the businesses undertaken starting from July 1, 2018 must comply with the aforementioned regulations. The Company has established regulations for the insurance premiums for commercial fire insurance business and has conducted operation in accordance with related regulations since July 1, 2018.</p> <p>Hua Nan Investment Trust</p> <p>The FSC issued Chin-kuan-cheng-to-tzu-ti-1070348179 letter on December 27, 2018 to order corrections for deficiencies found by the FSC in the 2018 general business inspections:</p> <p>(I) When processing customer money laundering and terrorism financing risk assessments, the risk factors considered did not include the amount in the establishment of business relations, the complexity of corporate customer shareholding ratio, or failure to provide reasonable explanation for the long distance or lack of geographical relations between the address registered by the customer and the Company, resulting in a failure to adequately assess customer risks. The Company also failed to meet requirements specified in Article 3 of the "Guidelines for Establishing Relevant Prevention Measures and Assessing Risks of Money Laundering and Terrorism Financing for Securities Investment Trust and Consulting Business" and Article 6, Paragraph 2 of the "Regulations Governing the Establishment of Internal Control Systems by Service Enterprises in Securities and Futures Markets". The improvement status for this item is as follows:</p> <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 a 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 training on August 18, 2018 to increase the employees' awareness of the change. 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 training on August 18, 2018 to increase the employees' awareness of the change. The case has been included as one type of deficiency in anti-money laundering. It has also been included in the Board of Directors' anti-money laundering and counter terrorist financing execution report for the second half of 2018. <p>(II) When processing account opening operations for natural-person customers, the review of customer occupation or industry was inadequate and the Company failed to implement customer ML risk identification. It also failed to verify the Thomson Reuters system of existing customers and establish the Company's own database operation regulations. The name and title verification mechanisms were also inadequate and was not in compliance with Article 6, Paragraph 2 of the "Regulations Governing the Establishment of Internal Control Systems by Service Enterprises in Securities and Futures Markets". The improvement status for this item is as follows:</p> <ol style="list-style-type: none"> On July 31, 2018, the Company amended the natural-person client appropriateness evaluation checklist. If "others" or "freelancer" is selected in the occupation column, a hand-written description after the column is necessary. The Company held trainings on August 18, 2018 to increase the employees' awareness of 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 3, Section 1 Customer identity verification. The case has been included in 2018 second half Board of Directors' anti-money laundering and counter terrorist financing execution report for the second half of 2018.
3. 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.	<p>None for HNFHC</p> <p>Hua Nan Bank</p> <p>A former assistant manager of the Xinsheng Branch allegedly embezzled customer funds and conducted irregular transactions with customers. The FSC found the following deficiencies, imposed a penalty of NT\$10 million, and imposed corrections. It also suspended the acceptance of new monetary trust businesses of the Bank's Wanhua Branch from new customers for three months starting from the effective date of the penalty, and suspended the acceptance of new monetary trust businesses of the Bank's Nanshijiao and Xinsheng Branches from new customers. As of the end of March 2020, the Bank's total loss amounted to NT\$96.45 million (including NT\$10 million in fines imposed by the FSC).</p>
4. Other items for which the FSC requires disclosure.	None for HNFHC

**(XIV) Significant resolutions in Shareholders' Meeting and Board of Directors' meeting as of the date of 2019 annual report.****1. Significant resolutions of the Board of Directors**

Term and Session	Significant Resolutions
32nd Meeting of the sixth Board of Directors	Approving amendment to the Company's "Accounting System". Approving the engagement and proposed service fees for 2019 financial reports audit and corporate income tax report audit Approving the subsidiary Hua Nan Bank's fundraising plan for the issuance of non-cumulative subordinated financial bonds with no maturity date within a scope of NT\$12 billion. Approving the amendment of the "Principles for Employee Bonuses" of the subsidiary Hua Nan Bank. Approving amendments to the Company's "Principles for Management in Employee's Bonus". Approving amendments to the Company's "Employee Work Rule". Approving the appointment of directors of the subsidiary Hua Nan Investment Trust. Approving the proposal for the pension for the Company's Executive Vice President and Chief Auditor. Approving the proposal for the remuneration standards for the Company's newly-appointed Executive Vice President, Chief Auditor, and G.M. of the Risk Management Department Chin-Hua Yang.
33rd Meeting of the sixth Board of Directors	Approving amendments to Hua Nan Securities' "Rules of Organization". Approving amendments to subsidiary South China Insurance's "Rules of Organization". Approving amendments to the "Procedures for the Acquisition or Disposal of Assets". Approving the performance evaluation result of the President.
34th Meeting of the sixth Board of Directors	Approving the Company's 2018 financial statements and business report. Approving the Company's 2018 Statement of Internal Control System. Approving the time, venue, and meeting agenda of 2019 Annual Shareholders' Meeting. Approving the acceptance of nomination of the candidates and announcements for the election of the Company's 7th-term directors. Approving the Company's 2018 Board of Directors' and employees' compensation and percentage. Approving 2019 salary adjustment and 2018 performance bonus for the Company's employees above director level. Approving the supervisors for the subsidiary Hua Nan Commercial Bank Ltd.
35th Meeting of the sixth Board of Directors	Approving the Company's follow-up improvement status for inspection opinions specified in Table A of the general business inspection report filed by the FSC. Approving 2018 earnings(loss) appropriation for all subsidiaries. The Company's 2018 earnings distribution proposal. Approving amendments of the Company's "Articles of Incorporation". Approving amendments of the "Rules of Procedure for Shareholders' Meetings". Approving the proposal for the issuance of new shares through capitalization of the earnings of this year (2019). Reviewing candidates for directors and independent directors nominated by shareholders holding more than 1% of the Company's shares Approving the proposal for the release of the non-competition clause for the 7th Board of Directors in the Annual General Shareholders' Meeting this year (2019). Approving the Company's 2018 directors' compensation and percentage.
36th Meeting of the sixth Board of Directors	Approving the Company's follow-up improvement status for inspection opinions specified in Table A of the general business inspection report filed by the FSC. Approving the proposal for the application for credit extension with a one-year credit limit of NT\$63.1 billion from financial institutions. Approving amendments of the "Articles of Incorporation" of the subsidiary Hua Nan Bank. Approving amendments to the "Principle in Management of Related Party Transactions Between Hua Nan Financial Holdings and its Subsidiaries". Approving amendments of the "Self-Disciplinary Guidelines for the Disclosure of Information on Mergers and Acquisitions". Approving the appointment of the Company's Corporate Governance Officer. Approving the establishment of the "Standard Operating Procedures for Requests Filed by Directors". Approving the remuneration standards for the Company's newly-appointed Chairman. Approving the assignment of independent directors of the subsidiary Hua Nan Bank.
1st meeting of the seventh Board of Directors	Approving the amendment of the Company's "Rules Governing the Scope of Powers of Independent Directors".
2nd meeting of the seventh Board of Directors	Approving the Company's follow-up improvement status for inspection opinions specified in Table A of the general business inspection report filed by the FSC. Approving August 23, 2019 as the record date of the Company's cash and stock dividend distribution and issuance of new shares. Approving the election of directors and supervisors and the appointment of the President of the subsidiary Hua Nan Venture Capital. Approving the appointment of executive directors of the subsidiary Hua Nan Bank and the Chairman of Hua Nan Securities. Approving the assignment of directors of the subsidiary Hua Nan Bank.
3rd meeting of the seventh Board of Directors	Approving the Company's 2019 Q2 financial statements. Approving amendments of the subsidiaries' "Articles of Incorporation". Approving the amendment of the "Establishment Guidelines for Legal Compliance Committee of the Group". Approving the subsidiary Hua Nan Securities' plan for the revocation of the "Procedures for the Making of Endorsements/Guarantees". Approving amendments of the Company's "Equity Investment Management Guidelines". Approving the replacement of directors of the subsidiaries South China Insurance and Hua Nan Investment Trust.
4th meeting of the seventh Board of Directors	Approving the renewal of the Group's directors and managers liability insurance. Approving the Company's application for the issuance of senior unsecured corporate bonds of NT\$5 billion. Approving the proposal for the appointment of the subsidiary Hua Nan Securities to serve as the underwriter of the Company's issuance of ordinary corporate bonds.
5th meeting of the seventh Board of Directors	Approving the subsidiary Hua Nan Commercial Bank's amendments to the "Principle of Management in Hua Nan Bank Employee Bonus".
6th meeting of the seventh Board of Directors	Approving the plan for the improvement of the mainframe upgrade of the subsidiary Hua Nan Securities. Approving the Company's Institutional Risk Assessment for money laundering and terrorism financing risks in 2018, risk appetite statement, and the 2019 anti-money laundering and counter terrorism financing plan. Approving amendments of the Company's "Rules of Organization". Approving amendments of the Company's "Level of Authority". Approving of the Group's 2020 Information Strategy. Approving the appointment of the Executive Vice President of the subsidiary Hua Nan Securities.
7th meeting of the seventh Board of Directors	Approving the subsidiary's 2020 budget. Approving the Company's 2020 budget. Approving amendments to certain articles of the Company's "Principle of Management in Employee Bonus". Approving the Company's "2020 audit plan (draft)". Approving the appointment of officers of the subsidiary Hua Nan Venture Capital. Approving the appointment of officers of the subsidiary South China Insurance. Approving the appointment of officers of the subsidiary Hua Nan Investment Trust. Approving the appointment of officers of the Company. Approving the appointment of officers of the Company. Approving the assignment of directors of the subsidiary Hua Nan Bank.
8th meeting of the seventh Board of Directors	Approving the Company's follow-up improvement status for inspection opinions specified in Table A of the general business inspection report filed by the FSC. Approving the Company's 2019 capital expenditures and retention. Approving the change of independent auditor. Approving the engagement and proposed service fees for 2020 financial reports audit and corporate income tax report audit Approving amendments of the Company's "Equity Investment Management Guidelines". Approving the amendment of the "Regulations Governing the Evaluation of the Performance of the Board of Directors". Approving the subsidiary Hua Nan Asset Management's amendment of the "Standards and Procedures for Reporting Significant Asset Transactions to HNFHC for Approval". Approving the remuneration standards for the President of the subsidiary Hua Nan Investment Trust. Approving the remuneration standards for the Company's G.M. of Administration Department.
9th meeting of the seventh Board of Directors	Approving of the performance evaluation of the Company's President for 2019. Approving the appointment of officers of subsidiaries. Approving the supplementary report filed by the subsidiary Hua Nan Venture Capital for the investment in "Fertasia International Development Corporation".

2. Reviewing significant resolution and the status of execution for 2019 Annual General Shareholders' Meeting.

Date of the Meeting	Proposed Resolutions	Resolution	Status of Execution
2019.6.14	To approve the proposal for appropriation of 2018 earnings: Each common share holder is entitled to receive a NT\$0.545 cash dividend and NT\$0.545 stock dividend.	The affirmative voting shares exceeded the legal threshold. Proposed resolution approved.	The dividend distribution has been completed according to shareholders' resolution. The 2018 dividend distribution in cash and through capital increase have been announced on July 30, 2019. The 2018 cash dividend of NT\$0.545 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, 2019. The dividend distribution through capital increase is NT\$0.545 per share. The record date of delivering new shares certificate: September 12, 2019. The capital increase was made through non-physical issuance and new shares were deposit directly into shareholders' central depository accounts on the record date.
	Amendment to HNFHC's Articles of Incorporation.	The affirmative voting shares exceeded the legal threshold. Proposed resolution approved.	The Amendment has been completed according to Shareholders' Meeting resolution.
	Amendment to the Rules for Procedure of Shareholders' Meeting.	The affirmative voting shares exceeded the legal threshold. Proposed resolution approved.	The Amendment has been completed according to Shareholders' Meeting resolution.
	Amendment of the Regulations Governing the Acquisition and Disposal of Assets of HNFHC.	The affirmative voting shares exceeded the legal threshold. Proposed resolution approved.	The Amendment has been completed according to Shareholders' Meeting resolution.
	629,126,922 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 –2019.09.18, -Letter No. of Ching-shou-shangtzu-ti-10801126120.
	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 Dissenting to Important Resolutions Passed by the Board of Directors during 2019 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 2019 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	2017.06.01	2019.01.15	Retirement
Chairman	Tang-Chieh Wu	2016.09.12	2019.04.08	Discharged, according to Ministry of Finance Letter Ta-Cai-Ku-Zi No. 10803650460
Executive Vice President and G.M. of Administration Department and Company Secretary	Sarah C.T. Hsu	2019.05.27	2020.01.01	Resignation
Executive Vice President and Company Secretary	King-Huo Lu	2012.08.01	2020.01.01	Exemption of G.M. of Finance Department

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

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	2019.1.1.~2019.12.31	

Unit : NTD thousands

Interval of Amount	Category of Fees	Audit Fees	Non-audit Fees	Total
1 Less than NT\$2,000 thousand			V	975
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:

Unit: thousand NT\$

Accounting Firm	Name of CPA	Audit Fees	Non-Audit Fees					Auditing Period	Remarks
			System Design	Business Registration	Human Resources	Others (Note)	Subtotal		
Deloitte Taiwan	Ting-Sheng Chang Kuan-Chung Lai	3,000	-	-	-	975	975	2019.1.1.~2019.12.31	

Note: Payment of tax administrative remedies and other official fees.

- (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. CPA change information: Where the Company changed CPA during the last two years and the period after that, the following matters shall be disclosed:

(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	Status of the Principal	CPA	The Company
	Voluntary termination	Not applicable	
	CPA declined to accept (continue with) the appointment	Not applicable	
Opinions and Reasons in the Issued Audit Report Expressing Other than an Unqualified Opinion in the Most Recent Two Years	No such occurrences		
Disagreement between the Company and CPAs	None		
Other Disclosures (disclosure deemed necessary in accordance with 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. If Chairman, President, or Chief Financial Officer Holding Positions at the Independent Audit Firm or its Affiliated Company within the Most Recent Fiscal 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, 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):

Unit: shares

Title (Note 1)	Name	2019		As of April 16, 2020	
		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	10,694,287	0	0	0
Institutional Representative of Chairman	Yun-Peng Chang	8,535	0	0	0
Vice Chairman (Major Shareholder)	Memorial Scholarship Foundation to Mr. Lin Hsiung-Chen	11,110,841	0	0	0
Institutional Representative of Vice Chairman	Ming-Cheng Lin	1,234,133	0	0	0
Director (Major Shareholder)	Ministry of Finance	10,694,287	0	0	0
Institutional Representative of Director	Pao-Chu Lo	6,162	0	0	0
Director (Major Shareholder)	Bank of Taiwan	133,571,517	0	0	0
Institutional Representative of Director	Shih-Ching Jeng	0	0	0	0
Director (Major Shareholder)	Bank of Taiwan	133,571,517	0	0	0
Institutional Representative of Director	Lin, Ming-Yu	0	0	0	0
Director (Major Shareholder)	Bank of Taiwan	133,571,517	0	0	0
Institutional Representative of Director	Wang, Chou-Wen	0	0	0	0
Director (Major Shareholder)	Bank of Taiwan	133,571,517	0	0	0
Institutional Representative of Director	Chen, Ho-Chyuan	0	0	0	0
Director (Major Shareholder)	Bank of Taiwan	133,571,517	0	0	0
Institutional Representative of Director	Chang, Chiao-Hsiang (Resigned at 2020.03.26)	0	0	0	0
Director (Major Shareholder)	Bank of Taiwan	133,571,517	0	0	0
Institutional Representative of Director	Yen, Yu-Min	0	0	0	0
Director (Major Shareholder)	The Memorial Scholarship Foundation to Mr. Lin Hsiung-Chen	11,110,841	0	0	0
Institutional Representative of Director	T. Lin	0	0	0	0
Director (Major Shareholder)	The Memorial Scholarship Foundation to Mr. Lin Hsiung-Chen	11,110,841	0	0	0
Institutional Representative of Director	Chih-Yang Lin	0	0	0	0
Director (Major Shareholder)	The Memorial Scholarship Foundation to Mr. Lin Hsiung-Chen	11,110,841	0	0	0
Institutional Representative of Director	Chih-Yu Lin	0	0	0	0
Director	He Quan Investment Co., Ltd.	174,576	0	0	0
Institutional Representative of Director	An-Lan Hsu Chen	50,291	0	0	0
Director	He Quan Investment Co., Ltd.	174,576	0	0	0
Institutional Representative of Director	Yuan-Jen Hsu	0	0	0	0
Director	China Man-Made Fiber Corporation	4,051,395	0	0	0
Institutional Representative of Director	Chia-Ying Shen	3,829	0	0	0
Independent Director	Kuei-Sun Wu	0	0	0	0
Independent Director	Lin, Kuo-Chuan	0	0	0	0
Independent Director	Yang, Ming Hsien	0	0	0	0
Independent Director	Chen, Sung-Tung	0	0	0	0
President	Pao-Chu Lo	6,162	0	0	0
Chief Auditor	Pi-E Huang	5,617	0	0	0
Executive Vice President & G.M. of Administration Department	Sarah C.T. Hsu (Resigned at 2019.12.31)	31,946	0	0	0
Executive Vice President & G.M. of Legal Compliance Department	Tien-Yu Chen	2,522	0	0	0
Executive Vice President & Company Secretary	King-Huo Lu	0	0	0	0
Chief Secretary of Board of Directors	Hui-Ling Hsu	(8,985)	0	(16,000)	0
G.M. of Information Technology Department	Michael Duh	3,321	0	0	0
G.M. of Marketing Department	Fang-Ling Chou	3,829	0	0	0
G.M. of Auditing Department of Board of Directors	Fang-Ling Chou	6,359	0	0	0
G.M. of Risk Management Department	Chin-Hua Yang	0	0	0	0
G.M. of Finance Department	Ping-Hui Chang (Appointed at 2020.01.01)	7,423	0	0	0
G.M. of Administration Department	Po-Hsun Chen (Appointed at 2020.01.01)	0	0	37,499	0
Entity Holding a Stake of 10% or More	Bank of Taiwan	133,571,517	0	0	0
Related Party Holding a Stake of 10% or More	Bank Taiwan Life Insurance Co., Ltd.	24,174,865	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 and Shareholders with Shareholding Percentage of 10% or More	Number of Shares	Transaction Price
None	None	None	None	None	None	None

Note 1: Name of director, 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 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, 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)	2,584,425,042	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
							Bank Taiwan Life Insurance	Bank Taiwan Life Insurance and Bank of Taiwan 100% held by Taiwan Financial Holdings Co., Ltd.	None
							First Commercial 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)	467,750,370	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	Bank Taiwan Life Insurance and Bank of Taiwan 100% held by Taiwan Financial Holdings Co., Ltd.	None
First Commercial Bank (Tsan-Chang Liao)	297,219,895	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)	264,613,911	2.17%	0	0	0	0	None	None	None
Yung Tsai Investment Co., Ltd. (Huang Yan Zhi Mei)	234,384,143	1.93%	0	0	0	0	The Memorial Scholarship Foundation to Mr. Lin Hsiung-Chen	The Memorial Scholarship Foundation to Mr. Lin Hsiung-Chen's representative and Yung Tsai Investment Co., Ltd.'s representative within the second-parent relationship	None
The Memorial Scholarship Foundation to Mr. Lin Hsiung-Chen (Ming-Cheng Lin)	214,979,484	1.77%	0	0	0	0	Yung Tsai Investment Co., Ltd.	The Memorial Scholarship Foundation to Mr. Lin Hsiung-Chen's representative and Yung Tsai Investment Co., Ltd.'s representative within the second-parent relationship	None
Ministry of Finance (Chien-Jung Su)	206,919,747	1.70%	0	0	0	0	Bank of Taiwan	Ministry of Finance holds 100% equity interests in its parent company, Taiwan Financial Holdings Co., Ltd.	None
							Bank Taiwan Life Insurance	Ministry of Finance invests in its parent company, First Financial Holding Co., Ltd.	None
HWATAI Bank as custodian of Trust Account	164,331,989	1.35%	0	0	0	0	None	None	None
JPMorgan Chase Bank as custodian of Vanguard Star Vanguard Total International Stock Index	164,190,368	1.35%	0	0	0	0	None	None	None
CITI in Custody for EMERGING MARKETS CORE EQUITY PORTFOLIO OF DFA INVESTMENT DIMENSIONS.	136,380,364	1.12%	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, 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.

Unit: shares

Invested Company (Note 1)	Investment of the Company		Investment of Directors, 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.	8,286,500,000	100.00	-	-	8,286,500,000	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	944,976	0.25	1,568,224	0.41	2,513,200	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 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
2019.09	\$10	18,000,000,000	180,000,000,000	12,172,740,178	121,727,401,780	Capitalization of earnings 6,291,269,220	Ministry of Economic Affairs—Sep. 18, 2019—Letter No. of Ching-shou-shang-tzuti-10801126120

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	12,172,740,178	5,827,259,822	18,000,000,000	Listed stock

(II) Shareholder Structure

Unit: Shares; April 21, 2020

Quantity	Shareholder Structure	Government Agency	Financial Institution	Other Corporation	Individual	Foreign Company or Foreigner	Total
Number (people)		11	31	921	338,695	1,079	340,737
Number of Shares Held (shares)		3,363,105,869	365,495,945	2,475,136,066	3,541,648,873	2,427,353,425	12,172,740,178
Shareholding Percentage (%)		27.63	3.01	20.33	29.10	19.93	100.00

(III) Status of Stock Dispersion

Date: April 21, 2020

Level of Shares Held	Number of Shareholders	Number of Shares Held	Shareholding Percentage (%)
1 ~ 999	112,155	19,013,731	0.16%
1,000 ~ 5,000	132,791	297,384,264	2.44%
5,001 ~ 10,000	36,402	261,063,697	2.14%
10,001 ~ 15,000	17,354	210,839,400	1.73%
15,001 ~ 20,000	9,769	170,418,876	1.40%
20,001 ~ 30,000	10,218	249,173,988	2.05%
30,001 ~ 40,000	5,346	184,488,786	1.52%
40,001 ~ 50,000	3,326	149,370,699	1.23%
50,001 ~ 100,000	7,080	492,676,568	4.05%
100,001 ~ 200,000	3,601	490,244,341	4.03%
200,001 ~ 400,000	1,413	383,161,043	3.15%
400,001 ~ 600,000	426	207,184,037	1.70%
600,001 ~ 800,000	173	119,735,680	0.98%
800,001 ~ 1,000,000	122	108,992,110	0.90%
1,000,001 above	561	8,828,992,958	72.53%
Total	340,737	12,172,740,178	100.00%

(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 21, 2020

Name of Major Shareholders	Shares	Number of Shares held (shares)	Shareholding Percentage (%)
Bank of Taiwan		2,584,425,042	21.23%
Bank Taiwan Life Insurance Co., Ltd.		467,750,370	3.84%
First Commercial Bank		297,219,895	2.44%
Yuan Ding Investment Co., Ltd.		264,613,911	2.17%
Yung Tsai Investment Co., Ltd.		234,384,143	1.93%
The Memorial Scholarship Foundation to Mr. Lin Hsiung-Chen		214,979,484	1.77%
Ministry of Finance		206,919,747	1.70%
HWATAI Bank as custodian of Trust Account		164,331,989	1.35%
JPMorgan Chase Bank as custodian of Vanguard Star Vanguard Total International Stock Index		164,190,368	1.35%
Citibank Hosting Norwegian Central Bank Investment Account		136,380,364	1.12%
JPMorgan Chase Bank as custodian of Vanguard Emerging Market Stock Index Fund Account		134,200,475	1.10%

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

Item		Year	2019	2018	From beginning of the year to 2020/3/31 (Note 8)
Market value per share (Note 1)	Highest		22.40	18.80	22.50
	Lowest		17.35	16.55	16.05
	Average		20.47	17.67	19.91
Net value per share (Note 2)	Before issuance		15.50	15.09	14.73
	After issuance		Note 9	14.31	Note 10
Earnings per share	Weighted average of shares (thousand shares)		121,727,402	115,436,133	121,727,402
	Earnings per share—before adjustment (Note 3)		1.31	1.27	-0.12
	Earnings per share—after adjustment (Note 3)		Note 9	1.20	Note 10
Dividend per Share	Cash dividend		0.5603	0.545	Note 10
	Stock dividend	Appropriated from retained earnings	0.5603	0.545	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)		15.63	13.91	Note 11
	Dividend ratio (Note 6)		36.53	32.42	Note 10
	Cash dividend yield (Note 7)		2.74%	3.08%	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 shall be updated to the date the annual report is published.

Note 9: The 2019 earnings distribution will be resolved in the 2020 shareholders' meeting.

Note 10: The 2019 earnings have yet to be distributed.

Note 11: When the EPS is negative, the Price-to-earnings ratio is not calculated.

(VI) Dividend Policy and Execution status:

1. The company will continue to expand its scale, enhance its profitability, follow related laws and regulations, and adopt a surplus 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 operating planning, there are two types of dividends, cash and stock, in which the cash dividend shall not be lower than 10% of the total amount of the dividend to be distributed. In the case that the cash dividend per share is less than NT\$0.1, unless otherwise separately resolved by the shareholders' meeting, it shall not be distributed.

2. Dividend distribution to be proposed in shareholders' meeting: Cash dividends at NT\$0.5603 per share for NT\$6,820,386,322 and stock dividends at NT\$0.5603 per share for NT\$6,820,386,320 will be proposed in this general shareholders' meeting. The dividend distribution is NT\$1.1206 per share in total.

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

The company has not announced its 2020 financial forecast. According to the regulations of the Securities and Futures Administration Commission of the Ministry of Finance on February 1, 2000 (2000) Taiwan Finance (Yi) No. 00371, the company does not need to disclose this information if it has not announced its financial forecast.

(VIII) Employee Compensation and Director and Supervisor Remuneration:

1. The ratio and scope of employee compensation and director remuneration prescribed by the Articles of Incorporation:

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.

- (1) Director remuneration shall be no more than 1%.
 - (2) Employees' compensation shall be between 0.02% and 0.15% and shall be distributed in stocks or cash. The recipients may include employees of affiliated companies that meet certain requirements. The Board of Directors shall set rules specifying the requirements.
2. Accounting handling for any differences between the estimates of the current period's employee compensation and director remuneration amounts, calculation basis of the shares distributed to employees, and actual distributed amount:

The 2019 employee compensation and director remuneration are estimated pursuant to the Articles of Association of the Company and profits in 2019 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.

3. Information on the distribution of employee compensation and director remuneration approved by the Board of Directors:
 - (1) The director remuneration for 2019 was NT\$160,988 thousand and employee compensation for 2019 was NT\$14,844 thousand. All amounts were distributed in cash.
 - (2) 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 shares bonuses.
4. Distribution of director remuneration and employee compensation from the earnings of the previous year:

In 2019, the Company distributed NT\$147,540 thousand as director remuneration and NT\$14,683 thousand as employee compensation for 2018.

(IX) Buy-back of the company's shares by the financial holding company: None

II. Corporate Bonds

Exercising of employee stock options		2012 First term of unsecured ordinary corporate bonds—Issue B	2017 First term of unsecured ordinary corporate bonds—Issue A	2017 First term of unsecured ordinary corporate bonds—Issue B	2018 First term of unsecured ordinary corporate bonds
Issuance (processing) date		January 21, 2013	January 9, 2018	January 9, 2018	January 9, 2020
Face Value		NT\$10,000,000	NT\$10,000,000	NT\$10,000,000	NT\$10,000,000
Place of Issuance and Transaction		R.O.C.	R.O.C.	R.O.C.	R.O.C.
Price at Issuance		Issued according to 100% of face value	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	NT\$5 billion
Coupon Rates		Fixed annual rate of 1.55%	Fixed annual rate of 0.92%	Fixed annual rate of 1.75%	Fixed annual rate of 0.88%
Term		7 years, maturity date: January 21, 2020	5 years, maturity date: January 9, 2023	10 years, maturity date: January 9, 2028	10 years, maturity date: January 9, 2030
Priority order of compensation		Placed behind all other company creditors	Normal order	Placed behind all other company creditors	Normal order
Warranty Agency		None	None	None	None
Trustee		Yuanta Commercial Bank Trust Department	Yuanta Commercial Bank Trust Department	Yuanta Commercial Bank Trust Department	Yuanta Commercial Bank Trust Department
Underwriting Agency		None	Hua Nan Securities	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	Eternity Attorney Office Attorney Chan, Kang-Jung
CPA signatories		Deloitte & Touche: Chung, Wei, Wu, Yi-Chun	Deloitte & Touche Taiwan Wu, Yi-Chun, Lai, Kuan-Chung	Deloitte & Touche Taiwan Wu, Yi-Chun, Lai, Kuan-Chung	Deloitte & Touche Taiwan Chang, Ting-Sheng, Lai, Kuan-Chung
Terms of Payment		One-time payment upon maturity	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	NT\$5 billion
Provisions for redemption or advance payoff		None	None	None	None
Restrictive Clauses		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).	None
Inclusion in Qualifying Capital		Yes	No	Yes	No
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: ^{tw} A-	None	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	None
	Issuance and conversion (swap or subscription) methods Rules and Procedures	None	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	None
Name of the Custodian Institution Entrusted with Securities to be Converted		None	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 issuance of securities has been completed and the project benefits have been revealed.

RESPONSIBILITY 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, its 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. 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) Proportion of business operations over the past two years:

Unit: NT\$1,000

Item \ Year	2019		2018	
	Amount	%	Amount	%
Operating Income				
Gains on Long-term Equity Investments (Note)	16,802,143	-	15,433,564	-
Hua Nan Commercial Bank	15,169,631	90	14,306,738	93
Hua Nan Securities	931,298	6	456,087	3
South China Insurance	651,005	4	635,235	4
Hua Nan Investment Trust	6,550	-	13,911	-
Hua Nan Venture Capital	23,781	-	12,679	-
HNAMC	19,878	-	8,914	-

2. 2020 Business Plan

The Company's 2020 business Plan covers six main directions: 1. Diversify income sources; 2. Balance the profit contribution within the Group and increase the benefit of asset and capital utilization; 3. Expand overseas operations, increase the scale of overseas operations, and increase the quality of overseas business operations and contribution to profitability; 4. Intensify FinTech development to increase operating efficiency and competitiveness, create a diverse financial ecosphere, and build brand adhesiveness; 5. Build a culture of internal control, internal audit, risk management, legal compliance (GRC) and ensure information security 5. Fulfill corporate social responsibility, strengthen corporate governance, cultivate talents, and achieve sustainability. The above are illustrated below:

- (1) Diversify income sources: Increase net service charge income and net finance income
 - A. The Company shall grasp business opportunities in the government's promotion of the "Three Major Programs for Investing in Taiwan". We shall continue to intensify development corporate finance, strengthen our advantages in foreign exchange business, and actively support policies by providing assistance in the form of loans to small and medium enterprises and industrial development to increase income from interest.
 - B. 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.
 - C. Provide a comprehensive consumer banking product service platform and strengthen online services for mortgage and credit loans to expand to young and new customer groups. Use online technology, news media, and social media for precise marketing and use big data analysis to identify potential high-quality customers for revolving credit card services. Plan marketing projects to increase the balance of revolving services and increase proceeds from consumer banking interest.
 - D. Make good use of the business opportunities derived from "The Management, Utilization, and Taxation of Repatriated Offshore Funds Act" and "Common Reporting Standard" (CRS) to actively promote wealth management operations for returning Taiwanese businesses and owners small and medium enterprises. The Company shall use the "dual-coverage business model" that integrates corporate and personal banking to strengthen the brand image for wealth management.
 - E. Monitor macroeconomic trends in the domestic and international economy, financial markets, and capital. Use Taiwanese and foreign capital through a diverse range of investments and operate foreign exchange transactions with flexibility. Use opportunities for currency swaps and currency carry trade with professional outsourced discretionary investments to increase profits from financial investments.
- (2) Balance profit contribution within the Group and increase benefits created by the use of assets and capital.
 - A. The Group capital planning team reviews capital requirements, allocation, adequacy, and utilization efficiency on quarterly basis and plans respective actions.
 - B. Continue to improve the application of risk quantification models and tools to increase risk management performance. Continue to optimize the asset structure and increase capital utilization efficiency to maintain suitable levels of liquidity and capital adequacy ratio.
 - C. Enhance subsidiaries' operating performance. The target is to have HNSC and SCIC contribute to 10% of profits within 3 years so that profit contribution can match asset allocation.
 - D. Maximize the Company's cross-selling comprehensive effects with mechanisms such as cross-selling, co-marketing referrals, and public bank collaboration platforms.
- (3) Plan additional overseas operations, expand the scale of overseas operations, and increase the quality of overseas business operations and contribution to profitability.
 - A. Continue to lobby authorities to gain approval for upgrading the representative offices in Hanoi, Vietnam and Yangon, Myanmar to branches and continue to pay attention to the political and economic development and financial conditions in Southeast Asia. Evaluate the feasibility of establishing additional branch institutions to expand business development in Southeast Asia.
 - B. Expand the scale of overseas credit assets, actively undertake and jointly lead international syndicated loans, leverage local advantages of overseas operations, seek local high-quality customer groups, explore business opportunities in the private loans, and increase the contributions of overseas operations to profits.

- C. Continue to develop high-grade investment foreign-currency financial bonds and mature sovereign bonds and corporate bonds. Expand investments in overseas bonds and bills, expand the scale of profitable foreign-currency assets, and increase the overall efficiency of overseas capital utilization.
- D. Continue to pay attention to developments in international trade, monitor overall risks, and effectively control the risk limit for exposure in Mainland China. Strengthen post-loan management and early-warning mechanisms to take into account the quality of business development. Expand the scale of overseas business development and increase the quality of loans.
- (4) Intensify FinTech development to increase operating efficiency and competitiveness, create a diverse financial ecosphere, and build brand adhesiveness
 - A. Use the "Digital Finance MBA (mobile, blockchain, AI) Strategic Blueprint" as the core for development and continue to promote the transformation of physical channels. Use information integration and sharing of resources to provide integrated services with virtual and brick-and-mortar channels, create the best financial service experience for customers, and strengthen digital services.
 - B. Enhance functions for digital accounts and expand online application services. Optimize value-added services such as online wealth management, debt management, and insurance purchases and continue to promote Hua Nan Pay (Taiwan Pay). Expand applications of electronic payments and actively seek business opportunities in the domestic QR Code mobile payment and collection market to develop digital financial customers and increase income from commission fee and capital gains.
 - C. Create a diverse range of services through inter-industry collaboration, build an "Open API" platform to connect finance, information, and logistics, and introduce official accounts on social media software to provide personalized services to integrate financial services into customers' lives. Create an "Open Banking" ecosphere to strengthen customer loyalty.
 - D. Provide a full range of exclusive services and expand the scale of the "Leading VIP" to include family members while continuing to develop high-asset customer groups and upgrading premium services to build up professional brand image and customer trust.
 - E. Introduce artificial intelligence (AI), robotic process automation (RPA), and other advanced software and hardware equipment and management tools to increase service performance and operation efficiency.
- (5) Construct governance, auditing, risk management and compliance (GRC) principles to protect 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. Implement information management systems and information security evaluation procedures. Proactively use information security intelligence provided by the Financial Information Sharing and Analysis Center (F-ISAC) and introduce automatic information security monitoring mechanisms to reduce the time required to uncover intrusion and chances of damage and strengthen the information security protection capability of the Group.
- (6) 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\$360.7 billion in 2019 which was an increase of NT\$26.47 billion or 7.9% from NT\$334.23 billion in 2018 and the banking industry has reached new heights in two consecutive years. The increase was mainly due to the increase in profitability from foreign operations and the rise of the stock and bond market in 2019.
- B. Security industry: The entire security industry generated profits of approximately NT\$39.792 billion in 2019, which was an increase of NT\$11.743 billion or 41.87% compared to NT\$28.049 billion in 2018 and the new high in recent years. The increase was mainly attributed to the 23.33% rise of the stock index which increased growth in proprietary trading and underwriting businesses despite the reduction of NT\$120 billion or 7.8% in the daily average trading volume in 2019.
- C. Property insurance industry: The entire property insurance industry generated profits of approximately NT\$13.864 billion in 2019 which was an increase of NT\$1.277 billion or 10.15% from NT\$12.587 billion in 2018 and a record high. It was mainly due to the stable growth of various insurance products in 2019 which increased profitability in the insurance sector and the growth in the stock and bond markets which also increased returns on investment.

(2) Marketing

With the rise of the millennials and digital natives, customers have becoming increasingly reliant on the Internet as a way of life and the changes have completely transformed the business model of the traditional finance industry.

We have identified mobile, blockchain, AI, and Open API as the current mainstream technology applications in current FinTech development.

Faced with challenges in the financial reforms and opening of Internet-only banks, the Group shall continue the construction of solid digital finance infrastructure and brand-new technology applications and we shall also promote specific and feasible digital finance strategies. We shall use technologies to make financial services more efficient and reduce operating costs.

4. Research and development

The Company's R&D expenditures for employee training in 2019 and 2018 amounted to NT\$1,467 thousand and NT\$2,549 thousand, respectively. Our future R&D programs will be implemented in accordance with the Company's development strategies. We shall, where necessary, recruit and assign employees from different professional backgrounds to participate in a diverse range of training courses and seminars with the aim of strengthening their professional skills and cultivating high-quality talents.

(2) Marketing

In response to financial technology development trends, the Group has focused on research and development in the mobile, blockchain, AI, and Open API in the past two years.

A. R&D results over the past two years:

a. Mobile:

The Company led the industry and launched the Taiwan Pay QR Code joint payment services and introduced biometrics and facial recognition functions for the mobile bank to provide cardless withdrawal, fund transfer, and mobile payment services with facial recognition.

b. Blockchain:

The Company serves as the convener of the Financial Block Chain Team of Financial Information Service Co. Ltd. and promotes the finance blockchain information inquiry service project and the external confirmation blockchain.

c. Artificial intelligence (AI):

The Company created the first AI dialog mobile banking and launched innovative smart services such as the AI smart stock selection, AI smart customer services, and AI wealth management.

d. FinTech innovation competition

HNFHC has organized the Campus FinTech Innovation Contest for four consecutive years. In response to government policies, HNFHC opened up the Group's "Open Banking" information and encouraged young students to come up with creative ideas and explore the Group's issues in digital services. The innovative ideas and technical verification information collected from the contests will be used by subsidiaries as references for the development of new financial products and services.

B. Future R&D plans are as follows:

Actively integrate the capacity of subsidiaries, external institutions, startups, and college FinTech development centers for research and development in innovative FinTech products and services. Use FinTech technologies to create finance settings that meet customer demands and use open API to connect e-commerce, telecommunication, and social media platforms to expand the financial ecosystem.

a. Active investment in FinTech innovation, R&D, and patents:

As of the end of 2019, the Group has obtained 91 FinTech patents in mobile platforms, big data, artificial intelligence, security and control mechanisms, and biometrics. In the future, we will continue to expand our patents and invest in FinTech research and development. We shall use AI, biometrics, API connection, and other FinTech technologies with customer applications at the core to invest in FinTech research and development. The Group shall continue to improve financial products or service functions to optimize customer experience.

b. Expand the scope of big data applications and intensify artificial intelligence applications:

The Company plans to expand the scope of data collection from internal sources (both structured and unstructured) data to external business and public information collection. We shall introduce AI-related analysis technologies such as natural language processing to improve the use of analytics. We shall also expand the use of big data from assisting personal finance business to exploring business opportunities, and establishing early warning mechanisms for risk management.

c. Connect industry, academia, and research institutions to enhance R&D capacity

The Group participates in the FinTechSpace project of Taiwan Financial Services Roundtable, Fin & Tech Innovation Village of the Taiwan Academy of Banking and Finance, National Taiwan University Global Research & Industry Alliance (NTU GLORIA), and the National Chengchi University Global Research and Industry Alliance (NCCU GLORIA). We also work with external institutions such as Financial Information Service Co. Ltd. on FinTech research and we exchange ideas with startups and academia to replenish R&D capacity. We use real actions to cultivate FinTech talents and improve FinTech technologies.

(3) Risk management

A. Establish a risk management information platform with integrated reporting mechanisms and query functions

The Group plans to establish a "Risk Management Information Platform" to strengthen control mechanisms for the Group's risk management information reporting system and increase the efficiency of risk exposure information queries. The Platform will provide query functions for credit exposure information and editing and query functions for risk management information reports to improve the Group's control and management mechanisms for reports.

B. Achieve balance between risks and returns

To meet requirements of the 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.

C. 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 benefits created by the use of assets and capital.
- c. Plan additional overseas operations, expand the scale of overseas operations, and increase the quality of overseas business operations and contribution to profitability.
- d. Intensify FinTech development to increase operating efficiency and competitiveness, create a diverse financial ecosphere, and build brand adhesiveness;
- e. Construct governance, auditing, risk management and compliance (GRC) principles to protect information security
- f. 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. Provide comprehensive consulting services and financial products in a one-stop-shopping system for the three target consumer groups including the young, middle-aged, and retirees. Use segmented marketing to continue to develop existing customers and expand the scale of customers to improve business synergy.
- b. Respond to the digital environment for financial innovation and financial inclusion by satisfying the demands of the young generation and continue to promote cross-sector collaboration between the finance industry and the tech industry. Create a cross-sector alliance that integrates logistics, finance, and information exchanges and use big data to analyze young customer groups and actions. Implement precision marketing for target groups and provide products and services that meet customer demands to increase the number of products per customer and customer value.
- c. Respond to the aging population trends in Taiwan and continue to promote financial products and services for elderly care, retirement, and life care. Adopt a full range of diverse services to extend customer business relations to the next generation. Provide generation heritage plans and family asset plans with products and services that meet customer demands to increase the performance of the Group.
- 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 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.
- f. Respond to FinTech development trends and establish group-level digital finance promotion teams to encourage subsidiaries to adopt new technologies and skills and strengthen digital finance products and services to satisfy current customer demands in the digital era.
- g. 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 HNFHC's cross-business marketing synergy.
- b. Promote the development of innovative digital finance products and services and use rapid, safe, and innovative financial services to create good customer experience. Use the "finance ecosphere" developed through cross-sector collaboration to bring FinTech into industries and customers' life.
- c. Continue to improve customer business management models and integrate and enhance the Group's competitive advantages. Optimize customer experience and continue to develop high-quality customers to create win-win with customers.

(II) Hua Nan Bank

1. Business scope

(1) Main business:

HNCB currently engages in the following business items:

- | | |
|---|--|
| <ul style="list-style-type: none"> • Accept a variety of deposits (Replace the checking deposits, demand deposits, time deposits, savings deposits, etc. originally listed on the business license with this item). • 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 item). • 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 item). • Engage in domestic exchange business. • Engage in commercial draft acceptance business. • Issue domestic L/Cs. • Issue secured corporate bonds. • Engage in local guarantee business (Replace the engagement in guarantee business originally listed on the business license with this item). • 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 item). • Proprietary trading of securities. • Issue stored-value cards. | <ul style="list-style-type: none"> • 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. • 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 item). • 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 buying and selling foreign-currency notes and traveler's cheques.
- 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.
- 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: million NTD

Business Item	Year	2019		2018		Increase/ (decrease)	
		Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)
Corporate banking		12,664	21%	12,593	21%	71	1%
Consumer banking		12,727	21%	12,596	21%	131	1%
Financial transactions		9,476	15%	9,031	15%	445	5%
Foreign exchange		19,819	32%	19,459	33%	360	2%
Trust and wealth management		5,241	9%	4,572	8%	669	15%
Others		1,371	2%	1,440	2%	(69)	(5%)
Total main income		61,298	100%	59,691	100%	1,607	3%

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 under planning:

- The Company shall Innovate financial products and services, develop digital finance and financial innovation, actively expand digital finance business, and expand the digital business customer base to strengthen the foundation of digital finance operations.
- Aggressively develop the mobile payment business and collaborate with different industries such as electronic ticketing or e-payment, to create new business models so as to achieve synergies and build win-win relationships.
- 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.
- Respond to the HNFHC's "Big Data and Digital Marketing Campaign" for telephone dial-out services and provide feedback of the dial-out results to the "interactive marketing platform" for customer behavior analysis.

- Respond to finance digitalization and continue to optimize smart customer services to increase customer loyalty and satisfaction.
- Plan telephone audio IVR navigation services.
- Respond to government policies by continuing to promote the "Taiwanese Business Repatriation Investment 2.0 Plan" for returning Taiwanese businesses and provide financing products for the "Taiwanese Companies Accelerated Investment Action Plan" and the "Small and Medium Companies Accelerated Investment Action Plan" for large enterprises that have not invested in Mainland China and small and medium local enterprises to actively expand the Bank's loan businesses.
- Due to the increased demand for plants and offices as a result of investments of returning Taiwanese businesses, the government has proposed the "Three-Dimensional Development Plan for Industrial Districts" to help enterprises obtain land for plants and offices. Enterprises and construction companies are expected to proceed with new construction or refurbishment based on this policy. The Bank will continue to monitor related business opportunities and pursue financing businesses in the three-dimensional development plan for industrial districts.
- Integrate debt management and financial services to develop a diverse range of personal finance products. Provide working capital necessary for owners of small and medium-sized enterprise with sound financial conditions and Taiwanese businesses with capital repatriated from overseas.
- Strengthen the development of credit card digitization to attract young customers. Use data analysis to increase cross-selling opportunities and use integrated packaging of personal finance products to increase product sales and the earnings from personal finance businesses.
- In response to the digital era, the Group shall increase operation efficiency and reduce operation risks through digital channels and enhanced operational system functions. We shall increase the added value of products and the Bank's trust services.
- The Group shall make good use of the government's promotion of the repatriation of offshore funds and use customer seminars and packaging of wealth management products to develop and attract new customers for trust services of the Bank. We shall also help customers accumulate assets.

2. 2020 Business Plans:

- (1) Continue to strengthen the deposit quality management to maintain HNCB's advantage of low capital cost.
- (2) Continue to develop new customers and use big data to analyze and satisfy customers' diverse demands for financial services to increase customer loyalty.
- (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 improve customer service quality.
- (4) 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 commission income.
- (5) Promote the SnY digital deposit account to attract young customers.
- (6) Promote the official LINE account BC (Business Connect) to provide personalized notification services and marketing to increase customer loyalty.
- (7) Promote the first AI mobile bank through print and online media promotions.
- (8) Optimize mobile banking functions and improve customers' user experience.
- (9) Respond to finance digitalization and launch the "all-channel AI smart audio customer service" to provide customers with consistent service experience in all digital channels.
- (10) Correctly replace and upgrade the "full-scale customer service system".
- (11) The Bank will continue to adjust the structure of corporate lending denominated in New Taiwan dollar to increase lending to SMEs with high profitability, and make good use of various relevant policy-based preferential loan projects and credit guarantee mechanisms to reduce the Bank's credit risk and enhance the competitiveness of the Bank's SMEs credit business.
- (12) The Bank will actively promote, organize and manage its syndicated loan business by not only deepening relationships with high-quality customers, but also enhancing cooperation with its peers in the financial industry and participating in international syndicated loans in order to increase the Bank's market share in the syndicated loan market and enhance commission income.

- (13) The Bank will increase commission income from corporate banking, strengthen the professional knowledge and marketing capability of corporate banking personnel so as to provide customers with customized financing solutions and expand the sources of commission income from corporate banking.
- (14) The Bank will seize business opportunities arising from the government's effort to promote the 5+2 key innovative industries and actively expand corporate customer base in related industries, providing them with customized project financing products and enhance the adhesiveness of customers with whom the Bank has business dealings.
- (15) In response to the business opportunities from the return of Taiwanese businesses as a result of the trade disputes between China and the United States, the Bank shall actively engage businesses that seek to return to Taiwan to set up plants and invest. In addition to the government's "three major plans for investing in Taiwan", the Company shall provide various preferential project loans and business consulting services to help companies obtain the funding necessary for investment in Taiwan and expand the Bank's loan businesses.
- (16) The Bank shall support the development of the green energy industry in accordance with the government's green energy policies and provide various green energy preferential loans or credit limits and evaluate and participate in syndicated loans for green energy industries (offshore wind farms and solar power generation). We shall also cooperate with credit guarantee mechanisms for small and medium enterprises and enhance risk management and enhance the competitiveness of the Bank's green energy finance.
- (17) The Bank will continue to promote online e-financing business and strive for financing opportunities from customers' supply chains. The Bank will also acquire new business customers using online financing promotion activities and the main factory's supplier list and increase the adhesiveness of customers with whom the Bank has business dealings, in order to improve the average financing balance of this business and increase revenues.
- (18) The Bank will expand the self-liquidating loan business. By developing the supplier list and conducting regular promotional activities, the Bank encourages business units to actively search for customer sources, strengthen cooperation with its peers in the financial industry, and seek sources of large receivables acquisitions in order to increase the volume and revenue of credit business.
- (19) Through the Urban Renewal Business Promotion Team, the Bank will take the initiative to combine both Chung Hwa Real Estate Management Co., Ltd. and the Bank's Trust Department, actively visiting various construction companies and self-established urban renewal associations and promoting urban renewal and reconstruction of dangerous old residential buildings in order to improve the visibility of the Bank's urban renewal business and increase income from its deposit, credit and trust business.
- (20) Actively respond to the government's policies for encouraging the "repatriation of offshore funds" and continue to actively promote offshore fund repatriation services.
- (21) Continue to enhance overseas profitability by increasing the Bank's participation in loan extensions in the United States and New Southbound countries and overseas securities investments to increase the Bank's profits and proportion of overseas profits.
- (22) With regard to the overseas development strategies, the Bank shall support the government's policies and expansion of Taiwanese businesses and set goals for development in countries in the New Southward Policy. We shall pay close attention to development trends in these countries carefully assess the feasibility of establishing additional branch institutions.
- (23) The Bank shall target high-quality mortgage customer groups and promote the "Smart and Flexible Mortgage - Flexible Loans and Repayment" and "Mortgage Life Insurance" to increase loan quality and the contributions of high-quality customers.
- (24) The Bank shall respond to the government's "housing pension" policy and expand business opportunities for the aging society. The Bank shall make use of its corporate image for promoting social welfare and continue to expand "Mortgage for the Elderly" products to protect the life of the elderly in retirement.
- (25) The Bank shall use big data analytics to analyze the customer groups that use consumer loans and auto loans of other banks and provide exclusive loan business plans or small loan discounts. The Bank shall use SMS and electronic brochures to deliver discount information to attract customers that need loans and increase the contribution of personal finance products in cross-selling.

- (26) The bank shall adjust thresholds for key channel activities to increase rebates and attract customers. The Bank shall use limited periods and amounts to control cost and use channel features to generate buzz and increase spending during specific festivals and special occasions along with flash activities or new services offered by channels.
- (27) Wealth management:

Product strategy: Develop a diverse range of products and divide target customers into different groups for intensive cultivation. Enhanced wealth management services to satisfy diverse financial requirements of customers in all age groups. Channel strategy: The Bank shall expand sales and integrate channel resources. We shall use comprehensive channel sales advantages and make full use of the marketing capacity of all employees.

Promotion strategy: Divide customers into groups based on asset scale and attributes. Use diverse activities to effectively manage customer groups and strengthen manage of high-quality customers. Increase product management profitability and increase customer loyalty.

Pricing strategy: Create differentiated services and differentiated marketing, provide a complete service platform, and increase the value added by wealth management personnel. Enhance customer service and investment performance and increase overall income from commissions.
- (28) The Bank uses the concept of lifecycles to target wealth management accounts dream-come-true wallet. The Bank uses products such as trusts, foreign bonds, funds, insurance, and loans to formulate plans for target customers and achievement. The Bank provides product portfolio for asset accumulation.
- (29) The Bank offers a wide range of trust products including foreign bonds, ETFs, and funds with deferred commission payment. The Bank also uses property trust businesses to create suitable wealth management plans.
- (30) The Bank sets up a cooperative marketing team for retirement services to provide the elderly with one-stop comprehensive services for "food, clothing, housing, transportation, education, and entertainment" which integrate offers from different industries, personal investment products, loans, and credit cards. The Bank aims to develop a localized retirement environment for the elderly by promoting elderly trust businesses.
- (31) The Bank continue to work hard to attain diversity of the funds under its custody and select high-quality funds. The Bank shall also develop close relations with investment trusts to expand the scale of custodian businesses and increase commission income.
- (32) Properly adjust the allocation of excessive 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 incomes.
- (34) Flexibly leverage the net FX Swap position to increase HNCB's income.
- (35) Expand the scope 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 represent quality and competitive products in order to satisfy customers' needs for insurance, wealth management and security.
- (38) Extend the dream-come-true wallet project and divide insurance customers into different groups: The groups include the pension, happiness, and diversity (activity) generations. The Bank provides different generations with their own insurance product portfolios and promote marketing activities for customer groups of different generations. The Bank also provides integrated marketing for individual personal banking products to satisfy customer demands for wealth management products and increase the Bank's product penetration.
- (39) The Bank will use existing mortgage businesses to expand mortgage life insurance products and strengthen the development of new sources of potential customers and increase commission income.
- (40) In response to the rapid increase in the aging population and disabled population, the Bank provides different customer groups with suitable health insurance product portfolios to meet the demands of the aging society and protect the customers' economic security and healthcare requirements in old age.
- (41) The Bank shall distribute new online insurance products with competitive advantages to meet requirements for online insurance business expansion. The Bank shall open and intensify Internet customer group management and increase digital insurance services.

3. Industry overview: Current status and development of the industry

Taiwan's banking industry has suffered from the issues of low interest rates, fierce competition, and limited profitability in the domestic market. To expand business opportunities, domestic banks have actively developed wealth management and other businesses beyond deposit businesses in recent years and they continue to strengthen their development of overseas markets. In addition, the FSC has launched related policies and measures for the development of FinTech and three Internet-only banks will soon be opened in Taiwan in 2020. Although they will bring forth new competitive pressure on traditional banks, they may also prompt the banking industry to reform and continue to FinTech innovation to provide customers with better financial services.

4. Research and development:

- (1) The research and development expenses in past two years amounted to NT\$9,426 thousand in 2019 and NT\$10,978 thousand in 2018. Primarily used for commissioned survey and research, printing and binding costs, lecture fees, article fee, and newspaper and magazine subscriptions.
- (2) R&D items over the past two years: A total of 80 cases have produced results, which significantly enhance 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. Plan flagship wealth management branches and refurbish old buildings to provide customers with high-quality services and improve the Bank's image.
- C. Promote SnY digital deposit accounts and use mobile device application counters, foreign currency digital deposit accounts, the new account opening service for underage customers, and non-personal account opening services to develop exclusive SnY apps to increase the sources of SnY customers and opportunities for increasing business transactions with customers.
- D. Adjust the corporate finance loan structure and increase the amount of SME loans with higher profitability.
- E. Actively promote syndicated loan business where HNCB acts as a leading and managing bank. Increase the Bank's market share in the syndicated loan market and enhance commission income.
- F. 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.
- G. 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.
- H. 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.
- I. Strengthen the management of wealth management personnel and businesses and increase the quality of personnel. Encourage high-performing personnel to transfer to wealth management positions and strengthen the abilities of all bank employees for referrals to increase marketing synergy.
- J. Adopt a dual-coverage model to use the Bank's existing advantages to engage owners of small and medium enterprises, CRS, and customer groups in tactical plans of the year. Obtain fresh funds to increase the AUM transaction amount and number of products to increase contributions.

- K. 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.
 - L. Integrate multiple marketing activities and training programs, make use of internal reward policies, actively promote foreign bonds, strengthen customers' knowledge of foreign bonds, and provide funds and insurance policies as part of customers' asset allocation.
 - M. Optimize "full-channel AI smart audio customer service" system.
- (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. Continue to adjust the Bank's revenue structure. Actively explore corporate finance service charge sources and increase the proportion of risk-free service charge sources.
 - D. 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.
 - E. Continue to optimize customer coverage ratio and use incentive indicators, management statements, and various performance indicators to encourage wealth management personnel to strengthen customer resource management. Actively engage potential customer groups and consolidate customer relations to improve business revenue. Recruit high-quality talents from inside and outside the Bank to replenish manpower and strengthen the wealth management business team.
 - F. Implement the Leading VIP program and expand the Leading VIP Family Membership system. Use optimized exclusive app functions for Leading VIP Members to integrate big data analysis, establish a family database, and provide customers with precision marketing activities to increase member loyalty and extend our reach into high-asset customers of different generations.
 - G. Promote digital marketing activities: Establish promotional webpages for wealth management services. Explore the wealth management goals of customers of different generations and integrate products. Extend wealth management services to expand wealth management business opportunities for young and Internet users regardless of whether they are customers of the Bank.
 - H. Actively pursue business opportunities for retirement and elderly care and continue to promote elderly care and inheritance trusts to establish the Bank's brand image in elderly care trust services.
 - I. Respond to the government's New Southbound Policy and actively evaluate the feasibility of establishing branches in New Southbound regions to take part in the local economic growth. Provide Taiwanese businesses with the best cross-border services and increase the Bank's profitability.
 - J. Continue to further the management of various customer bases. Provide customers with comprehensive insurance services through the introduction of quality products and insurance policy reviews.
 - K. Continue to optimize customer service procedures to improve customer service quality.

(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.
 - (A) Provide advisory services on asset allocation, financial planning, or sales services on financial products.
 - (B) 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	2019		2018	
		Amount	Percentage	Amount	Percentage
Brokerage		2,550,565	75.02%	2,772,852	90.73%
Underwriting		170,602	5.02%	95,335	3.12%
Proprietary business		678,762	19.96%	188,035	6.15%
Total		3,399,929	100.00%	3,056,222	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 2019 was approximately NT\$151,580 million, a decline of 6.85% compared with NT\$162,720 million in 2018. The Company's average market share for 2019 was 3.36%, representing 2.44% growth compared to 3.28% in 2018, and is ranked as top ten in the market. Achievement rate of net brokerage fee income was 89.51%. The overall brokerage revenue was NT\$2.358 billion. The brokerage business volume in 2019 fell by 6.68% from 2018. The operating profit was NT\$815 million and the forecast achievement rate was 85.54%.
- B. Underwriting business: The underwriting income for 2019 amounted to NT\$223,579 thousand, which was a 117.01% growth compared to NT\$103,026 thousand in 2018. It is mainly caused by the growth of consulting fee revenue including two IPO lead underwriting projects (listed in the stock exchange market and emerging market), and two SPO lead projects (ordinary corporate bond and cash capital increase). The underwriting department lead the cash capital increase of Shanghai Commercial and Savings Bank in 2019 and its subscription of NT\$191 million resulted in 40% profitability. The income from the sales of securities resulted in a forecast achievement rate of 156.29%.
- C. Proprietary business: Profits from proprietary securities trading in 2019 totaled NT\$272,403 thousand which was a significant increase from the profits in 2018. It is mainly caused by the trade war between U.S. and China in 2019 which shocked the stock market in Taiwan. However, as central banks across the world joined forces in implementing monetary easing, funding continued to flow into the market and caused global stock markets to rise. The proprietary trading department thus achieved growth with an achievement rate of 218.01%. Profit in proprietary bond trading earned net income of NT\$141,538 thousand, which is an increase of 15.13% compared to NT\$122,936 thousand in 2018 with an achievement rate of 212.27%.

(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 2020, 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 engages overseas Taiwanese entrepreneurs to help them with IPO in Taiwan.
- C. 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.
- D. Overseas sub-brokerage 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 corporate customers.
- E. The Company follows the competent authority's relaxation of regulations on the scope of issuance of ETN (Exchange Traded Note) which allowed the issuance of leveraged products. The Company shall take part in the business and complete launching of ETN product in 2020.
- F. 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 operations, an expansion to include government bond futures of Germany, France, and U.K. is under consideration.
- G. 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.
- H. Study the feasibility of introducing the new-type offshore securities units (OSU) business to expand the space of business operations.

2. 2020 Business Plans:

Taiwan's economy demonstrated its resilience amid the trade war between the U.S. and China. As the two countries reach the phase 1 trade agreement, the economy in early 2020 started on a positive note. However, the outbreak of the COVID-19 epidemic in Wuhan, China, and its spread in Europe and the Americas caused a chain of infections across the globe and brought new threats to the world economy. This year, the impact of COVID-19 and the crash of oil prices have continued to cause drastic fluctuations in the financial markets as financial conditions worsen in major economies. The United States Federal Reserve and central banks of major economies were forced to adopt monetary easing and announce unlimited quantitative easing policies. These policies have

spurred the Group of Seven (G7) and Mainland China to launch QE and various economic stimulus packages. Taiwan's Central Bank also ended the 14 consecutive periods of interest rate freezes and quickly cut interest rate by 0.25%. It also launched an unprecedented NT\$200 billion financing plan for small and medium enterprises and reiterated that it will reduce the interest rate of time deposits to fully support liquidity in the financial system. However, according to most forecasts, the financial conditions in Taiwan are only expected to improve slightly in the second half of the second quarter and improvements would not bring the economy beyond "trends towards austerity". These conditions will pose significant challenges to the economic development of Taiwan's domestic consumption and exports. Taiwan's economic growth rate has been reduced from the original 2.3% in the forecast as the economy seeks to maintain 2% growth. The US Presidential election is still set to be held in November as the repatriation of capital of Taiwanese businesses and production lines continues. It is truly difficult to estimate when the COVID-19 pandemic will be resolved. With such uncertainties, global stock and foreign exchange markets brace for volatility in the upcoming year and securities firms must remain vigilant and carefully control risks to maintain earnings and security. The Company's operating principles for 2020 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 digitized channel service center team to strengthen guidance and assistance for digital transformation of business units. Use virtual communities such as Line@ and Facebook to continuously interact with customers and develop potential customer groups online.
- (3) Expand the corporate service team, enhance the service quality of 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) 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.
- (6) Use the Group's internal business collaborations and external alliances with other industries or competitors to implement the underwriting business expansion strategy and enhance the Company's brand image and customer trust.
- (7) Establish core customer groups, closely follow customers' related long-term requirements, and provide services where necessary to grasp opportunities of our core customers on the capital market.
- (8) Integrate related study resources, steadily conduct stock proprietary trading and strictly abide by the stop-loss mechanism.
- (9) Promote key businesses, e.g. OSU and trust-type wealth management, at international securities branches.
- (10) Strengthen the efficiency of the information system in response to the launch of the continuous trading system in March this year and expand orders from overseas customers.

3. Industry overview

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

- (1) The consolidation of the securities industry continues, and the total number of securities firms has decreased 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
2012		150	1,039	1,189
2013		147	1,042	1,189
2014		147	998	1,145
2015		145	984	1,129
2016		144	989	1,133
2017		138	951	1,089
2018		132	913	1,045
2019		129	902	1,031
2020		129	884	1,013

Source: Website of Taiwan Securities Association

The local securities industry has encountered the unfavorable factors such as the decline in net revenue from commissions, decline in financing interest rate, and international competition. The organizational development strategy of HNSC will head in the direction of financial holdings or strategic alliances. As for the business development strategy, HNSC will move towards new businesses such as wealth management, trusts, and security lending businesses. Thus, HNSC will move beyond its existing role in the securities brokerage businesses 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 2019. In terms of mobile trading, it accounts for 63% of the overall e-trading by the end of 2019. The high-growth figure indicates that HNSC's e-trading system has been well-received and recognized by customers and the market.

In response to FinTech trends, HNSC provides customers with more thoughtful services. In addition to continuous optimization of the "Hua Nan Securities"

Line@ official account, HNSC also plans to provide more innovative smart customer services and provide customers with a broad range of service channels.

HNSC continues to optimize the Hua Nan e-counter app to help customers apply for services without visiting the counter. In terms of online account opening, HNSC provides an OPT online account opening password certification service with enhanced security; in terms of bilateral loans, HNSC provides customers with more high-quality interest rates; in terms of fixed time and amount securities trading, HNSC added more ETF products to help customers invest with ease.

HNSC has improved the Hua Nan Precision app to accommodate the rise of ETF transactions as a prominent feature in the securities investment market. The company plans to add smart ETF securities selection functions, smart ETF investment modules, and live trading strategy subscription services to the mobile platform to provide customers with more high-quality services and satisfy customer demands.

4. Research and development

- (1) 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.

- (2) In response to FinTech trends, HNSC provides customers with more thoughtful services. In addition to continuous optimization of the "Hua Nan Securities" Line@ official account, HNSC also plans to provide more innovative smart customer services and provide customers with a broad range of service channels.
- (3) HNSC continues to optimize the Hua Nan e-counter app to help customers apply for services without visiting the counter. In terms of online account opening, HNSC provides an OPT online account opening password certification service with enhanced security; in terms of bilateral loans, HNSC provides customers with more high-quality interest rates; in terms of fixed time and amount securities trading, HNSC added more ETF products to help customers invest with ease.
- (4) HNSC has improved the Hua Nan Precision app to accommodate the rise of ETF transactions as a prominent feature in the securities investment market. The company plans to add smart ETF securities selection functions, smart ETF investment modules, and live trading strategy subscription services to the mobile platform to provide customers with more high-quality services and satisfy customer demands.
- (5) The continuous trading system was launched on March 23, 2020 and the trading server and computers of sales personnel were upgraded at the end of 2019 to effectively increase the efficiency in processing trade orders and help accelerate the delivery of customers' orders to the exchange house for matching ideal prices. HNSC also completed the performance improvement and function expansion of electronic order software performance and added functions for programmable trading. Customer can now set order conditions based on their own investment requirements.
- (6) 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.
- (7) Combined the professional knowledge of the Overseas Commodity Unit, Financial Commodity Unit, and Futures Self-Operation Unit and committed to the financial commodity arbitrage R&D endeavors and developed the spreads, arbitrage, and hedging computer trading programs for a variety of new financial derivatives. Use technical judgments such as artificial intelligence graphs to master long-short operational directions and grasp the perfect trading times to maximize profits.
- (8) To promote Offshore Securities Units (OSUs), we will employ additional professionals to promote the relevant businesses and increase our niche.
- (9) We shall implement diverse management measures in accordance with the risk-based approach adopted for international anti-money laundering standards and strengthen training. We shall conduct system review and functional tests of the "Anti Money Laundering (AML)" system developed by SAS Institute Inc. (United States) to ensure the effectiveness of system operations and to continue to enhance system functions based on practical operational requirements.
- (10) Improve and strengthen information security: Procure Fortinet network equipment with VPN two-factor authentication to improve information security. Replace the VPN connection system for IT personnel. Allocate budget for system upgrade and plan the system replacement schedule.
- (11) Implement the following system plans for related information systems:
 - A. In conjunction with the planning of the blueprint of the Company and the Bank 3.0 digital financial environment, we built a complete digital financial environment and will gradually work towards 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.
 - c. Deepen the social media management and marketing.
 - d. 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 sub-brokerage 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 corporate customers.

- (12) The subsidiary Hua Nan Securities Investment Management conducts in-depth research on the basic, technical, and funding aspects of the global financial system, domestic and foreign macroeconomic development, industries, and individual companies to gain insights on investment trends and avoid risky industries. In addition to regular issuance of related investment publications and organization of investment seminars, we also provide related units of HNFHC with information that serve as the basis for investments and references for credit extension.

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 make profitable operations gradually better.
- (2) Medium 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 fire comprehensive insurance C. Commercial fire supplement insurance D. Residential fire and earthquake basic insurance E. Residential comprehensive insurance • Water damage insurance <ol style="list-style-type: none"> A. Cargo transportation insurance B. Inland transportation insurance C. Hull insurance D. Fishing boat insurance E. Aviation insurance • Auto insurance: <ol style="list-style-type: none"> A. Automobile bodywork damage insurance B. Automobile liability insurance C. Theft loss coverage D. Compulsory automobile liability insurance | <ul style="list-style-type: none"> • Casualty Insurance: <ol style="list-style-type: none"> A. Construction insurance B. Credit guarantee insurance C. Liability insurance D. Other property insurance • Health & personal injury insurance: <ol style="list-style-type: none"> A. Health insurance B. Personal injury insurance C. Comprehensive travel insurance D. Travel agency liability insurance E. Employer compensation contractual liability insurance |
|---|---|

(2) Business proportion

Proportions of main business items in the past three years:

Unit: Thousand NT dollars

Item \ Year	2019		2018		2017	
	Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)
Written premium income	9,073,777	91.85	8,658,680	92.94	8,606,403	94.70
Fire insurance	1,450,177	14.68	1,439,198	15.45	1,415,064	15.57
Marine insurance	555,945	5.63	495,828	5.32	533,863	5.87
Auto insurance	5,560,955	56.29	5,290,801	56.79	5,329,534	58.64
Casualty insurance	746,377	7.55	724,565	7.78	711,174	7.83
Health & personal injury insurance	760,323	7.70	708,288	7.60	616,768	6.79
Reinsurance premium income	805,639	8.15	657,937	7.06	481,810	5.30
Total	9,879,416	100.00	9,316,617	100.00	9,088,213	100.00

(3) New products and services under planning

SCIC will continue to develop new products according to the requirements of varying markets in 2020 to satisfy consumers' varying requirements and offer them a wide selection of products. The newly-planned products are as follows:

Product Name
Auto Insurance Business-Use Scooter Supplementary Clause
Auto Insurance Supplementary Automatic (Assisted) Vehicle Test Insurance
South China Insurance Mobile Device Insurance
South China Insurance Red Dragon Fruit Insurance (Typhoon Wind Speed Parameters Type)
South China Insurance Rental Bicycle Liability Insurance
Personal Sudden Injury and Illness Health Insurance

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

2. 2020 Business Plans:

- (1) Expand the market share: Expand the scale of business of business units and focus on the development of regional insurance brokerage/agency businesses. Cultivate and expand the business with banks and life insurance channels and increase the proportion of channel sales and increase the scale of B2B and B2B2C businesses. Continue to expand online insurance purchases and e-commerce groups, accelerate the development of new products, and develop popular product portfolios for the market to grasp market opportunities.
- (2) Carefully select high-quality businesses and increase business proportion: Continue to develop high-quality customers and collaboration channels and increase insurance underwriting profits. Enhance reinsurance capacity and expand the scale of underwriting for large, medium, and small businesses.
- (3) Enhance information system effectiveness and improve digital services: Enhance B2B information system functions and set up LINE@API system platform to improve the quality of services and obtain more business opportunities. Introduce eCover networks into diverse B2B2C insurance brokerage channels to increase business performance.
- (4) Continue to hold employee training to foster excellent leaders and management: Organize all kinds of training programs and cultivate instructors for products and sales. Continue to organize training for the entry-level to mid-level supervisors and continue to organize professional sales courses for business personnel to increase sales capacity and prepare them for management positions.

- (5) Enhance fund application performance and increase investment income: Prudently apply fund, create stable profits, and optimize asset allocation while managing investment risks and increasing investment proceeds.
- (6) Implement legal compliance, risk control, and internal audit mechanisms to enhance corporate governance: Organize various legal compliance training, implement continuous reviews of various risk management mechanisms, and enhance audits to implement the compliance, risk management, internal control, and internal audit systems. Continue to enhance data access and network transmission management mechanisms to implement personal data protection and security.
- (7) Optimize the service quality of the customer service center and set up smart customer services: Continue to expand online insurance purchases and organize promotional events for auto insurance and comprehensive travel insurance from time to time to obtain new businesses with Internet users. Set up smart customer services and complete phase 1 launch operations for the official website and eCover to increase service efficiency and quality.
- (8) Continue participation in charity events and fulfill corporate social responsibility: Continue to promote public welfare activities and encourage Hua Nan volunteers organize or assist in the charity activities based on event nature. Provide care to disadvantaged groups and donate to World Vision Taiwan and other charity organizations and social welfare foundations to take practical action in caring for disadvantaged groups.

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

The written premium income of the entire property insurance market was NT\$176,390 million in 2019, which is an increase of 6.99% compared to 2018. For SCIC, the written premium income was 9,070 million in 2019, which is an increase of 4.79% from 2018. The premium income increased NT\$415 million, and the market share was 5.14%.

4. Research and development:

(1) R&D expenditures and results on new insurance products over the past two years

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

Product Name
South China Insurance Auto Insurance Temporary Vehicle Supplementary Clause (For Business Use)
South China Insurance Auto Warranty Expenses Insurance
South China Insurance Commercial Fire Insurance Renewal Agreement Supplementary Clause
South China Insurance Public Accident Insurance Trusted Item Liability Supplementary Clause (Including Frozen or Chilled Items)
South China Insurance Lychee Insurance (Temperature and Precipitation Parameters Type)
South China Insurance Drone Liability Insurance
South China Insurance Employer Comprehensive Insurance Employee Status Change Notice Supplementary Clause
South China Insurance Comprehensive Information Security Insurance
South China Physician Business Liability Insurance Coverage Automatic Restoration Supplementary Clause
South China Insurance Comprehensive Pet Insurance
South China Insurance Employers' Comprehensive Insurance
South China Insurance Employer Compensation Contract Liability Insurance Employee Status Change Notice Supplementary Clause (Type A)
South China Insurance Group Insurance Renewal Supplementary Clause
South China Insurance Micro Personal Injury Insurance
South China Insurance Comprehensive Travel Insurance Flight Delay Supplementary Clause
South China Insurance Group Injury Insurance (Standard) Injury and Medical Insurance Payment (Selection-Based Payment Type C)

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

(2) Future R&D plans:

We plan to develop new products based on different market demands in order to satisfy consumers' varying requirements and choices. New products for development: Auto Insurance Business-Use Scooter Supplementary Clause, Auto Insurance Supplementary Automatic (Assisted) Vehicle Test Insurance, South China Insurance Mobile Device Insurance, South China Insurance Red Dragon Fruit Insurance (Typhoon Wind Speed Parameters Type), South China Insurance Rental Bicycle Liability Insurance, and Personal Sudden Injury and Illness Health Insurance. 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 mid-level supervisors.
- E. Enhance capital utilization and improve investment returns.
- F. Strengthen risk management mechanisms and implement corporate governance.
- G. Continue to participate in public welfare activities and fulfill corporate social responsibilities.

(2) Business objectives

The premium income of SCIC in 2019 was NT\$9,879 million, including NT\$9,074 million of written premium income and the re-insurance premium income of NT\$806 million. The average claim ratio of insurance was 49.92%. The 2019 operating income was NT\$7,549 million, covering the net premiums earned of NT\$6,453 million, the net investment profit of NT\$437 million, and other operating income of NT\$659 million. The 2019 operating cost was NT\$5,210 million, covering the net claims incurred of NT\$3,495 million, the net changes of liability reserve of NT\$158 million, and the other operating cost of NT\$1,557 million. The operating expense was NT\$1,586 million; operating profit was NT\$753 million; net non-operating profit was NT\$2 million, and pre-tax profit was NT\$755 million. After deducting income tax expense, the net after-tax income was NT\$651 million with which the after-tax net income per share was NT\$3.25; return on assets was 3.44%, and return on shareholders' equity was 11.95%. The budget achievement rate was 100.77%.

(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. Continue to optimize the B2B and B2B2C online trading platforms to improve the proportion of online insurance businesses.
- c. Continue to optimize the e-commerce network, expand membership operations, promote online insurance purchase through Line@, and continue to expand e-commerce operations.

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 air-conditioning systems, fridges, and other electric appliances that meet energy efficiency ratings to reduce electricity costs.
- b. Rent office appliances with power-saving functions and set schedules for automatic sleep and power-saving status when they are not used. Set air-conditioning systems to suitable temperature to reduce electricity expenses.
- c. Continue to strictly implement the annual cost budget management system, execute the cost allocation mechanism, require units to strictly control cost expenditures, and regularly track the expenditure status so that each unit have full knowledge on cost budget progress and execution status and thus achieve the control objectives.

D. Capital management:

- a. 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.
- b. 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 items:

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

(2) Business proportion (2019)

Asset type		Percentage (%)
Mutual fund	Equity type	61.78
	Fixed income type	21.88
Private placement fund		1.28
Discretionary services		5.76
Service charge income		9.30
Total		100.00

(3) New financial products and services under planning:

HNIT shall continue to research and develop funds that meet market trends and customer requirements to satisfy the different demands of customers for wealth management.

2. 2020 Business Plans:

- (1) Increase the scale of funds of the Company to win market ranking.
- (2) Increase the scale of non-currency market funds to increase management fee revenue and profits of the Company.

- (3) Strengthen the performance of funds and increase customers' confidence in investment.
- (4) Strengthen the management of internal and external channels to increase sales.
- (5) Continue the development of digital finance business to expand online trading business.

3. Industry overview:

By the end of 2019, only 6 out of the 23 fund types decreased in size compared to the end of the previous year and 17 of them increased in size. The top five investment trust companies were Yuanta Funds, Cathay Securities Investment Trust, Capital Investment Trust, Fu Hua Investment Trust, and Fubon, which retained the same ranking as the previous year. The top five were all domestic companies and three of the top ten investment trust companies were foreign companies, including PineBridge Investments Management Taiwan Ltd., Allianz Global investors Taiwan Ltd., and JPMorgan Asset Management (Taiwan) Ltd.

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 ma

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

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

- (1) Short-term and medium-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. Strengthen the development and sales volume of internal and external channels.
 - C. Strengthen customer service and digital finance services to increase customer confidence.
- (2) Long-term business development plans
 - A. Increase HNIT's ranking in terms of total assets under management.
 - 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) 2019 Business Proportion:

Item	Percentage
Investment income	96%
Management advisory income	4%

2. 2020 Business Plans:

- (1) Observe industry change and adjust portfolio: In addition to continuous evaluation and strengthened development in the 5+2 emerging strategic industries, the company will direct attention toward three major directions in terms of the industries for investment. The first industry is the smart manufacturing, smart home, and smart healthcare industry based on artificial intelligence, big data, and IoT technologies; the second is the communication technology industry related to 5G; and the third is the digital economy industry used for 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 the equity investment think tank Preqin, the number and size of venture capital funds in the first half of 2019 had declined from the same period in 2018. In addition, the number of investments and amounts were also reduced from the same period in 2018. It demonstrated more conservative trends in venture capital activities as a result the trade war between the U.S. and China and the decline in economic growth of many countries in 2019.

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. Monitor industry development trends by participating in industrial seminars and related training courses and adjust investment portfolios in a timely manner.

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

- (1) Follow government policies for supporting emerging strategic industries to increase the competitiveness of the country and fulfill corporate responsibilities for giving back to society.
- (2) Observe industry trends, monitor investment opportunities, and implement timely changes to investment strategies. Increase the level of contribution to the Group's profits every year and maximize returns 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 Company (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. Urban renewal or dangerous building improvement projects**

- Serve as the self-owned asset urban renewal implementer or builder and contribute capital.
- Provide the necessary funds and advanced payment for urban renewal and reconstruction of dangerous and old buildings.

E. Court-auction bidding agency business.**F. Undertake other asset management-related businesses not prohibited or restricted by laws.****(2) 2019 business proportion**

Item	Percentage
Non-performing loan investment and disposal business	26.98%
Direct real estate investment business	71.11%
Consigned management business	1.91%

(3) New financial products and services under planning:

- A. With regard to the "Xindian District Sixin Section Plot" obtained from New Taipei City Government, HNAMEC has reached a consensus with construction companies near the base and the parties are now engaged in detailed negotiations for development and construction. We aim to complete planning and design before the end of December 2020 and apply for the construction permit after passing the urban design review.
- B. HNAMEC actively evaluated cases of urban renewal and dangerous old buildings through referrals from the construction management company or banks. HNAMEC serves as the self-owned asset urban renewal implementer or builder and contribute capital to take part in the right conversion or negotiated joint construction.
- C. Plan the social network media LINE@ upgrade to LINE official account 2.0 to strengthen content management and business marketing effects and achieve precision marketing.

2. 2020 Business Plan**(1) Non-performing loan investment and disposal business****A. Investment strategies**

- 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.
- Actively execute the court auction applications and property investigations for collaterals to encourage and advance negotiations with guarantors and increase chances of repayment.

B. Disposal strategies

- Expedite the removal of redundant bad debts

(2) Real estate direct 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 tenders by government authorities to obtain real estate 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 strategies

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) Urban renewal or dangerous building investment projects

To implement the Public Financial Institution Reform Program of the Ministry of Finance, the "AMC Urban Renewal Implementation Alliance of Pan-Government-Owned Financial Institutions" platform was established for AMCs of pan-government-owned financial institutions to use opportunities to participate in public urban renewal projects for organized by government institutions or designated entities or institutions.

The Company follows government policies and promotes reuse of urban land and improvement of the living environment. The Company actively implements urban renewal and capital contribution in investments involving dangerous and old buildings.

HNAMC accept cases of urban renewal and reconstruction of dangerous old buildings through referrals from the construction management company or banks. It analyzes the information provided by the borrowers and conducts risk assessments before paying the necessary expenses and advanced payments for urban renewal and reconstruction of dangerous old buildings.

(4) Consigned businesses

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.
- c. Establish a digital marketing platform to integrate internal marketing resources of the Company to continue expansion of consigned businesses and increase the HNAMC's performance in disposal of its own assets.

3. Industry overview

The domestic bad debt market has fallen due to the significant improvements in the quality of bank assets and reduced interest rates. Banks' overdue loan ratio has been maintained at rates far lower than the criteria for banks to sell bad debts. Therefore, it is less likely for banks to release bad debts in the near term and we currently do not have opportunities for investments. Foreclosure cases have decreased in the real estate market in recent years. The rise of the real estate market in recent years has increased the number of participating bidders and made competition in the foreclosure market more intense. It has shrunk the gap between the auction prices and market prices and direct investment selection items have decreased 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 December 29, 2017 and May 24, 2019. The scope of asset management companies' role as urban renewal implementers was expanded to increase the scope of asset management companies' business operations. Thus, the direction of future business development was clearly identified.

4. Research and development

- (1) HNAMC worked with National Taipei University of Technology in the Light Work Innovation and Incubation Center to promote the development of startups.
- (2) HNAMC created the "Auction Companion" brand, built exclusive activity webpages, and created room for digital ads and promotions. HNAMC also worked with renowned real estate Youtuber in filming online open house videos.
- (3) HNAMC participated in the 2019 FinTech Exhibition and used the first 360-degree panorama camera and VR virtual reality technologies to help customers experience virtual reality and get a convenient and comprehensive open house viewing experience. This technology increases the transparency and convenience of bank-auctioned property transactions.
- (4) HNAMC officially launched the advanced payment for the reconstruction of dangerous and old buildings to support government policies for urban renewal and improvements for dangerous and old buildings, help citizens improve their living safety standards, and increase public welfare.
- (5) To implement the Public Financial Institution Reform Program of the Ministry of Finance, HNAMC actively participates in the "AMC Urban Renewal Implementation Alliance of Pan-Government-Owned Financial Institutions" platform to establish models and benchmarks for joint evaluations by government-owned financial institutions.

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

- (1) Short-term plans
 - A. Adjust asset structure to create value for assets and generate 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. Organize capital contribution and advanced payments for urban renewal for non-self-owned assets and dangerous building improvement projects to help improve citizens' housing safety and quality.
- (2) Long-term plans
 - A. Expand asset scale through direct real estate investment business and pursue earning growth.
 - B. Implement flexible use of digital marketing channels and increase the exposure of real estate lease and sales projects and consigned legal auction bidding businesses to create a professional brand image.
 - C. Actively align with government policies and integrate sister companies' channels and expertise to fully promote the financial business for urban renewal. Work with colleges and universities designated by the Ministry of Science and Technology to create incubation centers for startups.

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 four subsidiaries (sub-subsidiaries) including Hua Nan Bank, Hua Nan Securities, South China Insurance, and Hua Nan Futures. With cooperation and joined efforts across the Group, we established the most complete cross-selling and customer service net in the industry, 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 Bank

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

Item (Unit: NT\$ million)		Year		
		2019	2018	2017
The broker business of Hua Nan Securities	Business volume	463,931	506,336	396,583
The business of South China Insurance	Business volume	814	822	802
The mutual fund business of Hua Nan Investment Trust	Fixed income type	8,763	8,104	10,857
	Non-fixed income type	1,671	2,534	2,834

(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)		
	2019	2018	2017	2019	2018	2017	2019	2018	2017
Result	42,905	43,045	40,355	5,679	6,346	6,355	317	262	251

Note: The client deposit balance is the amount as of 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)		
	2019	2018	2017	2019	2018	2017	2019	2018	2017
Result	292,339	235,577	364,850	44,083	66,595	55,580	2,440	1,974	1,678

Note: One debit transaction is counted as one transaction and 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 2019 was NT\$858,339 thousand, among which the property insurance sold through Hua Nan Bank is NT\$813,781 thousand, which is around 94.81% of the total revenue through cross-selling. The main amount came from commercial insurance. The renewal of commercial insurance will be made through the help of branches in 2019. SCIC will also continue to develop new corporate finance clients. Hua Nan Bank set up targets for each branch to promote comprehensive homeowners' policy and obtained good results. The promotion of personal insurance such as car insurance and travel insurance (Tour Around Card and Easy Card) was completed through composite product marketing campaigns. SCIC also followed large-scale composite product marketing campaigns designed by the Marketing Department of HNFHC to promote the sales of 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 was about 9.46% of total annual premium revenue of South China Insurance, which is a marginal decline of 0.55% from 10.01% in 2018. 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.

2. Benefits from premiums revenue are summarized below for reference:

Unit: NT\$ thousand

Item	Premium revenue from cross-selling	Premium revenue from South China Insurance	Percentage to 2019 revenue	Percentage to 2018 revenue
Fire insurance	480,660	969,515	33.14%	33.11%
Water damage insurance	51,984	503,961	9.35%	11.71%
Car Insurance	217,529	5,343,426	3.91%	4.07%
Accident insurance	56,699	689,678	7.60%	8.92%
A&H	51,467	708,856	6.77%	7.28%
Total	858,339	8,215,436	9.46%	10.01%

3. Total premium revenue from cross-selling of all affiliates in 2019:

Sales of policy		Accumulated until end of December 2019
Hua Nan Commercial Bank	Fire insurance	186,771
	Water damage insurance	52,667
	Car insurance	46,381
	Accident insurance	50,775
	A&H	477,187
	Total	813,781
Hua Nan Securities	Fire insurance	29,372
	Water damage insurance	3,986
	Car insurance	4,922
	Accident insurance	1,209
	A&H	3,415
	Total	42,905
Hua Nan Futures	Fire insurance	1,386
	Water damage insurance	46
	Car insurance	163
	Accident insurance	0
	A&H	58
	Total	1,652

(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. Planning effective selling strategy to stabilize cross-selling volume.

(VI) Hua Nan Venture Capital

Inter-company and cross-selling benefits: Enhance cross connections and cooperation between affiliated companies in the Group to jointly develop high-quality investment targets.

(VII) Hua Nan Assets Management Company

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.

HNAMC participated in the 2019 FinTech Exhibition and used the first 360-degree panorama camera and VR virtual reality technologies to help customers experience virtual reality and get a convenient and comprehensive open house viewing experience. This technology increases the transparency and convenience of bank-auctioned property transactions.

III. Market and Business Conditions of the Group

(I) Hua Nan Bank

1. Main area of product sales and services:

- (1) As of the end of December 2019, the Bank has 186 branches nationwide including 152 branches (82.7%) in the six major metropolitan areas. There are 53 branches in Taipei City (28.5%), which is followed by 35 branches in New Taipei City (18.8%).
- (2) HNCB currently 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 2020 the Bank will continue to evaluate the possibility to set up other offices in ASEAN countries in response to the government's New Southbound Policy.

2. Business objectives

- (1) Continue to improve financial operating performance and service charge income. Using net interest income and the former two to form a triple revenue pillar.
- (2) Adjust deposit and loan structure and increase the interest spread between foreign-currency deposits and loans. Improve risk management efficiency and strengthen capital adequacy management.
- (3) Enhance investment proceeds from financial products and commission income, and increase diversify in sources of income to balance the profitability structure.
- (4) Plan additional overseas operations, expand the scale of overseas operations, and increase the quality of overseas business operations and contribution to profitability.
- (5) Continue to intensify FinTech development to increase operating efficiency and competitiveness, create a diverse financial ecosystem, and build brand adhesiveness
- (6) Implement the three lines of defense for the internal control system, strengthen information security, cultivate talents, and increase business performance.

3. Future demand and supply status of the market

(1) Supply side:

- A. In terms of corporate finance, the difference between domestic bank deposit and loan has exceeded NT\$10 trillion according to FSC statistics. It means there is idle money in Taiwan. The Central Bank has frozen the interest rate for 14 consecutive quarters and the keen competition in the banking industry have caused NTD loan interest rates to continue its slow decline.
- B. In terms of foreign currencies, the United States Federal Reserve (FED) has lowered interest rates and the USD interest rate continues to fall. The cost of loans has declined and it will help promote foreign currency loans.
- C. In terms of personal finance, the Bank will continue to promote digital online loan application in response to the popularization of the 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.
- D. In terms of credit card businesses, in response to government policies for "doubling electronic payment within 5 years", the Bank actively promotes mobile payment with sensor or QR code scan transactions. We also continue to organize related marketing activities to increase the adoption of mobile payment in Taiwan. We shall also increase credit card QR code contract stores and reward point redemption stores, enhance market competitiveness, and increase acquiring business volume and the ratio of cards issued by the Bank.
- E. In terms of wealth management, the weakened conditions for deposit insurance products and the regulations on the adjustments of commissions and incentives for insurance and fund sales will impact the income from commissions for wealth management products. The sales of wealth management products will change from insurance commission income to development of a diverse range of products such as protection products and health insurance products. We shall also strengthen the promotion of foreign bonds and cooperate with government policies for continuing to promote long-term care insurance and disability insurance. In response to the implementation of the policy for increasing thresholds for insurance coverage in 2020 and the increase of the aging population, the Bank has promoted health accident insurance and high coverage insurance to help customers complete personal coverage, pension, and asset heritage.
- F. In terms of the financial market, in response to the competent authority's strict regulations on the operations of derivative instruments by banks, the Bank will satisfy corporate customer's demand in hedging and use the flexibility of derivative instruments to satisfy customer demands for hedging and funding. We shall also provide

customers with a diverse range of low-risk investment tools to satisfy customers' investment demands and reduce risks.

- G. In terms of NTD deposits, the statistics of the Central Bank has shown that deposits in all currency deposit institutions have increased and reached record heights. The Central Bank is expected to maintain the current interest rate. We will increase the acceptance of NTD deposits and continue to monitor the cost of capital to provide stable sources of funding for the growth of loan businesses.
- H. In terms of digital finance, 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:

- A. In terms of corporate financing, the transfer of purchase orders to Taiwan due to the trade disputes between the U.S. and China and the government's "Action plan for Welcoming Returning Taiwanese Businesses", "Taiwanese Companies Accelerated Investment Action Plan", and "Small and Medium Companies Accelerated Investment Action Plan" are expected to increase corporate investments in Taiwan and increase the demand for financing. The Bank shall actively cooperate with government policies such as loans for small and medium enterprises, three major plans for investment in Taiwan, supply chain financing for returning Taiwanese businesses, 5+2 key startup industry, urban renewal and reconstruction of dangerous and old buildings, and provision of customized loan products. The Bank shall also focus on customer demands and provide suitable loan products to continue to increase the scale of corporate financing.
- B. In terms of foreign currencies, the Bank shall attract foreign currency deposits based on market interest rates and expand the Bank's funding positions to provide them for use in other business development and increase revenue of the Bank.
- C. In terms of personal finance, according to statistics from Central Bank and Ministry of the Interior, the total number of house transfer, issuance of construction license, and new mortgage loan granted by five major banks in Taiwan have increased steadily in 2019, indicating the gradual recovery of the real estate market. Numerous constructions were launched and delivered. In addition, the return of Taiwanese businessmen contributed to a continuous increase in the number of transactions while prices remained stable and self-use customers increased. There remains significant demand in the future mortgage market.
- D. In terms of credit card businesses, FSC statistics showed that the amount of mobile payment transactions has continued to increase. Payment tools on the market become increasingly diverse and consumers habits have changed to achieve leapfrog growth in mobile payment transactions. The Bank shall follow the policies of the competent authorities and expand into more applications and settings to increase the use of mobile payment in Taiwan.
- E. In terms of wealth management, the industry has benefited from the de-escalation of the trade disputes between the U.S. and China and favorable outlook in the investment market. However, there remains certain geopolitical risks that affect the economic outlook. Therefore, customers now products with stable dividends and opportunities for profitability such as multi-asset funds and secured products. Investment insurance products have become alternatives for investment in response to the volatility in the investment market and weakened positions of traditional depository life insurance products. The connected underlying tends to be more stable and conservative such as secured products, target-maturity bond funds, and discretionary investment accounts which meet customer requirements for investment, wealth management, and security and respond to customers' wealth management requirements in different stages of their lives. We continue to use the dream-come-true wallet and target wealth management account platform to help customers use different wealth management products to plan their finances and increase customer loyalty.
- F. NTD deposit businesses are affected by international economic conditions and economic cycles as well as seasonal and temporary factors such as tax season and corporate dividends. We shall continue to plan a diverse range of deposit products for corporate accounts, salary accounts, and digital customers to satisfy the demands for depository services of different customer groups.
- G. In terms of digital finance, the spread of diverse online services and mobile devices has increased consumers' use of digital deposit accounts and AI banks. It also increased customer expectations for security, ease of access, and convenience. We expect the future digital finance to be more closely integrated with the lives of the people.

4. The favorable and unfavorable factors for future development

(1) Favorable factors

- A. The Bank has complete marketing channels, which facilitate business expansion and cost reduction.
- B. The Bank has a long history in Taiwan with good credits and image deeply-rooted in the mind of the public.
- C. The Bank has a large customer base with high level of adhesiveness, which facilitates the development of wealth management business, penetration into the pension market and the promotion of the Group's cross-selling operation.
- D. The Bank is a leader in corporate finance and foreign exchange business.
- E. The Bank has a high percentage of current deposits with lower cost of capital, which facilitates the promotion of various types of businesses.
- F. The Bank acts as the executor of the "Integration Platform of R&D in Financial Technology from National Financial Institutions" to launch various services, such as QR code mobile payment, and in the end has become the leading player in digital financing and innovative services.
- G. The Bank has a credit card customer base of one million and holds the number one position among the pan-government-owned 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 its 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.
- I. The nine major government-owned banks responded to the policies of the Ministry of Finance for connecting the businesses of government-owned financial holding companies and banks and formed seven major business collaboration platforms. They divided work to enhance various types of business resources, leverage collective powers, and make effective use of government resources to strengthen the competitive advantages of government-owned banks.

(2) Unfavorable factors

- A. The Bank is a state-owned bank with stable operations. However, the Bank remains relatively conservative in response to changes and innovations in the financial environment.
- B. Lack of financial consultants in the Bank's wealth management business has led to limited growth and relatively low percentage of no-risk fee income compared to other private banks under HNFHC in this business.
- C. The Bank has insufficient creativity in financial products innovation comparing with private banks.
- D. In response to increasing regulatory requirements for overseas legal compliance, anti-money laundering, counter terrorist financing, and information security, the Bank has planned management frameworks, invested substantial amounts of resources to establish systems, appointed compliance personnel, and cultivated overseas talents. However, the effectiveness of the management system remains untested and most compliance personnel do not have sufficient experience. Their professional knowledge in compliance affairs must continue to be improved.
- E. The ratio of young customers to total customers is lower than that of large-scale domestic private banks. The ratio is unfavorable to the long-term development of banking business.
- F. Although the Bank has achieved record-break profits, its return on assets and return on equity, which represent the level of operating performance, remain lower than international standards.
- G. The Company has insufficient key talents in IT, big data, and new forms of digital finance. Part of the IT system development is outsourced, which limits self-development capacity.
- H. In response to the rapid changes in the digital environment and customer requirements, banks are faced with the problem of digital transformation and must continue to optimize their IT systems.
- I. The Bank's branches are full-function branches that provide deposits, corporate and personal loans, 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. Main area of product 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) Supply side:

A. The consolidation of the securities industry continues, and the total number of securities firms has decreased 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 increased and decreased of securities firms in recent years

Year	Item	Total number of securities firms		
		Headquarter	Branch	Total
2012		150	1,039	1,189
2013		147	1,042	1,189
2014		147	998	1,145
2015		145	984	1,129
2016		144	989	1,133
2017		138	951	1,089
2018		132	913	1,045
2019		129	902	1,031
2020		129	884	1,013

Source: Website of Taiwan Securities Association

The local securities industry has encountered the unfavorable factors such as the decline in net revenue from commissions, decline in financing interest rate, and international competition. The organizational development strategy of HNSC will head in the direction of financial holdings or strategic alliances. As for the business development strategy, HNSC will move towards new businesses such as wealth management, trusts, and security lending businesses. Thus, HNSC will move beyond its existing role in the securities brokerage businesses 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 2019. In terms of mobile trading, it accounts for 63% of the overall e-trading by the end of 2019. The high-growth figure indicates that HNSC's e-trading system has been well-received and recognized by customers and the market.

In response to FinTech trends, HNSC provides customers with more thoughtful services. In addition to continuous optimization of the "Hua Nan Securities" Line@ official account, HNSC also plans to provide more innovative smart customer services and provide customers with a broad range of service channels.

HNSC continues to optimize the Hua Nan e-counter app to help customers apply for services without visiting the counter. In terms of online account opening, HNSC provides an OPT online account opening password certification service with enhanced security; in terms of bilateral loans, HNSC provides customers with more high-quality interest rates; in terms of fixed time and amount securities trading, HNSC added more ETF products to help customers invest with ease.

HNSC has improved the Hua Nan Precision app to accommodate the rise of ETF transactions as a prominent feature in the securities investment market. The company plans to add smart ETF securities selection functions, smart ETF investment modules, and live trading strategy subscription services to the mobile platform to provide customers with more high-quality services and satisfy customer demands.

(2) Demand side:

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 call (put) 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. The favorable and unfavorable factors for future development
- (1) Favorable factors:
- A. In recent years, Hua Nan Securities has proactively developed 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 steadily increased.
 - B. Hua Nan Securities intensifies development in social media and actively operates social network media platforms to use simple and vibrant interactions to attract young customers and establish a young brand image.
 - C. HNFHC retains comprehensive resources and uses big data analysis and applications as well as digital precision strategies and marketing to provide customers with services they need.
 - D. 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 synergy.
 - E. 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.
 - F. The government announced the extension of the half-price securities transaction tax for day trading till the end of 2021 and promoted the TWSE investments through regular fixed time and amount transactions. The continuous trading system was officially launched in March this year and the odd lot trading during trading hours will be implemented in the fourth quarter. These measures are expected to encourage the inflow of investors and bring up the volume and momentum of Taiwan stock market.
 - G. The continuous trading system was launched on March 23, 2020. Due to the "immediate matchmaking and instantaneous transaction" features, high-frequency trading and programmed trading will soon become mainstream trading practices and it would benefit operations by legal entities. It can increase the momentum of funds and help increase the profitability of securities firms.
 - H. The global low-interest rate environment will remain unchanged and capital will continue to support the global stock markets. Stock markets in emerging economies may strengthen after capital gains momentum.
 - I. Securities firms are gradually permitted to engage in new businesses and financial products such as ETN (Exchange Traded Note) for which the scope of issuance will be expanded. The increase in ETN will help increase sources of profits for securities firms.
 - J. Through the establishment of the Company's risk management system, we shall deftly control all asset and liability positions, minimize operating risks, balance business development, and achieve stable profits.
- (2) Unfavorable factors:
- A. Keen competition in service charge fees between competitors and the rapid development of digital finance innovation and technology threaten securities companies' competitiveness. Providing digital finance service incurs high cost in system optimization and implementation as well as high employee training cost. As most current investors consist of slightly elderly customers which are less proficient in digital technologies, these services may weaken the profitability of securities firms.
 - B. The continuous trading system was launched on March 23, 2020. To effectively increase the efficiency for processing orders, the trading server and computers of sales personnel must be upgraded. The upgrades will greatly increase securities firms' information software and hardware procurement and maintenance costs.

- C. 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.
- D. Trump became the president of the United States and took protectionist policy which is unfavorable to the economic development of Asian emerging market.
- E. Factors such as the endless economic and trade risks, the trade war and technology war between China and the U.S., decline in the growth of the Chinese economy, Brexit, and geopolitics in the Middle East will impact the global stock market.
- F. As global debt levels continue to increase, companies' defaults have increased and may lead to economic crises. Companies' operation risks have increased and may be detrimental to the global economic recovery.
- G. The increase of quota for foreign investments and loosening of foreign exchange control deepen the connection of Taiwan stock market with global capital market.
- H. Fueled by gains in the U.S. stock market, global stock markets have attained new heights and the risks of a bubble have increased. The bull market in stocks and risky assets may be drawing to a close and a major correction may occur this year.

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 main business objectives for the next year are summarized below:

- A. Implement the competent authority's openness policy: Continue to 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 overseas sub-brokerage, issue diversified financial products, and actively develop related corporate clients.
- C. Continue the merging of branch offices: In response to the trend of digital financial environment 3.0, the Company established Transaction Processing Center, discussed the merging 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 the main areas of product 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, 2019, by the Non-Life Insurance Association of the Republic of China, the growth rate of concluded property insurance premiums in Taiwan was 6.99%. The growth rate of South China Insurance Company's premium revenue was 4.79% and its market share was 5.14%.

2. Main area of product sales and services in 2019:

Unit: Thousand NT dollars

Area	Amount	%
Headquarter	3,509,167	38.67%
Taipei Branch	850,536	9.37%
Taoyuan Branch	503,579	5.55%
Hsinchu Branch	294,258	3.24%
Taichung Branch	1,320,876	14.57%
Yuanlin Branch	608,187	6.70%
Tainan Branch	800,688	8.82%
Kaohsiung Branch	1,186,486	13.08%
Total	9,073,777	100.00%

Note: Re-insurance revenue is not included.

3. Future demand and supply status of the market:

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

- (1) The development of property insurance is closely associated with economic development. Press release of the Directorate General of Budget, Accounting and Statistics, Executive Yuan: According to IHS Markit forecasts, (the impact of the COVID-19 pandemic was not yet considered), the global economic growth rate in 2020 was estimated to be 2.5% which is lower than 2.6% in 2019. Advanced and emerging economies were expected to grow by 1.5% and 4.2%, respectively. The United States and the EU were expected to grow by 2.1% and 1.0%. Mainland China was expected to benefit from the phase 1 trade agreement signed with the United States which will reduce the negative impact on its foreign trade. Its economy was expected to grow by 5.8% which is slightly lower than 6.1% in 2019. In Taiwan, the forecast of the Directorate General of Budget, Accounting and Statistics placed the annual economic growth rate in Taiwan at 2.37% in 2020. Leading advanced semiconductor production capacity in Taiwan will soon be inaugurated and the restructuring of the global supply chain will continue. The return of Taiwanese businesses and increase in output will have positive and growing effects on exports. The global 5G mobile communication, high-speed computing, artificial intelligence, and IoT will also continue to be developed. The impact of the COVID-19 pandemic on regular economic activities such as production, consumption, and trade will be determined by 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 extreme weather events, an endless stream of natural disasters, and significant public safety incidents, individuals and companies have become more risk-conscious and are more willing to purchase insurance. In addition, the continuous development of digital finance, use of big data for business development, expanded Internet insurance purchases and e-commerce, and agricultural insurance in response to government policy will continue to provide new business opportunities.

4. Business 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 future development:

- (1) Favorable factors for South China Insurance in competition:
 - A. Jointly develop potential customers, cross-sell different products, and provide customers with diversified product services through the Group's cross-selling platform and various product promotion campaigns in the Group.
 - B. The product development team retains a complete range of talents and continues to develop customized product projects to win different channels and customer groups, stabilize channel businesses and enlarge business scale.
 - C. SCIC continues to increase online insurance purchases and e-commerce operations to meet the demands of Internet users. It also optimizes mobile device service items and enhances digitalization functions to gain more online businesses.
 - 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. The "Damage Prevention Team" provides professional services for conduct site examinations and provide concrete and feasible damage prevention advice to increase customer satisfaction and loyalty, accumulate long-term stable customer groups, and win customer's recognition and support.
 - 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. South China Insurance has won the "Information Security Excellence Award" consecutively in the "Taiwan Insurance Excellence Award" organized by the Taiwan Insurance Institute and was promoted to the Gold Award. It also received the Gold Award in "Talent Development Excellent Performance Award" and Silver Award in "Risk Management Project Planning Excellence Award". Its outstanding performance in business operations has won the trust of the industry and society.

H. SCIC received stable ratings from both the AM Best credit rating company and Taiwan Ratings. This indicates that SCIC has a strong balance sheet, good underwriting performance, neutral business profile, appropriate corporate risk management, and strong capital and profitability.

(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. Main area of product sales and services

The main 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 has become increasingly obvious. The market competition has become more intense. Enhancing fund performance, building a reputation for funds, and building the Company's brand image have become the key to winning customers.

3. Business objectives

- (1) Increase the scale of funds and achieve growth in profitability to win market ranking and improve profitability performance.
- (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) Strengthen the development of internal and external channels and digital financial services.
- (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 Long Win Balanced Fund has won the TFF-Bloomberg Best Fund Award for Outstanding Domestic Bond Equity Balanced Fund for four consecutive years (2016 to 2019; 19th to 22nd) and the 2018 Thomson Reuters Lipper Taiwan Fund Award for three-year balanced NTD fund. The Hua Nan Multi-Assets Balanced Income Fund TWD has won the 21st TFF-Bloomberg Best Fund Award in three-year balanced and multi-assets global balanced fund.

(2) Unfavorable factors

- A. The ratio of the Company's money market funds remains high and the scale of non-money market funds has remained low. The asset management structure still requires improvements.
- B. Investment trusts of financial holding companies have rushed to use ETF to increase the entry barriers for market competition and leveraged resources provided by their group to intensify competition in the market.
- C. The increase in the scale of ETFs was the largest overall growth in the investment trust market. The Company does not have related products to offer customers and such conditions are not favorable for product competition.

(V) Hua Nan Venture Capital

1. Main investment 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 based on industry relations, integration, and marketability.

2. Business 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. The favorable and unfavorable factors for further development:

3. The favorable and unfavorable factors for future development:

(1) Favorable factors:

- A. Customers prefer Hua Nan Financial Holdings' brand image of solid operation.
- B. HNVC searches, screens, and develops high-quality customers through the Group'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 help the Company achieve breakthroughs in operation.

(2) Unfavorable factors:

- A. Changes in the economy or increase in geopolitical risks will cause funds to flow to stable and low-risk financial tools and negatively impact fundraising for venture capital.
- B. As industrial integration intensifies, large technology groups tend to set up their own funds and take charge of related investments investment. It is therefore difficult for regular venture capital to gain access.

(VI) Hua Nan Assets Management Company (HNAMC)

1. Primary investment area: Taiwan.

2. Future demand and supply status of the market

The domestic bad debt market has fallen due to the significant improvements in the quality of bank assets and reduced interest rates. Banks' overdue loan ratio has been maintained at rates far lower than the criteria for banks to sell bad debts. Therefore, it is less likely for banks to release bad debts in the near term and we currently do not have opportunities for investments. In the real estate market, future economic trends, lowered interest rates in the United States, and the trade disputes between China and the United States are expected to have limited impact on the real estate market in Taiwan. The short to medium-term demand for commercial properties will increase due to the return of Taiwanese businesses. However, the development can also lead to increase in employment and salary, it would also support the residential real estate market. However, bids in the foreclosure market have become intense and the gap between the auction prices and market prices have shrunk. It has become harder to win bids and more difficult to acquire assets. To create stable rent income and capital income, HNAMC will actively promote value-added investments and plans and participate in the implementation of urban development and improvement projects for dangerous and old buildings to increase the scale of assets and generate more profits.

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 renewal financing service in full speed.

4. The favorable and unfavorable factors for future development

(1) Favorable factors

- A. HNVC enjoys abundant operation resources and support from the Group.
- B. HNVC has cultivated professional talents based on the structure of core businesses of international investment banks.
- C. HNVC retains capacity for innovation and competition and it has more experience in urban renewal projects than competitors.

(2) Unfavorable factors

- A. As the asset scale is smaller, its revenue is lower than that of competitors.
- B. The Company is restricted by the operating framework of "Principles for the Operations of Asset Management Companies Invested by Financial Holding Companies (Banks)" promulgated by the Banking Bureau of the FSC and therefore it is difficult to increase the categories and scale of business operations.

IV. Employee data of the Group

(I) Employee data in recent two years

Year			As of March 31, 2020	2019	2018
No. of employees		Hua Nan Financial Holdings	86	86	80
		Hua Nan Commercial Bank	7,908	7,945	7601
		Hua Nan Securities	1,399	1,413	1410
		South China Insurance	1,005	1,011	976
		Hua Nan Investment Trust	62	65	6969
		Hua Nan Venture Capital	10	10	10
		Hua Nan Assets Management Co. (HNAMEC)	41	41	38
Average Age		Hua Nan Financial Holdings	42.91	42.98	42.43
		Hua Nan Commercial Bank	42.52	42.55	43.04
		Hua Nan Securities	46.05	45.94	45.86
		South China Insurance	38.9	38.8	38.7
		Hua Nan Investment Trust	45.81	44.67	44.36
		Hua Nan Venture Capital	45.35	45.10	44.10
		Hua Nan Assets Management Co. (HNAMEC)	39.11	38.88	38.95
Average year of services		Hua Nan Financial Holdings	6.20	6.07	5.93
		Hua Nan Commercial Bank	15.91	15.92	16.69
		Hua Nan Securities	10.9	10.78	10.41
		South China Insurance	10.5	10.4	10.3
		Hua Nan Investment Trust	7.69	7.39	6.98
		Hua Nan Venture Capital	11.16	10.91	9.91
		Hua Nan Assets Management Co. (HNAMEC)	8.44	8.23	8.76
Educational distribution ratio (%)	Ph.D.	Hua Nan Financial Holdings	0	1.16	1.25
		Hua Nan Commercial Bank	0.08	0.08	0.07
		Hua Nan Securities	0.29	0.35	0.42
		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. (HNAMEC)	0	0	0
	Master	Hua Nan Financial Holdings	50	50	52.50
		Hua Nan Commercial Bank	15.33	15.23	13.96
		Hua Nan Securities	10.13	10.13	9.82
		South China Insurance	6.4	6.6	6.6
		Hua Nan Investment Trust	25.81	24.62	23.193
		Hua Nan Venture Capital	60	60	60
		Hua Nan Assets Management Co. (HNAMEC)	21.95	24.39	31.58
	Bachelor	Hua Nan Financial Holdings	50	48.84	46.25
		Hua Nan Commercial Bank	79.41	79.36	79.73
		Hua Nan Securities	73.04	72.86	72.50
		South China Insurance	84.6	84.8	83.9
		Hua Nan Investment Trust	72.58	72.31	73.91
		Hua Nan Venture Capital	40	40	40
		Hua Nan Assets Management Co. (HNAMEC)	75.61	73.17	65.79
	Senior High School	Hua Nan Financial Holdings	0	0	0
		Hua Nan Commercial Bank	4.86	5.00	5.88
		Hua Nan Securities	16.65	16.65	17.24
		South China Insurance	8.8	8.4	9.3
		Hua Nan Investment Trust	1.61	3.07	2.9
		Hua Nan Venture Capital	0	0	0
		Hua Nan Assets Management Co. (HNAMEC)	0	2.44	0
	Below Senior High School	Hua Nan Financial Holdings	0	0	0
		Hua Nan Commercial Bank	0.33	0.34	0.37
		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. (HNAMEC)	2.44	2.63	2.63



Year		As of March 31, 2020	2019	2018
Financial Certificates Held	Hua Nan Financial Holdings	Certified Anti-Money Laundering Specialist(CAMS): 48 persons, CAMS-Audit: 1 person, CAMS-FCI : 1 person, Certified Public Accountant: 5 persons, FRM: 2 persons, Certified Securities Investment Analyst: 2 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: 16 persons, Sales Representative in Futures Commission Merchants: 17 persons, Financial Planner: 17 persons, Investment Trust and Consulting Representative: 22 persons, Property Insurance Representative: 32 persons, Personal Insurance Representative: 43 persons, Personal Insurance Representative Selling Non-Investment-Linked Insurance in Foreign Currency: 18 persons, Investment-Linked Insurance Product Representative: 26 persons, Trust Representative: 39 persons, Bank Internal Controls: 56 persons, Stock Affairs Personnel Professions Test: 4 persons, Basic Bank Lending Personnel :19 persons, Basic Foreign Exchange Personnel: 15 persons, Asset Securitization: 6 persons, Debenture Personnel: 3 persons, Property Insurance Representative: 5 persons, Digital Finance Knowledge Test: 13 persons, Level B Technician for Accounting: 1 person, Level C Technician for Accounting: 1 person, Structured Products Sales Representative: 8 persons, Proficiency Test for Foreign Exchange Transaction: 1 persons, Chartered Business Valuator: 2 persons, Futures Trading Analyst: 1 person, JAVA Certificate: 1 person, Futures Trust Fund Sales Institution Sales Representative Test: 5 persons, Certified Ethical Hacker (CEH): 1 person, Anti-Money Laundering and Counter Terrorist Professional Test: 11 persons, Certified Hacking Forensic Investigator (CHF): 1 person, BSI Training Academy: 1 person, Ability test of Corporate Governance:3 person, Certification Test for Financial Derivatives Sales Personnel:2 person, Securities Trading Regulations and Practice tests:2 person, Professional risk management test for Financial Personnel: 1 person, Basic Risk Management Test: 1 person		
	Hua Nan Commercial Bank	Bank Internal Control: 7,228 persons, Trust Representative: 6,591 persons, Personal insurance Representative: 6,828 persons, Financial Planner: 2,182 persons, Property insurance Representative: 6,555 persons.		
	Hua Nan Securities	High Level Sales Representative in Securities Firms: 811 persons, Sales Representative in Securities Firms: 417, Sales Representative in Futures Commission Merchants: 950 persons, Trust Representative:602 persons, Investment Trust and Consulting Representative: 441 persons, Personal Insurance Representative: 923 persons, Property Insurance Representative: 766 persons, Investment-Linked Insurance Product Representative: 517 persons, Personal Insurance Representative Selling Non-Investment-Linked Insurance in Foreign Currency: 507 persons, Anti-Money Laundering and Counter Terrorist Professional Test: 151 persons, CAMS: 11 persons.		
	South China Insurance	Underwriter Certificate: 131 persons, Claim Settlement Certificate: 90 persons, Property Insurance Representative: 977 persons, Assistant Actuary Certificate: 1 persons, Actuary Certificate: 2 persons, Senior Sales Representative in Securities Firms: 46 persons, Sales Representative in Securities Firms: 306 persons, Trust Representative: 166 persons, Personal Insurance Representative: 719 persons, Investment-Linked Insurance Product Representative: 347 persons, Financial Planner: 9 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: 2 persons, Personal Risk Management Professional: 2 persons, FRM: 1 person, Fire Fighters: 1 person, Industrial Safety Manager 1 person, Industrial Hygiene Manager 1 person, Industrial Safety and Health Administrator :1 person, Property Insurance Agent: 3 persons, Property Insurance Broker: 2 persons, (China) Insurance Assessment Practitioner [Surveyor] Certificate: 2 persons, (China) Insurance Agent Certificate: 1 persons, (China) Insurance Broker Certificate: 3 persons, Personal Insurance Representative Selling Non-Investment-Linked Insurance in Foreign Currency: 55 persons, Administration Personnel for Life Insurance: 2 persons, Investment Trust and Consulting Representative: 68 persons, Stock Affairs Personnel: 2 persons, Sales Representative in Futures Commission Merchants: 54 persons, Certificate of Insurance Customer Service: 51 persons, ISO27001 Information Security Management Systems Lead Auditor: 2 persons, JAVA Certificate: 11 persons, ACA DreamweaverCS5: 1 person, Microsoft MCTS: 1 person, Microsoft MCITP 1 person, Level C Computer hardware decoration: 2 persons, ERP Planer: 1 person, MCP 1 person,MCAD1 person,IBM AIX7 Administration 1 person, HP HP-UX System Administrator 1 person, VM ware Certified professional 1 person, Level C Computer Software Design: 1 person, Level B Computer Software Application: 1 person, Sophos XG Firewall-Certified Engineer 1 person, Certified Infoblox Core Engineer v6.10 1 person, v8.0 TRITON AP-DATA 201 Class 1 person, Occupational Safety and Health Business Supervisor 7 persons, Emergency Personnel 18 persons.		
	Hua Nan Investment Trust	Investment Trust and Consulting Representative: 36 persons, Senior Sales Representative in Securities Firms: 31 persons, Trust Representative: 34 persons, Financial Planner: 5 persons, Sales Representative in Futures Commission Merchants: 24 persons.		
	Hua Nan Venture Capital	Senior Sales Representative in Securities Firms: 1 persons , Property insurance Representative: 1 person, Financial Planner: 2 persons , Trust Representative: 3 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: 4 persons, Trust Representative: 9 persons, Financial Planner: 2 persons, Outsourced Debt Collection Personnel: 16 persons, Common Knowledge and Code of Ethics for Financial Market: 1 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: 3 persons, Senior Sales Representative in Securities Firms: 1 persons, Sales Representative in Securities Firms: 1 persons, Investment Trust and Consulting Representative: 1 persons, Real Estate Valuator: 2 persons, Land Registration Agent: 2 persons, Certified Public Bookkeeper: 2 persons, Architect: 1 persons, Real Estate Broker: 7 persons, Real Estate Broker Operator: 8 persons, Certified Anti-Money Laundering Specialist (CAMS): 3 persons, ISO27001 Information Security Management Systems Lead Auditor: 4, persons BS10012 Lead Auditor 2 persons, Construction Site Director 1 person.		

(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: 2 persons, Sales Representative in Futures Commission Merchants: 2 persons, Financial Planner: 3 persons, Investment Trust and Consulting Representative: 2 persons, Property Insurance Representative: 1 persons, Personal Insurance Representative: 1 persons, Personal Insurance Representative Selling Non-Investment-Linked Insurance in Foreign Currency: 1 person, Investment-Linked Insurance Product Representative: 2 persons, Trust Representative: 4 persons, Bank Internal Controls: 6 persons, Stock Affairs Personnel Professions Test: 1 person, Basic Bank Lending Personnel: 2 persons, Basic Foreign Exchange Personnel: 1 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, Proficiency Test for Foreign Exchange Transaction: 1 persons, 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: 4 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: 3 persons, Property Insurance Representative: 6 persons, Personal insurance representative: 6 persons, Personal Insurance Representative Selling Non-Investment-Linked Insurance Product in Foreign Currency: 2 persons, Investment-Linked Insurance Product Representative: 3 persons, Trust Representative: 4 persons, Bank Internal Controls: 9 persons, Basic Bank Lending Personnel: 4 persons, Basic Foreign Exchange Personnel: 2 persons, Asset Securitization: 1 persons, Debenture Personnel: 1 person, Property Insurance Representative: 1 persons, Digital Finance Knowledge Test: 1 persons, JAVA Certificate: 1 person, Futures Trust Fund Sales Institution Sales Representative Test: 1 persons, Anti-Money Laundering and Counter Terrorist Professional Test: 2 persons. BSI Training Academy: 1 person, Certification Test for Financial Derivatives Sales Personnel: 1 person.

(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 2019 is as follows:

1. Employees registered 209 attendances in training courses organized by external institutions in 2019.
2. In addition to 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, Chung-Hua Institution for Economic Research, and other professional training institutions.

(IV) Employee Code of Conduct and Ethics

1. The Company has specified the following service guidelines for employees in the "Employee Work Rules":
 - (1) Employees shall be loyal to their duty and execute the duty according to company rule, management's instruction and regulations.
 - (2) Employees shall keep confidentiality for secrets obtained during business operation or through their positions.
 - (3) Employees may not use his position to benefit himself or cause damage to others.
 - (4) Employees may not accept entertainment, gifts, kickback, or other unjust benefits through their actions in the performance of their duties or actions taken against their duties.
 - (5) Employees may not engage in business, speculative business, or any other profit-seeking behaviors that will affect their duties.
 - (6) Without the approval of the Company, employees may not serve concurrently in other roles outside the Company that affects the performance of their labor contract.
 - (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 are 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 in accordance with regulations and pay attention to their attire and cleanliness to maintain a presentable style and temperament.
 - (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 permitted 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, fail to perform their duties, or violate the internal control system of the Company.
2. In order to enhance employees' understanding of the code of ethics and clearly define employees' rights, obligations, and conduct, the Company established the "Employee Work Rules" and other related rules and guidance as follows:
- (1) Level of Authority: To clearly define level of authority and job duties of all departments in the Company.
 - (2) Directions of Employee Promotion: Establish 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) Working environment and employees' personal safety protection measures

1. 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.
2. 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 from time to time to ensure the health and safety of environment.
3. 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.
4. The employee work environment and safety protective measures are disclosed in corporate social responsibility section of the official website: <https://www.hnfhc.com.tw/HNFHC/>

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 sustainable financial group.

VI. The number of full-time non-management employees, the average and median salary of full-time non-management employees, and the difference of the three statistics compared to the previous year.

Item	Unit	2019	2018	Annual Difference
Number of Full-Time employees not in management position	NTD: thousands	9,128	8,876	2.84%
Total Salary of Full-Time employees not in management position	NTD: thousands	11,100,183	10,928,695	1.57%
Average Salary of Full-Time employees not in management position	NTD: thousands	1,216	1,231	-1.22%
Median Salary of Full-Time employees not in management position	NTD: thousands	1,057	1,070	-1.21%

Note 1: The calculation basis in the above table includes Financial Holdings, Bank, Insurance and Securities.

Note 2: "Full-time employees who are not in supervisory positions" refer to the number of employees who have been employed for more than six months (Inclusive) in the current year after deducting those who hold supervisory positions (managers), employees in overseas branches, and part-time employees. The number of full-time employees after that.

Note 3: "Total Salary" refers to the employee's salary attributable to the current year, including recurring salary (Salary and monthly fixed allowance and bonus), overtime pay and non-recurring salary (non-monthly allowance, year-end Bonuses, performance bonuses, employee compensation, etc.).

VII. The information equipment of the Group

(I) Hua Nan Financial Holdings

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

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

The main hardware of the Group's information system consists of the IBM host, Tandem host, UNIX server, and PC server. The operating systems include IBM

OS/390, IBM AIX, Unix, and Windows Server. The database systems include 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 or procurement plans

In response to Group business development strategy and information technology trend, the Group planned four main medium 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 services:

- A. With the enormous increase in demand from FinTech business, the system has become more complex. Companies of the Group have advanced to virtual infrastructure and established system structures that facilitate flexible and rapid deployment.
- B. The Group continues to strengthen information infrastructure to ensure the safety and stability of information system. It has replaced the transaction system and equipment and improved the backup environment. It has expanded system service functions and reduced operating risks to provide customers with high-quality and reliable financial service without any interruption.

(2) Establishing flexible structure to enable real-time support for business operations:

- A. Demand for digital finance is increasingly rapidly and the IT department of the Group has begun research and development of a microservice structure that can respond to business requirements with greater agility and flexibility and connect to services and data to help provide new services faster.
- B. The FSC has actively promoted the Open Banking initiative and HNCB has participated in the Open API (Application Programming Interface) platform of Financial Information Service Co. Ltd. The platform will soon incorporate securities and insurance data and help the financial industry and FinTech developers achieve more intensive cooperation in big data, smart wealth management, and cloud services and develop customer groups that had been previously out of the reach of the finance industry.

- C. The Group will continue to develop big data analysis. The application level of data analysis shall be extended beyond digital marketing for personal banking to corporate finance and risk management applications to build new financial service models and create new value for the Group.
 - D. In addition to big data analysis, machine learning and artificial intelligence are also development trends that cannot be ignored. The three items are linked together to facilitate prediction, judgment, sorting, and decision making in wealth management consulting, risk management, security, RegTech, and precision marketing. The Company shall continue to increase its capacity for big data analytics and introduce artificial intelligence to provide better financial services.
- (3) Enhancing information security protection mechanisms:
- The Group's medium to long-term strategies for information security mechanisms should be modeled after the Adaptive Security Architecture developed by Gartner. The architecture includes predict, prevent, detect, and respond as well as a circular design to ensure continuous improvement to maintain adaptability.
- (4) Grasping technology and cultivating talents:
- A. Talent cultivation has always been a key part of the Group's development. In addition to active recruitment of IT talents, the Group also encourages IT personnel in the Group to enhance their skills. In addition to participation in internal and external training programs, they are also encouraged to obtain related professional licenses.
 - B. With rapid development in apps, big data, artificial intelligence, IoT, and blockchain, we must always pay close attention to the latest developments in FinTech and continue to cultivate FinTech talents and build information services with digital competitiveness for the Group.
3. Information operation security protection and backup measures
- A. 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.
 - B. Install firewall and invasion detection system at the web portal of subsidiaries to strengthen the shield between the Company's internal networks and the Internet, and strengthen the network controls of all subsidiaries.
 - C. 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.
 - D. Install detection system for various systems and internet to prevent internet crime and internet attack, and protect the safety of internet transaction.
 - E. All subsidiaries have launched equipment to collect audit trail with undeniable evidence. 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.
 - F. In order to implement information 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.
 - G. 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.
 - H. 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 of the establishment of 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 of the establishment of 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 happened 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) The Group's related party information system

The purpose of the establishment of 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 Bank

1. The allocation and maintenance of main 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: Utilize 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: Utilize 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 or procurement plans

(1) Promote convenient digital transformation services

A. Establish the LINE BC marketing platform to expand marketing channels

Establish the official LINE account BC (Business Connect) service management system to provide customers with personalized notification services for their accounts, interests, and marketing information to increase marketing precision and intensify customer services.

B. Build a comprehensive AI smart customer service platform

We added the interactive audio conversation AI service and expanded the service channels to Facebook, LINE, Google Voice Assistant, smart speakers, and other digital channels to provide customers with consistent and convenient user experience.

C. Build a microservice architecture platform

We used the microservice framework to create the next-generation digital banking application platform which can improve the efficiency of software development and focus on the presentation of the user interface. This helps us respond to the rapidly changing needs of digital finance business development, improve customer digital experience, and provide more agile and innovative financial services.

D. Building an application programming interface (API) gateway management system

We built an API management platform that combines a diverse range of functions including API lifecycle management, security control services, transaction flow monitoring and analysis. The platform helps maintain the stability of application system functions and increases the productivity of developers.

(2) Support comprehensive compliance risk management mechanisms

A. Establish a compliance and anti-money laundering information platform

We established a compliance/AML information platform for domestic and international operations to improve the timeliness and accuracy of information transmissions and reporting. The platform accelerates the accumulation of AML/CFT knowledge and experience and improves the Bank's case review capacity and operational efficiency.

- B. Build a case review system with robotic process automation (RPA)
We use robotic process automation (RPA) technologies to assist the handling the highly repetitive tasks in the current anti-money laundering case reviews to increase the precision and speed of case information review and increase the efficiency of compliance operations.
- C. Improve the overseas branch central reporting system
Improve the software/hardware equipment of the central reporting system of overseas branches in response to new regulatory requirements of the local competent authority to strengthen internal control and improve reporting operations for the competent authority.
- (3) Expand the performance of the information system
 - A. To cope with system demand from new businesses, the Company continues to build solid information infrastructure and plan the upgrade of core accounting system servers and purchase and replace network storage equipment. The Company shall increase system processing capacity and the storage space necessary for projects and future business growth.
 - B. Purchase and plan network equipment for the establishment of new business or new units in order to quickly establish network connection environment for every unit, increase availability rate of network equipment, and protect the overall network environment.
 - C. Replace terminal computers in accordance with business development requirements of each unit to provide a high-quality work environment.
 - D. Continue to purchase NBU backup software authorization and storage equipment for data storage to fulfill the demand in new annual project and existing system backup.
 - E. Plan the purchase of related network equipment for the establishment of the Tucheng IT Building to expedite the relocation of IT systems and provide rapid services.
 - F. Expand the intrusion defense system to prevent malicious attacks by external hackers through real-time detection and blocking functions. Effectively prevent prying and attacks by hackers to ensure the information security of the Bank's online services.
- (4) Enhancing information security
 - A. 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 October every year. The exercise is done through actual external attacks on the Bank's DDoS attack monitoring mechanisms, personnel response, and information procedure. The Bank's capability to defend DDoS attack is reviewed after the exercise in order to strengthen the Bank's information security.
 - B. The Bank strengthened legal compliance and passed related international information security standard certification to meet regulatory requirements for information security. The Bank passed the ISO27001 International Information Security Standard certification in August 2012, passed ISO27001:2013 certification in June, 2015, and passed the three-year re-certification from July 4 to 6, 2018. The Bank will continue to take the re-certification of ISO27001:2013 to demonstrate its commitment to information security management.
 - C. The Bank continues to conduct computer system information security evaluation, engage external professional institutions to conduct information security examination, and identify 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.
 - D. 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.

- (5) Enhancing information security protection capabilities
 - A. To enhance the Bank's ability in information security protection, plan to implement related information security protection system and retire several existing firewall equipment for Internet that ceased technical support in order to ensure the stable system operation and prevent information security risk from equipment failure.
 - B. Introduce the endpoint data breach prevention system and integrate sensitive data leak prevention systems on existing gateways to complete protective measures for sensitive data and achieve more comprehensive internal control protection.
3. Emergency backup and safety protective 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 multitenancy 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 main information system hardware and software
 - (1) Main IT system hardware in North Taiwan, Taoyuan, Hsinchu, and Miaoli area consists of HP NonStop NS2000 series. The HP NonStop NS2400 series is used in Central and South Taiwan.
 - (2) The main software for securities is jointly developed by the Company and approved software companies. The regular maintenance for main hardware is performed by original suppliers.
2. Future development or procurement plans
 - (1) The upgrade and replacement of the HPE NonStop server for Taipei still requires the purchase of the HPE NonStop server to respond to the impact of the large-scale increase in the number of orders after the implementation of the continuous trading system. The primary-backup structure is adopted to increase system stability and significantly increase securities transaction speed.
 - (2) The Company shall follow the plans of the competent authority and set up the odd lot trading system for trade during trading hours to help customers with limited capital proceed with investments. This system will attract students and recent graduates and help them accumulate investment experience on the market.
 - (3) The Company introduced the core modules for the SOC platform and established its own SOC information security monitoring center with information security monitoring organizations and functions, training for SOC personnel, and regulations for the operations and maintenance. The system screens suspicious incidents for in-depth analysis to confirm whether they are malicious actions.
 - (4) The Company adopts Unicode Chinese characters based on the Chinese coding in related information system of the TDCC for software procurement, development, and modification.
3. Emergency backup and safety protective measures
 - (1) The Headquarters Server Room is placed on critical Internet connections and high-stability routers are used. Regional centers are provided with high-level and multi-line backup. They are placed in locations with fire protection equipment, access control, temperature and humidity control, electric-power generating equipment and designated management personnel to prevent damage.

- (2) Central and Southern Area NonStop Host is installed in the Chunghwa Telecom Hsinyi Co-location Center. Northern Area Host is installed in the Chunghwa Telecom Banqiao IDC Co-location Center. They act as the transaction system in Taipei area and Central, and South area, respectively in daily operations and act as the emergency backup host for each other. In response to the launch of the continuous trading system and the fair customer treatment principle, we plan to adopt a primary-backup framework and implement related backup exercises on a regular basis.
- (3) IP control equipment has been launched to enhance network security protection. Periodically conduct weakness scanning and engage external professional institutions to conduct social engineering exercises. We also use firewalls and dual-core switches to separate different networks and provide physical isolation for the OA and trading network. These measures ensure clearly rerouting of data, network stability, and fault tolerance to they enhance network operation efficiency.
- (4) The IDC supplier is engaged to provide flow cleaning services against DDoS attack and block the attacker's IP address for network security.

(IV) South China Insurance

1. South China Insurance currently uses the following operating system hardware:

Equipment use	Operating host	On-site backup host	Off-site backup host
Brand	IBM	IBM	IBM
Model number	P730	P730	P730
Operating system	AIX 7.1	AIX 7.1	AIX 7.1
CPU specifications	4228MHz *16 core	4312 MHz * 8 core	4312 MHz * 8 core
Memory	128GB	128GB	128GB
Database	informix 11.7	informix 11.7	informix 11.7
Storage device	EMC VNX5300 3,998GB	EMC VNX5300 1,552GB	IBM V3700 4,803GB

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 digitization system, fund management system, accounting system, decision-making support system, actuarial reserve system, and digital 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, endpoint personal data breach prevention system, highest access recovery tool software, logging system, source code detection device, server virtual patching system, mobile device protection system, database audit system, file server tracing system, server folder access audit system, external domain name server, remote encrypted connection device, Internet usage behavior management devices, and internal/external firewall devices.
- (5) Legal compliance: Anti-money laundering system.

3. Future development or procurement plans

- (1) Establish a mobile channel insurance purchase connection system
- (2) Establish a channel LINE service system
- (3) Establish an electronic cargo insurance policy system
- (4) Establish an information security monitoring system

(V) Hua Nan Investment Trust

1. The allocation of main information system hardware and software
 - (1) HP professional servers and HP professional storage array storage equipment are adopted for the main hardware equipment. ASUS professional servers and general PC servers are used for other hardware equipment.
 - (2) The main software platform is VMware Virtual Host Platform which contains all system hosts. Windows Operating System is used for the OS of all systems. MS SQL server is used for databases. The scope includes the core operating system and electronic transaction platform.
 - (3) All software and hardware systems are maintained by designated personnel. Maintenance contracts are signed with the original supplier to ensure the normal operation of all system platforms.
2. Future development or procurement plans
 - (1) Continue to conduct the improvement and adjustment of IT system with respective business type.
 - (2) Improve IT infrastructure construction and replace existing hardware equipment with new one.
 - (3) Implement information security control through ISO27001.
 - (4) Purchase information security hardware and software in line with enhanced information security requirements.
3. Information operation security protection and backup measures
 - (1) Enhance virtual host backup mechanism to ensure the storage 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 conduct system upgrade and system weakness inspection and penetration scanning to strengthen system security.
 - (4) Enforce 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) Plan the establishment of the 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 main IT system:
IBM xSeries 3500M4 host, Palo Alto PA-220 firewall, Cisco ethernet exchange, and Juniper EX2200 48Port uplink.
2. The allocation and maintenance of main information system software
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 or procurement plans
The current hardware establishment 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 safety protective measures
 - (1) As the organization of the Company remains small, there is little demand for data backup. The system backup is done on a weekly basis. IT personnel also burns backup data in CD-ROMs or USBs and place them in different locations as remote backup.
 - (2) Firewalls are used to separate network connections and the Company periodically conducts security scans to achieve security control.
 - (3) Important equipment is placed in areas with access control and management personnel to prevent damage.

(VII) Hua Nan Assets Management Company

1. Main IT system and maintenance

- (1) Hardware system: The system servers consist mainly of HP DL380 G10 series, IBM X3650 series, INTEL i7 desktop PC, Cisco and HP network equipment (routers and switches), Palo Alto next generation firewall, and HP Arcsight Logserver logging and tracing storage equipment.
- (2) IT system and software allocation:
 - A. Operating system: MS Windows 10, MS Windows 8.1, and MS Windows 2012
 - B. Office: MS Office 2016
 - C. Email system: Chunghwa Telecom Hibox email service
 - D. Database: MS SQL 2012
 - E. Anti-virus tool: Trend Office Scan and Kaspersky
 - F. Vulnerability scanning software: Nessus
 - G. Endpoint monitoring software: IP-GUARD
 - H. Main operating systems: Asset management system, Ching Hang Accounting System, vault document management system, email system, web server, and human resources system. All hardware and software systems are maintained by dedicated personnel. Maintenance contracts are signed with vendors and insurance companies to ensure normal system operation.

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 MS Windows 2008 and MS SQL 2008 have been upgraded to Windows 2012 and SQL2012 to improve the adaptability and safety on the client end.

3. Emergency backup and safety protective measures

- (1) Periodically upgrade system patch and virus code of the anti-virus system to ensure normal system operations.
- (2) Adopting next-generation firewalls to block external network attack and periodically execute system weakness detection to enhance the Company's network 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) To fulfill the responsibility for personal data protection and strengthen corporate information security protection, implement BS 10012 personal information management system and ISO 27001 information security management system certification and periodically re-certify to ensure the effective operations of the system.

VIII. Labor Management Relations of the Group

(I) Employee benefits

1. The Company offers labor insurance and National Health Insurance to employees in accordance with laws and regulations.
2. The Company has set up the employee welfare committee to provide employees with all kinds of subsidies, allowances, and activities (festival bonuses, congratulatory payment for marriage and birth, condolence payment for bereavement, training subsidies, subsidies for club activities, etc.)
3. The Company offers employees health checks and group insurance.
4. The Company provides comprehensive employee development plans, on the job training, and subsidies for external training or education.
5. Favorable employee leave policy (no salary deduction for personal leave up to 14 days and sick leave up to 30 days per year).
6. The Company provides employee with uniforms.

(II) Labor-management agreements and protective measures for employee rights and 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) Three labor disputes incurred in last year and up to the date of annual report are listed.

1. Hua Nan Securities

(1) 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 ruled that 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.

(2) 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. Kaohsiung District Court called a mediation at 3 p.m. October 30, 2018. The mediation was unsuccessful. Kaohsiung District Court ruled at 16:00 on July 26, 2019 that "the plaintiff's suit is dismissed" and Tung XX subsequently filed an appeal on August 30, 2019. Taiwan High Court Kaohsiung Branch transferred the case to mediation which began on September 19 of the same year. The trial proceedings were completed on December 24, 2019 and February 25, 2020. The preparatory proceedings will be continued at Taiwan High Court Kaohsiung Branch on April 14, 2020.

(3) Case for Tsai XX

The plaintiff was a former Assistant Vice President of Sales of the Company's Fengshan Branch who reported for duty on July 7, 2017. The plaintiff resigned for personal reasons on October 31, 2018 and, based on claim that the Company's hiring notice specified "two months of guaranteed year-end bonus", filed a suit at the Fengshan Summary Court of Taiwan Kaohsiung District Court to request the Company to pay the year-end bonus of NT\$150,000 calculated based on the proportion of the plaintiff's employment period in 2018. A judgment was rendered on November 28, 2019 in the first instance court in favor of the Company and the plaintiff's claim was rejected. The plaintiff objected to the judgment of in the court of first instance and filed an appeal. The preparatory proceedings were held on March 4, 2020 and the court decreed that the case shall be reviewed on April 22, 2020.

IX. Material Contracts of the Group

Describe the parties, main 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 Bank

Nature of the Contracts	Parties	Duration of the Contracts	Main 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 was NT\$640 million (contracted in 2018) Electrical and mechanical subcontracting project totaled NT\$559.8 million (contracted in 2019). The total amount was NT\$1,199.8 million (including VAT business tax)	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	2019.01.01~2019.12.31	The counterparty provides reinsurance for South China Insurance for fire insurance and fire additional insurance ratio and surplus reinsurance contract, fire insurance ordinary excess of loss cover reinsurance contract, and accident insurance excess of loss cover reinsurance contract.	None
Reinsurance contract	Central Reinsurance Corporation	2019.01.01~2019.12.31	The counterparty provides reinsurance for South China Insurance for 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, and injury insurance excess of loss cover for catastrophe reinsurance contract.	None
Reinsurance contract	Everest Reinsurance Company	2019.01.01~2019.12.31	The counterparty provides reinsurance for South China Insurance for fire insurance and fire additional insurance ratio and surplus reinsurance contract, marine cargo insurance excess of loss reinsurance contract, hull insurance percentage reinsurance contract, and fire insurance and construction insurance excess cover for catastrophe reinsurance contract.	None
Reinsurance contract	Hannover Reinsurance Company	2019.01.01~2019.12.31	The counterparty provides reinsurance for South China Insurance for 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, and accident insurance excess of loss reinsurance contract.	None
Reinsurance contract	Korean Reinsurance Company	2019.01.01~2019.12.31	The counterparty provides reinsurance for South China Insurance for 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, and accident insurance excess of loss reinsurance contract.	None
Reinsurance contract	Munich Reinsurance Company Hong Kong Branch	2019.01.01~2019.12.31	The counterparty provides reinsurance for South China Insurance for 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.	2019.01.01~2019.12.31	The counterparty provides reinsurance for South China Insurance for fire insurance and construction insurance excess cover for catastrophe reinsurance contract.	None
Reinsurance contract	The Toa Reinsurance Company, Limited Hong Kong Branch	2019.01.01~2019.12.31	The counterparty provides reinsurance for South China Insurance for 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, and fire insurance and construction insurance excess cover for catastrophe reinsurance contract.	None

X. Key indicators of the Group

	2019	2018	2017	2016	2015
Return on Assets					
Hua Nan Financial Holdings	0.59%	0.56%	0.47%	0.58%	0.61%
Hua Nan Commercial Bank	0.57%	0.56%	0.46%	0.57%	0.59%
Hua Nan Securities	2.29%	1.13%	1.89%	0.81%	1.24%
South China Insurance	3.43%	3.54%	3.80%	3.57%	3.87%
Hua Nan Investment Trust	0.71%	1.54%	1.38%	3.31%	4.02%
Hua Nan Venture Capital	1.51%	0.82%	0.35%	0.58%	0.34%
HNAMC	0.55%	0.30%	6.25%	2.09%	0.51%
Return on Equity					
Hua Nan Financial Holdings	8.79%	8.59%	7.43%	9.03%	9.48%
Hua Nan Commercial Bank	7.94%	7.92%	6.73%	8.61%	9.01%
Hua Nan Securities	7.34%	3.67%	6.20%	2.16%	2.97%
South China Insurance	11.95%	12.98%	14.48%	13.99%	15.18%
Hua Nan Investment Trust	1.27%	2.85%	2.59%	6.10%	7.48%
Hua Nan Venture Capital	1.53%	0.83%	0.36%	0.59%	0.35%
HNAMC	1.83%	0.78%	13.56%	4.63%	1.12%
Capital Adequacy Ratio					
Hua Nan Financial Holdings	115.72%	120.19%	127.69%	125.63%	141.78%
Hua Nan Commercial Bank	13.88%	13.75%	14.25%	12.83%	13.28%
Hua Nan Securities	351.73%	453.49%	350.79%	339.51%	513.66%
South China Insurance	Above 300%	Above 300%	Above 300%	Above 300%	Above 300%
Non Performing Loan Ratio					
Hua Nan Commercial Bank	0.12%	0.15%	0.34%	0.27%	0.21%
NPL Coverage Ratio					
Hua Nan Commercial Bank	1031.65%	853.48%	354.81%	431.55%	537.90%

TEAMWORK TEAMWORK



VI | The Company's Business

(I) Condensed 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	31-Mar-2020	2019	2018	2017	2016	2015
CASH AND CASH EQUIVALENTS AND DUE FROM THE CENTRAL BANK AND OTHER BANKS		202,158,087	181,394,715	205,231,095	244,175,122	222,755,140	296,726,322
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS		87,107,510	79,832,198	86,705,474	76,061,991	63,108,328	63,497,701
AVAILABLE-FOR-SALE FINANCIAL ASSETS, NET		-	-	-	149,474,678	121,586,378	94,537,729
FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME		203,350,608	221,684,061	191,447,673	-	-	-
INVESTMENTS IN DEBT INSTRUMENTS MEASURED AT AMORTIZED COST, NET		472,636,131	448,789,348	450,489,822	-	-	-
DERIVATIVE FINANCIAL ASSETS FOR HEDGING		-	-	-	-	876	1,679
SECURITIES PURCHASED UNDER AGREEMENTS TO RESELL		1,179,425	799,551	489,059	601,507	349,015	478,215
RECEIVABLES, NET		39,508,841	46,116,677	41,214,028	45,198,320	39,320,895	34,978,290
CURRENT TAX ASSETS		634,729	356,269	418,349	480,222	330,891	858,262
ASSETS HELD FOR SALE, NET		-	-	-	-	52,653	-
DISCOUNTS AND LOANS, NET		1,683,143,206	1,670,450,065	1,623,317,849	1,582,344,101	1,578,533,168	1,479,452,609
REINSURANCE CONTRACTS ASSETS, NET		4,750,788	4,288,211	4,030,604	4,005,896	4,107,957	3,239,368
HELD-TO-MATURITY FINANCIAL ASSETS		-	-	-	380,815,899	400,946,073	269,363,346
INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD, NET		161,581	164,524	110,724	57,128	57,665	63,224
OTHER FINANCIAL ASSETS, NET		23,188,667	25,170,232	30,407,131	41,634,967	65,862,973	59,583,095
PROPERTY AND EQUIPMENT, NET		31,790,833	31,915,460	32,264,055	32,518,581	32,369,672	32,481,139
INVESTMENT PROPERTIES, NET		11,177,607	10,999,439	10,922,997	9,837,544	9,633,097	9,591,967
RIGHT-OF-USE ASSETS, NET		1,963,018	2,096,128	-	-	-	-
INTANGIBLE ASSETS, NET		939,384	914,006	762,044	565,232	536,897	496,292
DEFERRED TAX ASSETS		3,247,537	3,353,551	3,496,800	2,646,268	2,410,889	2,270,567
OTHER ASSETS, NET		3,198,961	3,503,792	2,899,159	3,002,294	3,979,395	2,668,769
TOTAL ASSETS		2,770,136,913	2,731,828,227	2,684,206,863	2,573,419,750	2,545,941,962	2,350,288,574
DEPOSITS FROM THE CENTRAL BANK AND BANKS		111,268,952	117,698,753	132,267,041	84,127,060	122,944,916	85,215,804
DUE TO THE CENTRAL BANK AND BANKS		-	-	-	-	-	-
FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS		6,171,169	3,050,189	4,803,071	7,975,720	13,713,879	18,565,366
DERIVATIVE FINANCIAL LIABILITIES FOR HEDGING		-	-	-	4,082	15,162	35,281
SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE		31,635,409	36,570,660	46,323,247	40,797,559	41,941,561	27,460,217
COMMERCIAL PAPER PAYABLE, NET		17,974,897	18,530,988	15,950,469	27,524,893	15,706,047	12,541,697
PAYABLES		33,904,142	37,298,835	43,481,315	43,808,589	38,697,024	30,454,649

Item		Year	31-Mar-2020	2019	2018	2017	2016	2015
CURRENT TAX LIABILITIES			1,815,808	1,252,443	1,677,066	1,080,850	1,271,789	1,968,250
LIABILITIES HELD FOR SALE, NET			-	-	-	-	-	-
DEPOSITS AND REMITTANCES			2,265,089,309	2,224,016,962	2,155,650,451	2,110,962,220	2,062,911,746	1,917,853,865
BONDS PAYABLE			66,387,222	60,291,611	58,589,023	53,448,450	50,646,716	48,845,006
PREFERRED STOCK LIABILITY			-	-	-	-	-	-
PROVISIONS			21,706,207	20,632,462	19,967,657	18,447,562	18,060,519	17,808,362
OTHER FINANCIAL LIABILITIES			23,145,693	12,250,205	15,752,338	9,575,718	11,053,510	25,285,651
LEASE LIABILITIES			1,889,145	2,046,274	-	-	-	-
DEFERRED TAX LIABILITIES			6,109,624	6,157,412	6,119,745	6,103,727	6,109,882	6,125,912
OTHER LIABILITIES			3,719,410	3,330,776	9,467,857	5,329,157	3,885,941	5,059,187
TOTAL LIABILITIES	BEFORE DISTRIBUTION		2,590,816,987	2,543,127,570	2,510,049,280	2,409,185,587	2,386,958,692	2,197,219,247
	AFTER DISTRIBUTION		Note 2	Note 2	2,516,340,549	2,414,708,847	2,394,323,039	2,203,460,219
EQUITY ATTRIBUTABLE TO OWNER OF THE PARENT								
SHARE CAPITAL	BEFORE DISTRIBUTION		121,727,402	121,727,402	115,436,133	110,465,199	105,204,951	99,063,042
	AFTER DISTRIBUTION		Note 2	Note 2	121,727,402	115,436,133	110,465,199	105,204,951
CAPITAL SURPLUS			17,758,986	17,758,986	17,758,986	17,758,986	17,758,986	17,758,986
RETAINED EARNINGS	BEFORE DISTRIBUTION		37,312,335	39,734,810	37,181,499	35,513,962	36,464,135	35,132,791
	AFTER DISTRIBUTION		Note 2	Note 2	24,598,961	25,019,768	23,839,540	22,749,910
OTHER EQUITY			2,518,997	9,477,311	3,778,863	494,436	(446,342)	1,112,980
TREASURY STOCK			-	-	-	-	-	-
NON-CONTROLLING INTERESTS			2,206	2,148	2,102	1,580	1,540	1,528
TOTAL EQUITY	BEFORE DISTRIBUTION		179,319,926	188,700,657	174,157,583	164,234,163	158,983,270	153,069,327
	AFTER DISTRIBUTION		Note 2	Note 2	167,866,314	158,710,903	151,618,923	146,828,355

Note: 1. 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 Ting-Sheng Chang 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 Ting-Sheng Chang and Kuan-Chung Lai from Deloitte & Touche Taiwan with an unqualified opinion.

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

The financial statements for the first quarter of the year ended March 31, 2020, have been reviewed by CPAs Ting-Sheng Chang and Wen-Ya Shiu from Deloitte & Touche Taiwan with an unqualified opinion.

2. The 2019 earnings distribution is yet to be determined in the 2020 shareholders' meeting.

2. Condensed consolidated statement of comprehensive income - IFRS

Unit: NT\$1,000

Item	Year	31-Mar-2020	2019	2018	2017	2016	2015
INTEREST REVENUE		10,629,358	45,056,216	44,713,719	41,374,024	39,639,636	39,826,460
INTEREST EXPENSE	(	4,201,152)	(19,642,639)	(18,153,500)	(14,435,282)	(12,799,996)	(13,506,383)
NET INTEREST		6,428,206	25,413,577	26,560,219	26,938,742	26,839,640	26,320,077
TOTAL NET REVENUES OTHER THAN (LOSS) INTEREST	(	553,733)	21,290,756	19,442,265	15,281,806	15,392,782	13,245,337
ALLOWANCE FOR DOUBTFUL ACCOUNTS, COMMITMENT, AND GUARANTEES REVERSAL (WITHDRAWAL)		99,467	(1,409,146)	(3,533,260)	(4,950,360)	(3,445,877)	(1,186,835)
CHANGE IN PROVISIONS FOR INSURANCE LIABILITIES, NET	(	337,243)	(396,178)	(23,475)	(237,716)	(226,072)	(388,444)
TOTAL OPERATING EXPENSES	(	6,269,999)	(26,202,751)	(25,774,540)	(23,223,104)	(22,516,044)	(21,795,828)
NET PROFIT(LOSS) BEFORE INCOME TAX	(	633,302)	18,696,258	16,671,209	13,809,368	16,044,429	16,194,307
INCOME TAX EXPENSE	(	815,195)	(2,740,890)	(2,049,774)	(1,793,800)	(1,957,629)	(2,113,646)
INCOME FROM CONTINUING OPERATION AFTER INCOME TAX	(	1,448,497)	15,955,368	14,621,435	12,015,568	14,086,800	14,080,661
INCOME (LOSS) FROM DISCONTINUED OPERATION		-	-	-	-	-	-
NET PROFIT(LOSS) FOR THE YEAR	(	1,448,497)	15,955,368	14,621,435	12,015,568	14,086,800	14,080,661
OTHER COMPREHENSIVE INCOME(Net After Tax)	(	7,932,234)	4,879,056	(1,398,581)	599,718	(1,931,831)	832,014
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	(	9,380,731)	20,834,424	13,222,854	12,615,286	12,154,969	14,912,675
NET PROFIT(LOSS) ATTRIBUTABLE TO OWNER OF THE PARENT	(	1,448,542)	15,955,270	14,621,319	12,015,482	14,086,734	14,080,583
NET PROFIT ATTRIBUTABLE TO NON-CONTROLLING INTERESTS		45	98	116	86	66	78
COMPREHENSIVE INCOME ATTRIBUTABLE TO OWNER OF THE PARENT	(	9,380,789)	20,834,297	13,222,708	12,615,200	12,154,903	14,912,597
COMPREHENSIVE INCOME ATTRIBUTABLE TO NON-CONTROLLING INTERESTS		58	127	146	86	66	78
EARNINGS PER SHARE		(0.12)	1.31	1.27	1.09	1.28	1.34

Note: 1. 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 Ting-Sheng Chang and Kuan-Chung Lai from Deloitte & Touche Taiwan with an unqualified opinion.

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The financial statements for the first quarter of the year ended March 31, 2020, have been reviewed by CPAs Ting-Sheng Chang and Wen-Ya Shiu from Deloitte & Touche Taiwan with an unqualified opinion.

2. The 2019 earnings distribution is yet to be determined in the 2020 shareholders' meeting.

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

Unit: NT\$1,000

Year		31-Mar-2020	2019	2018	2017	2016	2015
Item							
CASH AND CASH EQUIVALENTS		328,852	300,089	422,127	275,722	333,796	193,364
FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME		966,177	761,454	874,254	-	-	-
RECEIVABLES, NET		322,001	321,981	329,475	329,453	575,094	500,288
CURRENT TAX ASSETS		955,027	494,240	1,086,735	425,151	294,578	806,452
INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD, NET		210,142,878	219,581,779	204,742,800	194,972,401	182,158,135	173,368,647
OTHER FINANCIAL ASSETS, NET		-	-	-	681,431	681,431	681,431
PROPERTY AND EQUIPMENT, NET		33,604	36,679	47,224	58,867	4,623	5,551
RIGHT-OF-USE ASSETS		49,792	64,816	-	-	-	-
INTANGIBLE ASSETS, NET		569	612	1,277	1,673	2,378	2,953
DEFERRED TAX ASSETS		2,808	2,808	2,808	2,808	2,808	2,808
OTHER ASSETS, NET		-	-	-	-	1,386	153
TOTAL		212,801,708	221,564,458	207,506,700	196,747,506	184,054,229	175,561,647
COMMERCIAL PAPER PAYABLE, NET		13,987,634	13,686,553	13,885,360	20,987,156	13,690,562	10,690,588
PAYABLES		1,615,015	1,840,505	1,613,780	1,329,938	1,236,459	1,166,501
CURRENT TAX LIABILITIES		792,186	331,493	922,734	263,838	210,621	698,896
BONDS PAYABLE		16,987,222	16,891,611	16,889,023	9,898,450	9,896,716	9,895,006
OTHER BORROWINGS		-	-	-	-	-	-
LEASE LIABILITIES		50,212	65,253	-	-	-	-
PROVISIONS		51,439	50,254	40,042	35,261	37,861	42,577
OTHER LIABILITIES		280	280	280	280	280	280
TOTAL LIABILITIES	BEFORE DISTRIBUTION	33,483,988	32,865,949	33,351,219	32,514,923	25,072,499	22,493,848
	AFTER DISTRIBUTION	Note 2	Note 2	39,642,488	38,038,183	32,436,846	28,734,820
SHARE CAPITAL	BEFORE DISTRIBUTION	121,727,402	121,727,402	115,436,133	110,465,199	105,204,951	99,063,042
	AFTER DISTRIBUTION	Note 2	Note 2	121,727,402	115,436,133	110,465,199	105,204,951
CAPITAL SURPLUS		17,758,986	17,758,986	17,758,986	17,758,986	17,758,986	17,758,986
RETAINED EARNINGS	BEFORE DISTRIBUTION	37,312,335	39,734,810	37,181,499	35,513,962	36,464,135	35,132,791
	AFTER DISTRIBUTION	Note 2	Note 2	24,598,961	25,019,768	23,839,540	22,749,910
OTHER EQUITY		2,518,997	9,477,311	3,778,863	494,436	(446,342)	1,112,980
TOTAL EQUITY	BEFORE DISTRIBUTION	179,317,720	188,698,509	174,155,481	164,232,583	158,981,730	153,067,799
	AFTER DISTRIBUTION	Note 2	Note 2	167,864,212	158,709,323	151,617,383	146,826,827

Note: 1. 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 Ting-Sheng Chang from Deloitte & Touche Taiwan with an unqualified opinion.

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The financial statements for the first quarter of the year ended March 31, 2020, have been reviewed by CPAs Ting-Sheng Chang and Wen-Ya Shiu from Deloitte & Touche Taiwan with an unqualified opinion.

2. The 2019 earnings distribution is yet to be determined in the 2020 shareholders' meeting.

2. Condensed statement of comprehensive income - IFRS

Unit: NT\$1,000

Item	Year	31-Mar-2020	2019	2018	2017	2016	2015
REVENUES							
INTEREST REVENUE		821	6,877	6,408	7,247	7,272	12,925
INTEREST EXPENSE	(	72,901)	(316,037)	(307,912)	(213,184)	(188,483)	(188,838)
SHARE OF PROFIT(LOSS) OF SUBSIDIARIES AND ASSOCIATES	(	1,301,931)	16,802,143	15,433,564	12,662,017	14,591,924	14,250,348
OTHER NON INTEREST NET REVENUES(LOSS)	(	1,581)	51,413	51,827	47,164	48,403	24,384
OPERATING EXPENSES							
EMPLOYEE BENEFITS	(	38,245)	(360,335)	(337,058)	(274,490)	(303,405)	(308,821)
DEPRECIATION AND AMORTIZATION	(	18,187)	(73,336)	(13,401)	(3,163)	(2,527)	(2,225)
OTHERS	(	16,518)	(155,455)	(212,109)	(210,109)	(220,362)	(170,408)
NET PROFIT(LOSS) BEFORE INCOME TAX	(	1,448,542)	15,955,270	14,621,319	12,015,482	13,932,822	13,617,365
INCOME TAX EXPENSE		0	-	-	-	153,912	463,218
NET PROFIT(LOSS) FOR THE YEAR	(	1,448,542)	15,955,270	14,621,319	12,015,482	14,086,734	14,080,583
OTHER COMPREHENSIVE INCOME NET, AFTER TAX	(	7,932,247)	4,879,027	(1,398,611)	599,718	(1,931,831)	832,014
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	(	9,380,789)	20,834,297	13,222,708	12,615,200	12,154,903	14,912,597
EARNINGS PER SHARE	(	0.12)	1.31	1.27	1.09	1.28	1.34

Note: 1. 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.

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The financial statements for the first quarter of the year ended March 31, 2020, have been reviewed by CPAs Ting-Sheng Chang and Wen-Ya Shiu from Deloitte & Touche Taiwan with an unqualified opinion.

2. The 2019 earnings distribution is yet to be determined in the 2020 shareholders' meeting.

(II) Financial analysis for the past five years

(I) Financial analysis

Item		Year	31-Mar-2020 (Note 2)	2019	2018	2017	2016	2015
Operating efficiency	Total asset turnover (times)		0.01	0.02	0.02	0.02	0.02	0.02
	Loan to deposit ratio – domestic subsidi-ary bank		75.13	75.97	76.18	75.80	77.33	77.86
	NPL ratio - domestic subsidiary bank		0.13	0.12	0.15	0.34	0.27	0.21
	Revenue per employee (in thousand dollars)		2,227	4,444	4,428	4,183	4,263	4,064
	Profit per employee (in thousand dollars)	(	549)	1,518	1,407	1,190	1,422	1,446
Profitability	Return on assets (%)	(	0.21)	0.59	0.56	0.47	0.55	0.61
	Return on equity (%)	(	3.21)	8.79	8.59	7.43	9.03	9.48
	Net profit margin (%)	(	24.66)	34.16	31.78	28.46	33.36	35.59
	Earnings per share (New Taiwan Dollars)	(	0.12)	1.31	1.27	1.09	1.34	1.42
Financial struc-ture (%)	Debt to assets ratio		93.53	93.09	93.51	93.62	93.76	93.49
	Debt to equity ratio		1,444.80	1,347.70	1,441.25	1,466.92	1,501.39	1,435.44
	Double leverage ratio		117.73	116.77	118.07	119.13	115.01	113.71
Leverage	Operating leverage ratio		Note 6	89.71	92.96	92.37	93.79	94.58
	Financial leverage ratio		Note 6	205.06	208.89	204.53	179.78	183.40
Growth rate (%)	Asset growth rate		1.40	1.77	4.31	1.08	8.32	4.00
	Profit growth rate		Note 6	12.15	20.72	(13.93)	(0.93)	4.15
Cash flow (%)	Cash flow ratio		18.64	Note 5	Note 5	9.64	Note 5	42.45
	Cash flow adequacy ratio		Note 5	Note 5	85.79	193.12	162.75	431.10
	Cash flow satisfaction ratio		8,837.91	Note 5	Note 5	4,289.24	Note 5	7,344.49
Business scale (%)	Market share of assets		Note 4	5.00	5.34	5.45	5.93	5.81
	Market share of net worth		Note 4	4.64	5.15	4.79	5.15	5.32
	Market share of deposits - domestic subsidi-ary bank		5.83	5.82	5.91	5.95	6.04	5.83
	Market share of loans - domestic subsidi-ary bank		5.92	5.83	5.95	6.09	6.36	6.16
Capital adequacy	Capital adequacy ratio of each subsidi-ary calculated according to its own indus-try regulations(%)							
	Commercial Bank Ltd	-		13.88	13.75	14.25	12.83	13.28
	Securities Corp	-		351.73	453.49	350.79	339.51	513.66
	Insurance Corp	-		Over 300%	Over 300%	Over 300%	Over 300%	Over 300%
	Eligible capital of each subsidiary							
	Commercial Bank Ltd	-	221,008,574	213,507,676	209,321,593	198,529,754	192,160,416	
	Securities Corp	-	9,273,025	8,499,094	9,084,201	8,282,554	8,566,573	
	Insurance Corp	-	5,933,472	5,051,923	5,025,353	4,712,965	4,691,993	
	Investment Trust Corp	-	1,566,274	1,542,482	1,811,060	1,790,559	1,776,880	
	Others	-	1,599,889	1,602,054	1,671,471	1,571,749	1,532,434	
	Group's net eligible capital	-	205,452,860	195,097,803	185,369,889	179,206,367	175,316,634	
	Statutory capital requirements of each sub-sidiary							
	Commercial Bank Ltd	-	167,163,909	153,365,357	135,846,850	133,430,568	115,795,425	
	Securities Corp	-	3,954,638	2,811,258	3,884,495	3,659,394	2,501,633	
	Insurance Corp	-	2,119,862	1,874,670	1,850,842	1,801,672	1,614,606	
	Investment Trust Corp	-	797,665	775,920	909,865	899,679	893,179	
	Others	-	2,317,705	2,243,033	1,605,676	1,593,536	1,666,063	
	Group's total statutory capital requirement	-	177,538,709	162,317,233	145,167,479	142,647,383	123,658,329	
	Group capital adequacy ratio	-	115.72%	120.19	127.69	125.63	141.78	
The aggregate amount or percentage of credit extension, guarantees or other transactions conducted by all subsidiaries of the financial holding company to the same person, related party or affiliated en-terprise that are subject to disclosure under Article 46 of The 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%.)		None						

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, 2020, 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.

Note 5: Net cash flow from operating activities is outflow or net cash flow from operating activities in the last five years is outflow, so it will not be disclosed.

Note 6: Net Before Tax(Loss) is negative, so it will not be disclosed.

Attachment 1

HUA NAN FINANCIAL HOLDINGS CO., LTD.

DISCLOSURE REQUIRED UNDER ARTICLE 46 OF THE FINANCIAL HOLDING COMPANY ACT

DECEMBER 31, 2019

(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)	\$ 339,534,381	202.27	Eva Airways Corp. with same affiliate	13,844,116	8.25
National Treasury Agency	59,241,024	35.29	Far Eastern New Century Corp. with same affiliate	12,098,688	7.21
Taiwan Power Company	57,311,824	34.14	Yulon General Motors Ltd. with same affiliate	12,046,917	7.18
Taiwan High Speed Rail Corp.	21,220,480	12.64	China Steel Corp. with same affiliate	11,294,213	6.73
Federal Government of the United States	21,015,253	12.52	Nankang Rubber Tire Corp., Ltd. with same affiliate	11,276,187	6.72
CPC Corporation, Taiwan	14,452,037	8.61	Formosa Ha Tinh (Cayman) Limited with same affiliate	10,529,119	6.27
Grand industrial Limited Company of Baofeng	14,285,000	8.51	Evergreen Marine Corp. (Taiwan) Ltd.	10,063,363	5.99
EVA Airways Corporation	10,471,888	6.24	Far Eastern Department Stores Co., Ltd. with same affiliate	9,199,918	5.48
New Taipei City Government	10,000,000	5.96	Aiwan Semiconductor Manufacturing Company Limited with same affiliate	9,006,014	5.37
Taiwan Semiconductor Manufacturing Co., Ltd.	8,844,951	5.27	Asia Cement Corp. with same affiliate	8,684,319	5.17
Far Eastern Department Stores Co., Ltd.	8,399,918	5.00	HSBC Holdings	8,533,679	5.08
First Financial Holdings Co., Ltd.	8,355,119	4.98	First Financial Holding Co., Ltd. with same affiliate	8,509,088	5.07
Taiwan Railways Administration, MOTC	7,785,122	4.64	Walsin Lihwa Corporation with same affiliate	7,953,804	4.74
Formosa Ha Tinh (Cayman) Limited	7,497,500	4.47	Taiwan Cement Corp. with same affiliate	7,696,832	4.59
China Airlines Corp.	6,550,763	3.90	Lin Yuan Investment Co., Ltd. with same affiliate	7,653,100	4.56
Evergreen Marine Corp. (Taiwan) Ltd.	6,311,032	3.76	Formosa Chemicals & Fibre Corp. with same affiliate	7,326,818	4.36
HSBC Bank (Taiwan) Co., Ltd.	6,039,520	3.60	Zhong Shing Development Co., Ltd. with same affiliate	7,176,397	4.28
Fubon Financial Holding Co., Ltd.	5,968,066	3.56	Chailease Holding Company Limited with same affiliate	7,125,326	4.24
Cathy Real Estate Development Co., Ltd.	5,900,000	3.51	Fubon Financial Holding Co., Ltd. with same affiliate	6,571,412	3.91
Quanta Computer Inc.	5,093,265	3.03	Yuanta Financial Holding Co., Limited with same affiliate	6,523,398	3.89
CTBC Bank Co., Ltd.	4,898,436	2.92	YFY Inc. with same affiliate	6,230,635	3.71
Cathy Financial Holding Co., Ltd.	4,815,524	2.87	Quanta Computer Inc. with same affiliate	5,719,538	3.41
Yunlin County Government	4,662,404	2.78	CTBC Financial Holding Co., Ltd. with same affiliate	5,464,599	3.26
Walsin Lihwa Corporation	4,576,942	2.73	Cathay Financial Holding Co., Ltd. with same affiliate	5,420,399	3.23
Formosa Chemicals & Fibre Corp.	4,557,668	2.72	MiTAC Information Technology Corp.	5,135,769	3.06
Formosa Plastics Corporation	4,542,604	2.71	Taiwan Cooperative Financial Holding Co., Ltd. with same affiliate	4,909,292	2.92
Nanzong Construction Developments, Co., Ltd.	4,387,467	2.61	Hui Hang Investment with same affiliate	4,868,937	2.90
Bao'e Construction Co., Ltd.	4,380,000	2.61	ASE Technology Holding Co., Ltd. with same affiliate	4,825,795	2.87
Yang Ming Marine Transport Corporation	4,315,299	2.57	Ruentex Development Co., Ltd. with same affiliate	4,825,188	2.87
Cheng Shin Rubber Industry Co.	4,254,523	2.53	YangMing Marine Transport Corp. with same affiliate	4,723,572	2.81
Taiwan Stock Exchange Corporation	4,191,903	2.50	Formosa Plastics Corp. with same affiliate	4,586,033	2.73
Asia Cement Corp.	4,074,150	2.43	Cheng Shin Rubber Company with same affiliate	4,548,425	2.71
Taiwan Cement Corp.	4,007,605	2.39	Bao'e Construction Co., Ltd. with same affiliate	4,380,000	2.61
Mayfull Corp.	4,001,000	2.38	AU Options Corp.	4,376,642	2.61
Hon Hai Precision Industry Co., Ltd.	3,997,492	2.38	Taiwan Glass Ind. Corp. with same affiliate	4,368,781	2.60
Taiwan Cooperative Financial Holding Co., Ltd.	3,994,865	2.38	Continental Engineering Corporation with same affiliate	4,336,952	2.58
Wan Pao Development Co., Ltd.	3,951,850	2.35	Inventec Corp.	4,240,804	2.53
AU Optronics Corp.	3,910,050	2.33	Synnex Technology International Corp.	4,119,125	2.45
China Steel Corporation	3,894,875	2.32	China Development Financial Holding Co., Ltd. with same affiliate	4,049,836	2.41
Inventec Corp.	3,662,769	2.18	Reliance Industries Limited with same affiliate	4,047,002	2.41
Capital Securities Corporation	3,621,856	2.16	Highaim Technology Inc. with same affiliate	4,017,235	2.39
Nankang Rubber Tire Corp., Ltd.	3,588,825	2.14	Lien Hwa Industrial Holdings Corp.	3,802,685	2.27
Huaku Development Co., Ltd.	3,503,780	2.09	Hotai Finance Corporation	3,695,314	2.20
Synnex Technology International Corporation	3,469,275	2.07	Mega Financial Holding Co., Ltd. with same affiliate	3,687,861	2.20
Federal Corporation	3,407,369	2.03	Everwiner Enterprise Co., Ltd. with same affiliate	3,648,450	2.17
Wistron Corp.	3,342,337	1.99	Farglory Construction Corp. with same affiliate	3,599,199	2.14
Kindom Development Co., Ltd.	3,323,331	1.98	Blue Agave Dutch Aviation Bv with same affiliate	3,592,621	2.14
WESTPAC Banking Corporation	3,310,973	1.97	China Times Inc. with same affiliate	3,560,501	2.12
Far Eastern New Century Corp.	3,305,150	1.97	Huaku Development with same affiliate	3,512,794	2.09
Digitimes Inc.	3,276,940	1.95	Wells Fargo & Co with same affiliate	3,423,001	2.04
Lin Yuan Investment Co., Ltd.	3,271,050	1.95	Federal Corp. with same affiliate	3,416,720	2.04
Changhua County Government	3,250,000	1.94	Powertech Technology Inc. with same affiliate	3,375,921	2.01
Chailease Finance	3,230,970	1.92	Ta-Yuan Cogeneration Company Ltd. with same affiliate	3,107,873	1.85
JPMorgan Chase Bank N.A.	3,077,031	1.83	JP Morgan Chase & Co with same affiliate	3,095,257	1.84
Royal Bank of Canada	3,067,574	1.83			
Powertech Technology Inc.	3,065,968	1.83			
Chang Hwa Commercial Bank, Ltd.	3,060,012	1.82			
Chinese Television System Corporation	3,055,586	1.82			
Commonwealth Bank of Australia	3,036,388	1.81			
Formosa Ha Tinh Steel Corporation	3,031,619	1.81			
2. With the same related person					
Mr. Tsai with same related parties	11,267,285	6.71			
Mr. Lin with same related parties	8,174,292	4.87			
Mr. Miao with same related parties	7,950,577	4.74			
Mr. Lin with same related parties	7,535,900	4.49			
Mr. Lee with same related parties	7,494,071	4.46			
Mr. Ke with same related parties	7,040,301	4.19			
Mr. Tsai with same related parties	6,175,000	3.68			
Mr. Tang with same related parties	5,977,707	3.56			
Mr. Pan with same related parties	5,907,039	3.52			
Mr. Wang with same related parties	5,445,089	3.24			
Mr. Tsai with same related parties	5,090,524	3.03			
Mr. Chang with same related parties	4,460,341	2.66			
Mr. Zhuo with same related parties	3,668,737	2.19			
Mr. Zhan with same related parties	3,650,825	2.17			
Mr. Wu with same related parties	3,540,471	2.11			
Mr. Huang with same related parties	3,472,488	2.07			
Mr. Zhuo with same related parties	3,439,303	2.05			
Mr. Lan with same related parties	3,255,989	1.94			
Mr. Chiu with same related parties	3,117,064	1.86			

Attachment 2

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	Chailease 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	Kuotou 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 3

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 4

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 5

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

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 2019 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.
2020 Shareholders' Meeting

Hua Nan Financial Holdings Co., Ltd.
WU,KUEI-SUN, Convener of the Audit Committee

March 23, 2020

Hua Nan Financial Holdings Co., Ltd.

Audit Committee's Audit Report

The 2019 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.
2020 Shareholders' Meeting

Hua Nan Financial Holdings Co., Ltd.
WU,KUEI-SUN, Convener of the Audit Committee

April 27, 2020

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, 2019 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 23, 2020

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, 2019 and 2018, 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, 2019 and 2018, 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 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, 2019. 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, 2019 are stated as follows:

Impairment Loss of Discounts and Loans

As detailed in Note 5 to the consolidated financial statements, the Company and its subsidiaries' management assess the impairment loss of discounts and loans based on the assumptions about the probability of default and the expected loss rate. The Company and its subsidiaries uses judgment in making these assumptions and in selecting the inputs to the impairment evaluation, based on the Company and its subsidiaries' historical experience, existing market conditions as well as forward looking estimates as of the end of each reporting period. Assessing evidence of the probability of default and impairment on discounts and loans, and determining whether the credit risk has increased significantly since the initial recognition are critical judgments and estimates and complied with the relevant laws and regulations. Therefore, the impairment loss of discounts and loans 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, Note 5 for critical accounting judgments and key sources of estimation uncertainty, significant assumptions and input values used refer to Note 51 and Note 14 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 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. Obtain the information related to the evaluation of such financial assets by the management, test the completeness of the related information, and then select samples from the cases of discounts and loans to verify the accuracy of the calculation. In addition, confirm the classification and the provision of allowance for impairment loss complied with 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 year ended December 31, 2019 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 23, 2020

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, 2019 AND 2018

(In Thousands of New Taiwan Dollars)

ASSETS	2019		2018	
	Amount	%	Amount	%
CASH AND CASH EQUIVALENTS (Notes 4, 6 and 45)	\$ 39,320,763	2	\$ 48,510,679	2
DUE FROM THE CENTRAL BANK AND OTHER BANKS (Notes 6, 7 and 45)	142,073,952	5	156,720,416	6
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (Notes 4, 8 and 45)	79,832,198	3	86,705,474	3
FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (Notes 4, 5, 9, 11 and 47)	221,684,061	8	191,447,673	7
INVESTMENTS IN DEBT INSTRUMENTS MEASURED AT AMORTIZED COST, NET (Notes 4, 5, 10, 11 and 47)	448,789,348	17	450,489,822	17
SECURITIES PURCHASED UNDER AGREEMENTS TO RESELL (Notes 4 and 12)	799,551	-	489,059	-
RECEIVABLES, NET (Notes 4, 5, 13 and 45)	46,116,677	2	41,214,028	2
CURRENT TAX ASSETS (Notes 4, 43 and 45)	356,269	-	418,349	-
DISCOUNTS AND LOANS, NET (Notes 4, 5, 14 and 45)	1,670,450,065	61	1,623,317,849	61
REINSURANCE CONTRACTS ASSETS, NET	4,288,211	-	4,030,604	-
INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD, NET (Notes 4 and 15)	164,524	-	110,724	-
OTHER FINANCIAL ASSETS, NET (Notes 4, 5, 16 and 45)	25,170,232	1	30,407,131	1
INVESTMENT PROPERTIES, NET (Notes 4, 19 and 47)	10,999,439	-	10,922,997	-
PROPERTY AND EQUIPMENT, NET (Notes 4, 17, 45 and 47)	31,915,460	1	32,264,055	1
RIGHT-OF-USE ASSETS (Notes 3, 4, 18 and 45)	2,096,128	-	-	-
INTANGIBLE ASSETS, NET (Notes 4 and 20)	914,006	-	762,044	-
DEFERRED TAX ASSETS (Notes 4 and 43)	3,353,551	-	3,496,800	-
OTHER ASSETS, NET (Notes 4, 21, 45 and 47)	3,503,792	-	2,899,159	-
TOTAL	\$ 2,731,828,227	100	\$ 2,684,206,863	100
LIABILITIES AND EQUITY				
DEPOSITS FROM THE CENTRAL BANK AND BANKS (Notes 22 and 45)	\$ 117,698,753	4	\$ 132,267,041	5
FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS (Notes 4 and 8)	3,050,189	-	4,803,071	-
SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE (Notes 4, 8, 9, 10 and 24)	36,570,660	1	46,323,247	2
COMMERCIAL PAPER PAYABLE, NET (Notes 23, 46 and 47)	18,530,988	1	15,950,469	1
PAYABLES (Note 25)	37,298,835	1	43,481,315	2
CURRENT TAX LIABILITIES (Notes 4, 43 and 45)	1,252,443	-	1,677,066	-
DEPOSITS AND REMITTANCES (Notes 26 and 45)	2,224,016,962	82	2,155,650,451	80
BONDS PAYABLE (Notes 27 and 46)	60,291,611	2	58,589,023	2
OTHER BORROWINGS (Notes 28 and 46)	1,458,000	-	2,121,000	-
PROVISIONS (Notes 4, 29 and 30)	20,632,462	1	19,967,657	1
OTHER FINANCIAL LIABILITIES (Notes 31 and 45)	10,792,205	1	13,631,338	1
LEASE LIABILITIES (Notes 3, 4, 18, 45 and 46)	2,046,274	-	-	-
DEFERRED TAX LIABILITIES (Notes 4 and 43)	6,157,412	-	6,119,745	-
OTHER LIABILITIES (Notes 4, 32 and 45)	3,330,776	-	9,467,857	-
Total liabilities	2,543,127,570	93	2,510,049,280	94
EQUITY ATTRIBUTABLE TO OWNER OF THE PARENT (Notes 4 and 33)				
Share capital				
Ordinary shares	121,727,402	5	115,436,133	4
Capital surplus	17,758,986	1	17,758,986	1
Retained earnings				
Legal reserve	16,322,174	-	14,860,042	-
Special reserve	6,471,594	-	6,492,093	-
Unappropriated earnings	16,941,042	1	15,829,364	1
Total retained earnings	39,734,810	1	37,181,499	1
Other equity				
Exchange differences on translating the financial statements of foreign operations	(1,304,234)	-	(109,568)	-
Unrealized gain on investments in equity instruments measured at fair value through other comprehensive income	9,291,816	-	4,591,269	-
Unrealized gain (loss) on investments in debt instruments measured at fair value through other comprehensive income	1,351,567	-	(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	-
Gain (loss) on overlay approach measured at fair value through other comprehensive income	138,162	-	(34,097)	-
Total other equity	9,477,311	-	3,778,863	-
Total equity attributable to owner of the parent	188,698,509	7	174,155,481	6
NON-CONTROLLING INTERESTS	2,148	-	2,102	-
Total equity	188,700,657	7	174,157,583	6
TOTAL	\$ 2,731,828,227	100	\$ 2,684,206,863	100

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

HUA NAN FINANCIAL HOLDINGS CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

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

	2019		2018		Percentage Increase (Decrease)
	Amount	%	Amount	%	%
INTEREST REVENUE (Notes 4, 34 and 45)	\$ 45,056,216	96	\$ 44,713,719	97	1
INTEREST EXPENSE (Notes 4, 34 and 45)	(19,642,639)	(42)	(18,153,500)	(39)	8
NET INTEREST	25,413,577	54	26,560,219	58	(4)
NET REVENUES OTHER THAN INTEREST					
Commission and fee revenues, net (Notes 4, 35 and 45)	8,715,726	19	8,668,508	19	1
Income from insurance premiums, net (Notes 4 and 36)	3,134,440	7	2,780,451	6	13
Gain on financial assets and liabilities at fair value through profit or loss, net (Notes 4, 8, 37 and 45)	2,624,180	6	10,358,878	22	(75)
Gain on investment properties, net (Note 19)	698,767	1	471,766	1	48
Realized gain on financial assets at fair value through other comprehensive income (Notes 4 and 38)	2,282,910	5	1,629,876	4	40
Foreign exchange gain (loss), net (Notes 4 and 39)	3,827,427	8	(4,715,795)	(10)	181
Impairment loss on assets (Notes 4, 11 and 21)	(25,858)	-	(9,658)	-	168
Share of profit of associates (Notes 4 and 15)	6,038	-	4,426	-	36
(Loss) gain on overlay approach (Notes 4, 8 and 11)	(183,524)	-	133,078	-	(238)
Other non-interest income, net (Notes 4 and 45)	210,650	-	120,735	-	74
Total net revenues other than interest	21,290,756	46	19,442,265	42	10
TOTAL NET REVENUES	46,704,333	100	46,002,484	100	2
ALLOWANCE FOR DOUBTFUL ACCOUNTS, COMMITMENT, AND GUARANTEES (Notes 4, 13 and 14)	(1,409,146)	(3)	(3,533,260)	(8)	(60)
CHANGE IN PROVISIONS FOR INSURANCE LIABILITIES, NET (Notes 4 and 29)	(396,178)	(1)	(23,475)	-	1,588
OPERATING EXPENSES (Notes 30, 40, 41, 42 and 45)					
Employee benefits	(16,737,583)	(36)	(16,099,214)	(35)	4
Depreciation and amortization	(2,144,388)	(4)	(1,262,452)	(3)	70
Others	(7,320,780)	(16)	(8,412,874)	(18)	(13)
Total operating expenses	(26,202,751)	(56)	(25,774,540)	(56)	2
NET PROFIT BEFORE INCOME TAX	18,696,258	40	16,671,209	36	12
INCOME TAX EXPENSE (Notes 4 and 43)	(2,740,890)	(6)	(2,049,774)	(4)	34
NET PROFIT FOR THE YEAR	15,955,368	34	14,621,435	32	9
OTHER COMPREHENSIVE INCOME (LOSS) (Notes 4, 8, 33 and 43)					
Items that will not be reclassified subsequently to profit or loss:					
Remeasurement of defined benefit plans	(454,397)	(1)	(458,222)	(1)	(1)
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)	-	(11,245)	-	(8)
Unrealized gain (loss) on investments in equity instruments at fair value through other comprehensive income	4,247,464	9	(241,102)	-	1,862
Income tax relating to items that will not be reclassified subsequently to profit or loss	88,088	1	145,273	-	(39)
Items that may be reclassified subsequently to profit or loss:					
Exchange differences on translating the financial statements of foreign operations	(1,194,666)	(3)	432,556	1	(376)
Unrealized gain (loss) on investments in debt instruments at fair value through other comprehensive income	2,078,866	5	(1,172,352)	(3)	277
Gain (loss) on overlay approach measured at fair value through other comprehensive income	183,524	-	(133,078)	-	238
Income tax relating to items that may be reclassified subsequently to profit or loss	(59,476)	-	39,589	-	(250)
Other comprehensive income (loss) for the year	4,879,056	11	(1,398,581)	(3)	449
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	\$ 20,834,424	45	\$ 13,222,854	29	58
NET PROFIT ATTRIBUTABLE TO:					
Owner of the parent	\$ 15,955,270	34	\$ 14,621,319	32	9
Non-controlling interests	98	-	116	-	(16)
	\$ 15,955,368	34	\$ 14,621,435	32	9
COMPREHENSIVE INCOME ATTRIBUTABLE TO:					
Owner of the parent	\$ 20,834,297	45	\$ 13,222,708	29	58
Non-controlling interests	127	-	146	-	(13)
	\$ 20,834,424	45	\$ 13,222,854	29	58
EARNINGS PER SHARE (Note 44)					
Basic and diluted	\$ 1.31		\$ 1.20		

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
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	Share Capital		Capital Surplus				Retained Earnings	
	Capital Stock	Share Premium	Treasury Stock	Donated Assets	Others	Total	Legal Reserve	Special Reserve
BALANCE AT JANUARY 1, 2018	\$ 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	-	-	-	-	-	-	-
Cash dividends distributed by subsidiaries	-	-	-	-	-	-	-	-
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
Appropriation of 2018 earnings								
Legal reserve	-	-	-	-	-	-	1,462,132	-
Cash dividends	-	-	-	-	-	-	-	-
Stock dividends	6,291,269	-	-	-	-	-	-	-
Cash dividends distributed by subsidiaries	-	-	-	-	-	-	-	-
Reversal of special reserve	-	-	-	-	-	-	-	(20,499)
Net profit for the year ended December 31, 2019	-	-	-	-	-	-	-	-
Other comprehensive (loss) income for the year ended December 31, 2019	-	-	-	-	-	-	-	-
Total comprehensive income (loss) for the year ended December 31, 2019	-	-	-	-	-	-	-	-
Disposal of equity instruments at fair value through other comprehensive income	-	-	-	-	-	-	-	-
BALANCE AT DECEMBER 31, 2019	<u>\$ 121,727,402</u>	<u>\$ 17,702,376</u>	<u>\$ 52,349</u>	<u>\$ 2,936</u>	<u>\$ 1,325</u>	<u>\$ 17,758,986</u>	<u>\$ 16,322,174</u>	<u>\$ 6,471,594</u>

The accompanying notes are an integral part of the consolidated 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		
\$ 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)	-	-	-	-	-	-	-	(5,523,260)
(4,970,934)	(4,970,934)	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	(59)	(59)
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
(1,462,132)	-	-	-	-	-	-	-	-	-
(6,291,269)	(6,291,269)	-	-	-	-	-	-	-	(6,291,269)
(6,291,269)	(6,291,269)	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	(81)	(81)
20,499	-	-	-	-	-	-	-	-	-
15,955,270	15,955,270	-	-	-	-	-	-	98	15,955,368
(366,309)	(366,309)	(1,194,666)	-	4,247,435	2,030,655	(10,347)	172,259	29	4,879,056
15,588,961	15,588,961	(1,194,666)	-	4,247,435	2,030,655	(10,347)	172,259	127	20,834,424
(453,112)	(453,112)	-	-	453,112	-	-	-	-	-
\$ 16,941,042	\$ 39,734,810	\$ (1,304,234)	\$ -	\$ 9,291,816	\$ 1,351,567	\$ -	\$ 138,162	\$ 2,148	\$ 188,700,657

HUA NAN FINANCIAL HOLDINGS CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

(In Thousands of New Taiwan Dollars)

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Net profit before income tax	\$ 18,696,258	\$ 16,671,209
Adjustments for:		
Depreciation expenses	1,879,112	1,055,373
Amortization expenses	270,795	223,619
Allowance for doubtful accounts, commitments, and guarantees	1,409,146	3,533,260
Interest expense	19,808,859	18,378,170
Interest revenue	(45,814,819)	(45,539,589)
Dividend income	(1,702,565)	(1,431,527)
Change in provisions for insurance liabilities, net	396,178	23,475
Share of profit of associates accounted for using the equity method	(6,038)	(4,426)
Loss (gain) on overlay approach	183,524	133,078
Loss on disposal of property and equipment	80	226
Gain on disposal of investment properties	(278,101)	(76,718)
Loss on disposal of intangible assets	-	97
Impairment loss on financial assets	25,766	5,566
Impairment loss on non-financial assets	92	4,092
Gain on disposal of collaterals assumed	-	(122)
Gain on changing in leasing contract	(105)	-
Changes in operating assets and liabilities		
Decrease in due from the Central Bank and other banks	2,001,531	9,457,622
Decrease (increase) in financial assets at fair value through profit or loss	6,867,820	(5,506,902)
Increase in financial assets at fair value through other comprehensive income	(24,016,872)	(25,155,223)
Decrease (increase) in financial assets at amortized cost	1,646,828	(69,811,988)
(Increase) decrease in receivables	(5,858,356)	5,095,835
Increase in discounts and loans	(48,625,083)	(44,253,925)
Decrease (increase) in assets under reinsurance contracts	50,714	(22,747)
Decrease (increase) in other financial assets	5,194,015	(8,599,917)
(Decrease) increase in deposits from the Central Bank and other banks	(14,568,288)	48,139,981
Decrease in financial liabilities at fair value through profit or loss	(1,765,312)	(3,184,640)
Decrease in derivative financial liabilities for hedging	-	(4,082)
(Decrease) increase in securities sold under repurchase agreements	(9,752,587)	5,525,688
Decrease in payables	(4,737,089)	(1,202,695)
Increase in deposits and remittances	68,366,511	44,688,231
Decrease in provisions	(309,357)	(82,428)
(Decrease) increase in other financial liabilities	(2,839,133)	4,758,620
(Decrease) increase in other liabilities	(6,148,359)	4,124,847
Cash used in from operations	(39,624,835)	(43,324,096)
Interest received	46,268,837	44,841,227
Dividend received	1,692,808	1,431,527
Interest paid	(21,092,870)	(18,037,256)
Income tax paid	(2,548,169)	(2,070,719)
Net cash used in operating activities	(15,304,229)	(17,159,317)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of investments accounted for using equity method	(49,170)	(49,170)
Acquisition of property and equipment	(704,972)	(824,596)
Proceeds from disposal of property and equipment	235	688
Acquisition of intangible assets	(304,586)	(317,392)
Proceeds from disposal of collaterals assumed	-	2,058
Acquisition of collaterals assumed	-	(6)
Acquisition of investment properties	(1,200,249)	(1,606,250)
Proceeds from disposal of investments properties	1,271,042	573,337
Increase in other assets	(740,765)	(144,625)
Net cash used in investing activities	(1,728,465)	(2,365,956)
CASH FLOWS FROM FINANCING ACTIVITIES		
(Decrease) increase in short-term borrowings	(863,000)	1,218,000
Increase (decrease) in commercial paper payables	2,578,623	(11,572,628)
Proceeds from corporate debentures	-	12,000,000
Repayments of corporate debentures	-	(5,000,000)
Proceeds from bank debentures	6,000,000	4,200,000
Repayments of bank debentures	(4,300,000)	(6,050,000)
Proceeds from long-term borrowings	200,000	200,000
Repayment of the principal portion of lease liabilities	(689,899)	-
Dividends paid on owners of the Company	(6,272,656)	(5,506,742)
Dividends paid to non-controlling interest	81	(59)
Net cash used in financing activities	(3,347,013)	(10,511,429)
EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES	(1,144,650)	437,849
NET DECREASE IN CASH AND CASH EQUIVALENTS	(21,524,357)	(29,598,853)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	123,215,682	152,814,535
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	\$ 101,691,325	\$ 123,215,682

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, 2019 and 2018:

	December 31	
	2019	2018
Cash and cash equivalents in consolidated balance sheets	\$ 39,320,763	\$ 48,510,679
Due from the Central Bank and other banks that meet the definition of cash and cash equivalents in IAS 7	61,571,011	74,215,944
Securities purchased under agreements to resell that meet the definition of cash and cash equivalents in IAS 7	799,551	489,059
Cash and cash equivalents in consolidated statements of cash flows	\$ 101,691,325	\$ 123,215,682

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, 2019 AND 2018
 (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, 2019, 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.

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, 2019 and 2018, the Company and its subsidiaries had 10,509 and 10,389 employees, respectively.

2. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorized for issue by the board of directors on March 23, 2020.

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 16 “Leases”

IFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatments of both lessee and lessor. It supersedes IAS 17 “Leases”, IFRIC 4 “Determining whether an Arrangement contains a Lease”, and a number of related interpretations. Refer to Note 4 for information relating to the relevant accounting policies.

Definition of a lease

The Company and its subsidiaries elects 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 are not be reassessed and are accounted for in accordance with the transitional provisions under IFRS 16.

The Company and its subsidiaries as lessee

The Company and its subsidiaries recognizes 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 are recognized as expenses on a straight-line basis. On the consolidated statements of comprehensive income, the Company and its subsidiaries presents 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 are classified within financing activities; cash payments for the interest portion are 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.

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 is not restated.

Lease liabilities were recognized on January 1, 2019 for leases previously classified as operating leases under IAS 17. Lease liabilities were be 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 are measured at an amount equal to the lease liabilities, adjusted by the amount of any prepaid lease payments. The Company and its subsidiaries applies IAS 36 to all right-of use assets.

The Group also applies the following practical expedients:

The Group accounts for those leases for which the lease term ends on or before December 31, 2019 as short-term leases.

The weighted average lessee's incremental borrowing rate applied to lease liabilities recognized on January 1, 2019 is 2.053%. The difference between (i) lease liabilities recognized and (ii) operating lease commitments disclosed under IAS 17 on December 31, 2018 is explained as follows:

The future minimum lease payments of non-cancellable operating lease commitments on December 31, 2018	\$	2,208,756
Less: Recognition exemption for short-term leases		(12,347)
Less: Recognition exemption for leases of low-value assets	(	18,980)
Add: Others		20,358
Undiscounted amounts on January 1, 2019	\$	2,197,787
Discounted amounts using the incremental borrowing rate on January 1, 2019	\$	1,841,034
Lease liabilities recognized on January 1, 2019	\$	1,841,034

The Company and its subsidiaries as lessor

The Company and its subsidiaries also not make any adjustments for leases in which it is a lessor, and it accounts for those leases with the application of IFRS 16 starting from January 1, 2019.

The impact on assets, liabilities and equity as of January 1, 2019 from the initial application of IFRS 16 is set out as follows:

	As Originally Stated on January 1, 2019	Adjustments Arising from Initial Application	Restated on January 1, 2019
Right-of-use assets	\$ -	\$ 1,921,930	\$ 1,921,930
Prepayments	340,144	(80,896)	259,248
Total effect on assets	\$ 340,144	\$ 1,841,034	\$ 2,181,178
Lease liabilities	\$ -	\$ 1,841,034	\$ 1,841,034
Total effect on liabilities	\$ -	\$ 1,841,034	\$ 1,841,034

b. The IFRSs endorsed by the Financial Supervisory Commission (FSC) for application starting from 2020

New IFRSs	Effective Date Announced by IASB (Note 1)
Amendments to IFRS 3 "Definition of a Business"	January 1, 2020 (Note 1)
Amendments to IFRS 9, IAS 39 and IFRS 7 "Interest Rate Benchmark Reform"	January 1, 2020 (Note 2)
Amendments to IAS 1 and IAS 8 "Definition of Material"	January 1, 2020 (Note 3)

Note 1: 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 2: The Group shall apply these amendments retrospectively for annual reporting periods beginning on or after January 1, 2020.

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

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.

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 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 (Note 2)
Amendments to IAS 1 "Classification of Liabilities as Current or Non-current"	January 1, 2022

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

Note 2: IASB has decided that the effective date of the Standard will be deferred to annual reporting periods beginning on or after 1 January 2023. The amendments to IFRS 17 expects to be issued by IASB in the second quarter of 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, and net defined benefit liabilities which are measured at the present value of the defined benefit obligation less the fair value of plan assets. 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 6.

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. Non-monetary items measured at fair value are recognized 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 translated using the exchange rate at the date of the transaction (i.e. not retranslated).

At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Exchange differences on monetary items arising 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 purpose of presenting consolidated financial statements, the functional currencies of the Company and its subsidiaries are translated into the presentation currency, the New Taiwan dollar, as follows: Assets and liabilities are translated at the end of the reporting period, and 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. The resulting currency translation differences are recognized in other comprehensive income.

Cash and Cash Equivalents

Cash and Cash equivalents include cash on hand, demand deposits, time deposits within three months 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 which 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, investments in an associate are 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 entire carrying amount (including goodwill) of the investment is tested for impairment as a single asset by comparing its recoverable amount with its carrying amount. Any impairment loss recognized would not allocate to any assets (including goodwill) which 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.

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

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, including cash and cash equivalents, trade receivables at amortized cost and discounts and loans, 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.

A financial asset is credit impaired when one or more of the following events have occurred:

- a) Significant financial difficulty of the issuer or the borrower;
 - b) Breach of contract, such as a default;
 - c) It is becoming probable that the borrower will enter bankruptcy or undergo a financial reorganization; or
 - d) The disappearance of an active market for that financial asset because of financial difficulties.
- 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

- b. Impairment of financial assets

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.

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.

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 on which 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 a derivative financial instrument 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.

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 adopted IFRS 4 “Insurance Contracts” to recognize profit and loss of designated financial assets.

Hedge Accounting

Hedge accounting is as follows:

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.

The Company and its subsidiaries discontinues hedge accounting only when the hedging relationship ceases to meet the qualifying criteria; for instance, when the hedging instrument expires or is sold, terminated or exercised.

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.

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.

Depreciation is recognized using the straight-line method.

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.

For a transfer of classification from investment properties to property and equipment, the deemed cost of an item of property for subsequent accounting is its carrying amount at the commencement of owner-occupation.

For a transfer of classification from property, plant and equipment to investment properties, the deemed cost of an item of property for subsequent accounting is carrying amount value at the end of owner-occupation.

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

HNSC's 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, 2019 and 2018, 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 \$8,865 and the earnings per share were \$3.21 and \$3.13 for the years ended December 31, 2019 and 2018, respectively. The special reserve of SCIC were to decrease \$1,248,892 and \$1,259,973 and equity were to increase \$990,249 and \$999,114 as of December 31, 2019 and 2018, 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 15 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 discounted cash flows 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 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 including current 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.

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 Law, an additional tax on unappropriated earnings is provided for in the year the shareholders approve to retain 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.

The Company, HNFH, and HNFH's subsidiaries chose to adopt the linked-tax system income tax returns filling. 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

Except for financial assets and liabilities at fair value through profit or loss, all interest revenue and expense arising from financial instruments accruing interest are calculated at the effective interest rate according to rules, and are recognized in interest revenue and expense in comprehensive income statements.

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 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 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.

Leases

2019

At the inception of a contract, the Group assesses whether the contract is, or contains, a lease.

For a contract that contains a lease component and non-lease components, the Group allocates the consideration in the contract to each component on the basis of the relative stand-alone price and accounts for each component separately.

a. The Group as lessor

Leases are classified as finance leases whenever the terms of a lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Lease payments (less any lease incentives payable) from operating leases are recognized as income on a straight-line basis over the terms of the relevant leases. Initial direct costs incurred in obtaining operating leases are added to the carrying amounts of the underlying assets and recognized as expenses on a straight-line basis over the lease terms.

When a lease includes both land and building elements, the Group assesses the classification of each element separately as a finance or an operating lease based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group. The lease payments are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of a contract. If the allocation of the lease payments can be made reliably, each element is accounted for separately in accordance with its lease classification. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease unless it is clear that both elements are operating leases; in which case, the entire lease is classified as an operating lease.

b. The Group as lessee

The Group recognizes right-of-use assets and lease liabilities for all leases at the commencement date of a lease, except for short-term leases and low-value asset leases accounted for applying a recognition exemption where lease payments are recognized as expenses on a straight-line basis over the lease terms.

Right-of-use assets are initially measured at cost, which comprises the initial measurement of lease liabilities adjusted for lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs needed to restore the underlying assets, and less any lease incentives received. Right-of-use assets are subsequently measured at cost less accumulated depreciation and impairment losses and adjusted for any remeasurement of the lease liabilities. Right-of-use assets are presented on a separate line in the consolidated balance sheets.

Right-of-use assets are depreciated using the straight-line method from the commencement dates to the earlier of the end of the useful lives of the right-of-use assets or the end of the lease terms.

Lease liabilities are initially measured at the present value of the lease payments, which comprise fixed payments, in-substance fixed payments, variable lease payments which depend on an index or a rate, residual value guarantees, the exercise price of a purchase option if the Group is reasonably certain to exercise that option, and payments of penalties for terminating a lease if the lease term reflects such termination, less any lease incentives receivable. The lease payments are discounted using the interest rate implicit in a lease, if that rate can be readily determined. If that rate cannot be readily determined, the Group uses the lessee's incremental borrowing rate.

Subsequently, lease liabilities are measured at amortized cost using the effective interest method, with interest expense recognized over the lease terms. When there is a change in a lease term, a change in the amounts expected to be payable under a residual value guarantee, a change in the assessment of an option to purchase an underlying asset, or a change in future lease payments resulting from a change in an index or a rate used to determine those payments, the Group remeasures the lease liabilities with a corresponding adjustment to the right-of-use-assets. However, if the carrying amount of the right-of-use assets is reduced to zero, any remaining amount of the remeasurement is recognized in profit or loss. Lease liabilities are presented on a separate line in the consolidated balance sheets.

If a change in the scope of the lease, or the consideration of a lease, that was no part of the original terms and conditions of the lease takes place, and both the modification increases the scope of the lease by adding the right to use one or more underlying assets and the consideration for the lease increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract, the Company

shall account for a lease modification as a separate lease. For a lease modification that is not accounted for as a separate lease, at the effective date of the lease modification, the Group shall remeasure the lease liability by discounting the revised lease payments using a revised discount rate.

The Group shall account for the remeasurement of the lease liability by decreasing the carrying amount of the right-of-use asset to reflect the partial or full termination of the lease for lease modifications that decrease the scope of the lease, shall recognize in profit or loss any gain or loss relating to the partial or full termination of the lease, and shall make a corresponding adjustment to the right-of-use asset for all other lease modification.

Variable lease payments that do not depend on an index or a rate are recognized as income in the periods in which they are incurred.

2018

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 Group 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 Group 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.

Key Sources of Estimation Uncertainty

Estimated impairment of discounts and loans

The provision for impairment of discounts and loan 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 51. When the actual future cash flows are less than expected, a material impairment loss may arise.

6. CASH AND CASH EQUIVALENTS

	December 31	
	2019	2018
Cash on hand	\$ 13,439,391	\$ 13,123,456
Cash in banks	1,583,704	1,774,357
Due from other banks	20,517,352	20,233,893
Notes and checks for clearing	3,689,944	13,348,991
Cash equivalents	90,372	29,982
	<u>\$ 39,320,763</u>	<u>\$ 48,510,679</u>

Cash and cash equivalents are assessed for impairment using historical experiences and forward-looking factors. As of December 31, 2019 and 2018, the Group considered its credit loss evaluation to have no impairment loss on a 12 month expected credit loss basis, respectively.

7. DUE FROM THE CENTRAL BANK AND OTHER BANKS

	December 31	
	2019	2018
Call loans to banks	\$ 60,045,559	\$ 74,441,398
Reserve - checking accounts	17,914,270	17,856,081
Reserve - demand accounts	58,134,717	55,393,366
Reserve - foreign-currency deposit	450,501	492,476
Due from the Central Bank	28,103	36,256
Interbank settlement funds	5,500,802	8,500,839
	<u>\$ 142,073,952</u>	<u>\$ 156,720,416</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	
	2019	2018
Financial assets mandatorily classified as at fair value through profit or loss		
Investments in bill	\$ 66,540,738	\$ 75,571,318
Listed stocks	4,955,320	1,911,371
Operating securities - dealing	2,076,283	727,401
Unlisted stocks	1,124,987	1,055,965
Beneficiary certificates	1,073,414	1,212,421
Government bonds	899,260	-
Corporate bonds	822,807	926,375
Currency swap	566,531	3,591,124
Bank debentures	451,215	756,544
Operating securities - underwriting	349,203	189,662
Operating securities - hedging	331,448	87,164
Equity investments	259,256	271,047
Forward	162,382	56,627
Options	81,088	151,772
Interest swap	67,252	116,508
Margin deposits - future	55,131	27,410
Cross currency swap	15,883	52,765
	<u>\$ 79,832,198</u>	<u>\$ 86,705,474</u>
Held-for-trading financial liabilities		
Warrants liabilities	\$ 4,251,850	\$ 2,535,550
Repurchase of warrants issued	(4,209,108)	(2,506,521)
Currency swap	2,812,486	408,497
Options	102,819	158,529
Interest swap	50,638	33,782
Forward	24,216	50,296
Cross currency swap	15,565	59,777
Others	1,723	346
	<u>3,050,189</u>	<u>740,256</u>
Financial liabilities designated as at fair value through profit or loss		
Bank debentures	-	4,062,815
	<u>\$ 3,050,189</u>	<u>\$ 4,803,071</u>

For the years ended in December 31, 2019 and 2018, financial liabilities 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, 2019 and 2018, accumulated fair value changes due to credits spread risk were loss of \$0 and \$10,347, respectively.

Financial liabilities at fair value through profit or loss were settled in December 2019.

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	
	2019	2018
Financial assets at fair value through profit or loss		
Listed stocks	\$ 3,448,716	\$ 1,660,117
Unlisted stocks	74,515	79,819
Beneficiary certificates	940,310	768,252
	<u>\$ 4,463,541</u>	<u>\$ 2,508,188</u>

The reclassification amount between profit and loss and other comprehensive income of financial assets designated to overlay approach are as follow:

	For the Year Ended December 31	
	2019	2018
(Loss) gain recognized in profit and loss on initial application of IFRS 9	\$(183,524)	\$ 133,078
Less: Loss recognized in profit and loss if IAS 39 was applied	-	-
(Loss) gain on overlay approach	<u>\$(183,524)</u>	<u>\$ 133,078</u>

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, 2019 and 2018 were as follows:

	December 31			
	2019		2018	
Forward and currency swap	NT\$	223,113,137	NT\$	267,465,109
Options	NT\$	19,794,337	NT\$	32,254,597
Interest swap	NT\$	18,465,371	NT\$	19,353,837
Cross currency swap	NT\$	6,414,861	NT\$	9,597,280
Futures	NT\$	719,588	NT\$	338,173
Asset swap	NT\$	661,910	NT\$	281,615
Currency swap	US\$	53,991	US\$	53,985
Forward	US\$	15,000	US\$	33,000
Forward	CNY	20,000	CNY	20,000
Forward	EUR	8,100	EUR	8,100

For the years ended December 31, 2019 and 2018, gain on financial assets and liabilities as at fair value through profit or loss was \$14,217,732 and \$22,861,654 during the above period, respectively. For the years ended December 31, 2019 and 2018, loss on financial assets and liabilities as at fair value through profit or loss was \$11,593,552 and \$12,502,776 during the above period, respectively.

The principal of bond investments, which are financial assets mandatorily classified as at fair value through profit or loss, amounting to \$415,267 and \$87,721 as of December 31, 2019 and 2018 had been sold under repurchase agreements. The principal of debt investments, which are financial assets held for trading, amounting to \$3,082,975 and \$3,695,772 as of December 31, 2019 and 2018, had been sold under repurchase agreements.

9. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	December 31	
	2019	2018
Investments in equity instruments at fair value through other comprehensive income	\$ 34,480,143	\$ 25,688,894
Investments in debt instruments at fair value through other comprehensive income	<u>187,203,918</u>	<u>165,758,779</u>
	<u>\$ 221,684,061</u>	<u>\$ 191,447,673</u>

a. Investments in equity instruments at fair value through other comprehensive income

	December 31	
	2019	2018
Listed shares	\$ 25,729,177	\$ 18,554,635
Unlisted shares	<u>8,750,966</u>	<u>7,134,259</u>
	<u>\$ 34,480,143</u>	<u>\$ 25,688,894</u>

These investments in equity instruments are not held for trading. Accordingly, the management elected to designate these investments in equity instruments as at fair value through other comprehensive income.

For the years ended December 31, 2019 and 2018, 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 on investments measured at fair value through other comprehensive income amounting to \$453,112 and unrealized loss \$288,936 was transferred to retained earnings.

Refer to Note 47 for information on December 31, 2019 and 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	
	2019	2018
Bank debentures	\$ 77,624,453	\$ 63,549,371
Corporate bonds	69,611,979	59,308,676
Government bonds	35,747,444	37,843,542
Negotiable certificates of deposits	2,653,995	1,801,984
Agency mortgage-backed securities	1,476,090	3,163,006
Treasury bills	<u>89,957</u>	<u>92,200</u>
	<u>\$ 187,203,918</u>	<u>\$ 165,758,779</u>

The principal of debt investments, which are financial assets as at fair value through other comprehensive income, amounting to \$13,636,767 and \$7,787,547 as of December 31, 2019 and 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 47 for information on December 31, 2019 and 2018 relating to investments in debt instruments at fair value through other comprehensive income pledged as security.

10. FINANCIAL ASSETS AT AMORTIZED COST, NET

	December 31	
	2019	2018
Negotiable certificates of deposits	\$ 338,010,000	\$ 326,622,561
Government bonds	52,634,979	54,472,590
Bank debentures	34,600,776	40,030,727
Corporate bonds	22,348,128	22,492,504
Treasury bills	1,509,525	7,188,358
	<u>449,103,408</u>	<u>450,806,740</u>
Less: Refundable deposits	(296,346)	(296,168)
Allowance for impairment loss	(17,714)	(20,750)
	<u>\$ 448,789,348</u>	<u>\$ 450,489,822</u>

The principal of debt investments, which are financial assets at amortized cost, amounting to \$19,435,651 and \$31,685,404 as of December 31, 2019 and 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 47 for information on December 31, 2019 and 2018 relating to investments in debt instrument at amortized cost pledged as security.

11. CREDIT RISK MANAGEMENT FOR INVESTMENTS IN DEBT INSTRUMENTS

Investments in debt instruments were classified as at fair value through other comprehensive income and as at amortized cost.

December 31, 2019

	At Fair Value Through Other Comprehensive Income	At Amortized Cost
Gross carrying amount	\$ 186,020,164	\$ 448,807,062
Less: Allowance for impairment loss	(107,664)	(17,714)
Amortized cost	<u>185,912,500</u>	<u>\$ 448,789,348</u>
Adjustment to fair value	<u>1,291,418</u>	
	<u>\$ 187,203,918</u>	

December 31, 2018

	At Fair Value Through Other Comprehensive Income	At Amortized Cost
Gross carrying amount	\$ 166,545,461	\$ 450,510,572
Less: Allowance for impairment loss	(79,029)	(20,750)
Amortized cost	<u>166,466,432</u>	<u>\$ 450,489,822</u>
Adjustment to fair value	<u>(707,653)</u>	
	<u>\$ 165,758,779</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. Refer to Note 51 for the management policy of credit risk management for investments in debt instruments. HNCB's current credit risk grading framework comprises the following categories:

December 31, 2019

Category	Description	Basis for Recognizing Expected Credit	Expected Loss	Gross Carrying Amount at December 31	
		Losses	Rate	FVTOCI	AC
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%-0.0977%	\$ 169,101,269	\$ 447,045,947
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	-	-	-

December 31, 2018

Category	Description	Basis for Recognizing Expected Credit	Expected Loss	Gross Carrying Amount at December 31	
		Losses	Rate	FVTOCI	AC
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%	\$ 154,940,356	\$ 448,791,374
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:

December 31, 2019

Category	Description	Basis for Recognizing Expected Credit	Expected Loss	Gross Carrying Amount at December 31	
		Losses	Rate	FVTOCI	AC
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%	\$ 13,931,615	\$ -
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	-	-	-

December 31, 2018

Category	Description	Basis for Recognizing Expected Credit	Expected Loss	Gross Carrying Amount at December 31	
		Losses	Rate	FVTOCI	AC
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:

December 31, 2019

Category	Description	Basis for Recognizing Expected Credit	Expected Loss	Gross Carrying Amount at December 31	
		Losses	Rate	FVTOCI	AC
Stage 1	Debtor has low credit risk or its credit risk has not increase significantly, and has sufficient capability to repay	12-month ECL	0.0300%-0.9139%	\$ 2,987,280	\$ 1,761,115
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	-	-	-

December 31, 2018

Category	Description	Basis for Recognizing Expected Credit	Expected Loss	Gross Carrying Amount at December 31	
		Losses	Rate	FVTOCI	AC
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%	\$ 3,591,758	\$ 1,719,198
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 by credit rating is reconciled as follows:

- a. The movements of the allowance for impairment loss of investments in debt instruments as at fair value through other comprehensive income were as follows:

Allowance for Impairment Loss	Credit Rating		
	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL - Not Credit-impaired)	Stage 3 (Lifetime ECL - Cred- it-impaired)
Balance at January 1, 2019	\$ 79,029	\$ -	\$ -
Transfers	-	-	-
New financial assets purchased	47,533	-	-
Derecognition	(18,990)	-	-
Change in model or risk parameters	61	-	-
Change in exchange rates or others	31	-	-
Balance at December 31, 2019	<u>\$ 107,664</u>	<u>\$ -</u>	<u>\$ -</u>
Balance at January 1, 2018, per IAS 39	\$ -	\$ -	\$ -
Effect of application	72,400	-	-
Balance at January 1, 2018 per IFRS 9	72,400	-	-
Transfers	-	-	-
New financial assets purchased	23,933	-	-
Derecognition	(17,241)	-	-
Change in model or risk parameters	(58)	-	-
Change in exchange rates or others	(5)	-	-
Balance at December 31, 2018	<u>\$ 79,029</u>	<u>\$ -</u>	<u>\$ -</u>

- b. The movements of the allowance for impairment loss of investments in debt instruments as at amortized cost were as follows:

Allowance for Impairment Loss	Credit Rating		
	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL - Not Credit-impaired)	Stage 3 (Lifetime ECL - Cred- it-impaired)
Balance at January 1, 2019	\$ 20,750	\$ -	\$ -
Transfers	-	-	-
New financial assets purchased	971	-	-
Derecognition	(3,753)	-	-
Change in model or risk parameters	(56)	-	-
Change in exchange rates or others	(198)	-	-
Balance at December 31, 2019	<u>\$ 17,714</u>	<u>\$ -</u>	<u>\$ -</u>
Balance at January 1, 2018, per IAS 39	\$ -	\$ -	\$ -
Effect of application	21,450	-	-
Balance at January 1, 2018 per IFRS 9	21,450	-	-
Transfers	-	-	-
New financial assets purchased	3,739	-	-
Derecognition	(4,927)	-	-
Change in model or risk parameters	120	-	-
Change in exchange rates or others	368	-	-
Balance at December 31, 2018	<u>\$ 20,750</u>	<u>\$ -</u>	<u>\$ -</u>

12. SECURITIES PURCHASED UNDER RESELL AGREEMENTS

	December 31	
	2019	2018
Investments in bill	\$ 799,551	\$ 489,059

Securities purchased under resell agreements as of December 31, 2019 and 2018 were expired in January 2020 and 2019 the amount agreed to resell were \$799,723 and \$489,200, respectively.

13. RECEIVABLES, NET

	December 31	
	2019	2018
Accounts receivable	\$ 12,350,692	\$ 8,332,651
Credit card receivables	8,871,803	8,154,576
Margin loans receivable	8,618,254	8,078,805
Receivable from PEM Group incident (Note 49)	7,385,894	7,513,651
Interest receivables	5,046,449	5,481,596
Acceptances	3,448,776	3,932,258
Option receivables - nominal amounts	859,474	441,734
Receivables factoring - without recourse	338,325	498,300
Others	4,053,451	3,818,210
	50,973,118	46,251,781
Allowance for impairment losses	(4,856,441)	(5,037,753)
	\$ 46,116,677	\$ 41,214,028

The movements of the allowance for impairment losses were as follows:

	For the Year Ended December 31	
	2019	2018
Balance, beginning of the year	\$ 5,037,753	\$ 5,001,160
Effect of application	-	(83,538)
Balance at January 1 per IFRS 9	5,037,753	4,917,622
Provision	(69,382)	222,284
Write-off	(113,722)	(105,197)
Recoveries of bad debts	2,341	2,598
Foreign exchange gains and losses	(549)	446
Balance, end of the year	\$ 4,856,441	\$ 5,037,753

Please refer to Note 51 for the disclosure of credit risk management information, movement of gross book value and the allowance for impairment losses of account receivables of the Group.

14. DISCOUNTS AND LOANS, NET

	December 31	
	2019	2018
Short-term loans and overdraft	\$ 262,021,744	\$ 256,761,797
Secured short-term loans and secured overdraft	265,028,946	247,633,470
Medium-term loans	313,526,482	309,793,740
Secured medium-term loans	134,337,823	122,835,791
Long-term loans	22,454,656	23,106,896
Secured long-term loans	687,664,174	676,324,727
Discounts and import and export bill negotiation	3,803,705	4,729,320
Nonperforming loans	1,820,726	2,443,175
Receivables financing	78,784	99,526
	<u>1,690,737,040</u>	<u>1,643,728,442</u>
Allowance for impairment loss	(20,397,880)	(20,515,537)
Adjustment of premium or discount	<u>110,905</u>	<u>104,944</u>
	<u>\$ 1,670,450,065</u>	<u>\$ 1,623,317,849</u>

HNCB wrote off credits only after completing the required legal procedures for the years ended December 31, 2019 and 2018.

The movement of the allowances for impairment loss were as follows:

	For the Year Ended December 31	
	2019	2018
Balance, beginning of the year	\$ 20,515,537	\$ 19,317,172
Provision	4,711,023	6,277,200
Write-off	(4,781,505)	(5,178,661)
Effect of exchange rate changes	<u>(47,175)</u>	<u>99,826</u>
Balance, end of the year	<u>\$ 20,397,880</u>	<u>\$ 20,515,537</u>

The Company and its subsidiaries have recovered the written-off credits amounted to \$3,170,981 and \$3,096,849 for the years ended December 31, 2019 and 2018, classified as the deduction of allowances.

Please refer to Note 51 for the disclosure of credit risk management information, movement of gross book value and the allowance for impairment losses of discounts and loans of the Group.

15. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD, NET

	December 31			
	2019		2018	
	Amount	%	Amount	%
Associates that are not individually material				
Ya-Wo International Development Co., Ltd.	\$ 100,715	29.80	\$ 50,265	29.80
Chung-Hua Real Estate Management Co., Ltd.	<u>63,809</u>	30.00	<u>60,459</u>	30.00
	<u>\$ 164,524</u>		<u>\$ 110,724</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	
	2019	2018
Total comprehensive income for the year	\$ 6,038	\$ 3,138

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 March 2019 and August 2018, Ya-Wo issued common stocks for cash, amounting to \$165,000 and \$81,000. HNVC purchased \$49,170 and \$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, 2019 and 2018 were based on the associate's financial statements audited by the auditors for the same years.

16. OTHER FINANCIAL ASSETS, NET

	December 31	
	2019	2018
Time deposits no qualified for cash equivalents	\$ 21,670,146	\$ 24,473,006
Customers' margin account	2,539,123	2,034,314
Security Leading margin	412,591	3,236,427
Long-term receivables, net	318,693	400,251
Nonperforming loans transferred from other than loans, net	461,759	453,919
Buy the overdue receivables	41,227	43,429
Others	5,252	19,347
	25,448,791	30,660,693
Allowance for impairment loss	(278,559)	(253,562)
	\$ 25,170,232	\$ 30,407,131

The overdue receivables which the Company and its subsidiaries bought are FVTPL because the objective of the Company and its subsidiaries' business model is not to collect contractual cash flows, neither could achieved by collecting contractual cash flows nor selling financial assets; related information is disclosed in Note 50. On December 31, 2019 and 2018, the other financial assets except of the long-term receivables, nonperforming loans transferred and remittance purchased no impairment loss, using past history as well as forward looking to estimate the credit losses of duration. Please refer to Note 51 for the disclosure of credit risk management information, movement of gross book value and the allowance for impairment losses of other financial assets of the Group.

17. PROPERTY AND EQUIPMENT, NET

	December 31	
	2019	2018
Land	\$ 21,171,598	\$ 21,115,457
Buildings	8,419,570	8,686,374
Computer and Machinery	1,170,848	1,171,117
Transportation equipment	171,872	219,695
Other equipment	669,010	783,303
Lease improvements	107,083	119,848
Construction in progress and prepayment for equipment, land and buildings	205,479	168,261
	\$ 31,915,460	\$ 32,264,055

The movements of property and equipment were as follows:

	For the Year Ended December 31, 2019							
	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	\$ 21,115,457	\$ 15,706,877	\$ 6,220,730	\$ 1,100,273	\$ 3,415,587	\$ 285,617	\$ 168,261	\$ 48,012,802
Additions	-	12,556	356,220	26,441	70,551	10,736	228,468	704,972
Decrease	-	-	(155,665)	(30,399)	(18,843)	(29,737)	-	(234,644)
Reclassification	56,141	41,681	21,688	-	56,234	18,233	(191,250)	2,727
Effect of exchange rate changes	-	-	(2,216)	(568)	(1,275)	(1,965)	-	(6,024)
Balance, end of the year	<u>21,171,598</u>	<u>15,761,114</u>	<u>6,440,757</u>	<u>1,095,747</u>	<u>3,522,254</u>	<u>282,884</u>	<u>205,479</u>	<u>48,479,833</u>
<u>Accumulated depreciation</u>								
Balance, beginning of the year	-	7,020,503	5,049,613	880,578	2,632,284	165,769	-	15,748,747
Depreciation	-	321,981	377,628	74,127	240,961	41,332	-	1,056,029
Decrease	-	-	(155,650)	(30,399)	(18,843)	(29,437)	-	(234,329)
Reclassification	-	(940)	-	-	-	-	-	(940)
Effect of exchange rate changes	-	-	(1,682)	(431)	(1,158)	(1,863)	-	(5,134)
Balance, end of the year	<u>-</u>	<u>7,341,544</u>	<u>5,269,909</u>	<u>923,875</u>	<u>2,853,244</u>	<u>175,801</u>	<u>-</u>	<u>16,564,373</u>
Net amount	\$ 21,171,598	\$ 8,419,570	\$ 1,170,848	\$ 171,872	\$ 669,010	\$ 107,083	\$ 205,479	\$ 31,915,460

	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>-</u>	<u>7,020,503</u>	<u>5,049,613</u>	<u>880,578</u>	<u>2,632,284</u>	<u>165,769</u>	<u>-</u>	<u>15,748,747</u>
Net amount	\$ 21,115,457	\$ 8,686,374	\$ 1,171,117	\$ 219,695	\$ 783,303	\$ 119,848	\$ 168,261	\$ 32,264,055

- a. Depreciation expense of HNCB \$3,068 was included in the account of employees' training expense for the years ended December 31, 2019 and 2018. Apportionment of depreciation expense from HNCB to HNFH were \$49 and \$943 for the years ended December 31, 2019 and 2018.
- b. The amounts of property and equipment pledged as collateral as of December 31, 2019 and 2018 are disclosed in Note 47.
- 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

18. LEASE ARRANGEMENTS

- a. Right-of-use assets - 2019

	December 31, 2019
Carrying amounts	
Buildings	\$ 1,975,728
Office equipment	7,530
Transportation equipment	71,253
Other equipment	41,617
	<u>\$ 2,096,128</u>

	For the Year Ended December 31, 2019
Additions to right-of-use assets	\$ 928,201
Depreciation charge for right-of-use assets	
Buildings	\$ 672,319
Office equipment	32,449
Transportation equipment	42,235
Other equipment	14,460
	<u>\$ 761,463</u>

- b. Lease liabilities - 2019

	December 31, 2019
Carrying amounts	
Buildings	\$ 1,919,437
Office equipment	10,223
Transportation equipment	73,698
Other equipment	42,916
	<u>\$ 2,046,274</u>

Range of discount rate for lease liabilities was as follows:

	December 31, 2019
Buildings	1.000%-2.200%
Office equipment	1.035%-2.103%
Transportation equipment	1.000%-2.103%
Other equipment	1.035%-2.103%

c. Material lease-in activities and terms

The Company and its subsidiaries lease certain building with lease terms of 1 to 15 years. These arrangements do not contain renewal or purchase options. The Company and its subsidiaries lease other equipment with lease terms of 2 to 6 years. The lease payment is calculated by monthly usage.

For the year ended December 31, 2019, the right-of-use assets were derecognized \$22,347 due to the early termination of the lease contracts by HNSC, and the gains on lease modification \$105 were recognized under other gains and losses.

d. Other lease information

Lease arrangements under operating leases for the leasing out of investment properties are set out in Note 19.

2019

	For the Year Ended December 31, 2019
Expense relating to short-term leases	\$ 78,527
Expense relating to low-value asset leases	\$ 15,727
Expense relating to variable lease payments not included in the measurement of lease liabilities	\$ 39,927
Total cash outflow for leases	\$ 876,909

The company and its subsidiaries lease certain assets which qualify as short-term leases or low-value asset leases. The company and its subsidiaries has elected to apply the recognition exemption and thus, did not recognize right-of-use assets and lease liabilities for these leases.

For the year ended December 31, 2019 expenses relating to short-term leases also include expenses relating to leases for which the lease terms end on or before December 31, 2019 and for which the recognition exemption is applied. The amount of lease commitments for short-term leases for which the recognition exemption is applied was \$1,647 thousand as of December 31, 2019.

2018

The future minimum lease payments of non-cancellable operating lease commitments were as follows:

	December 31, 2018
Within 1 year	\$ 680,717
Longer than 1 year but within 5 years	1,346,001
Longer than 5 years	182,038
	\$ 2,208,756

Lease payments recognized in profit or loss in the period was as follow:

	For the Year Ended December 31, 2018
Minimum lease payments	\$ 1,218,153

19. INVESTMENT PROPERTIES, NET

	December 31	
	2019	2018
Land	\$ 8,811,829	\$ 8,724,185
Buildings	1,708,947	1,854,566
Construction in progress	476,863	334,414
Others	<u>1,800</u>	<u>9,832</u>
	<u>\$ 10,999,439</u>	<u>\$ 10,922,997</u>

The movements of investment properties were as follows:

	For the Year Ended December 31	
	2019	2018
<u>Cost</u>		
Balance, beginning of the year	\$ 12,017,341	\$ 10,878,734
Additions	1,200,249	1,606,250
Decrease	(1,066,046)	(514,485)
Reclassification	(68,306)	<u>46,842</u>
Balance, end of the year	<u>12,083,238</u>	<u>12,017,341</u>
<u>Accumulated depreciation and impairment</u>		
Balance, beginning of the year	1,094,344	1,041,190
Depreciation	61,620	69,683
Decrease	(73,105)	(17,866)
Reclassification	<u>940</u>	<u>1,337</u>
Balance, end of the year	<u>1,083,799</u>	<u>1,094,344</u>
Investment properties, net	<u>\$ 10,999,439</u>	<u>\$ 10,922,997</u>

HNCB's investment properties with lease terms of 1 to 20 years. Lessee do not contain discounted purchase options while the end of lease terms. SCIC's investment properties with lease terms of 3 to 12 years. Lessee do not have bargain purchase options while the end of lease terms. HNAMC's investment properties with lease terms of 1 to 10 years. Lessee do not have bargain purchase options while the end of lease terms.

- a. The future aggregate lease collection under operating lease for investment properties on December 31, 2019 is as follows:

	December 31, 2019
Year 1	\$ 446,671
Year 2	300,809
Year 3	217,141
Year 4	184,622
Year 5	143,603
Onwards	<u>792,453</u>
	<u>\$ 2,085,299</u>

In 2018, the future aggregate minimum lease collection under non-cancellable operating leases is as follows:

	December 31, 2018	
Within 1 year	\$	459,819
Longer than 1 year but within 5 years		938,759
Longer than 5 years		840,478
	\$	<u>2,239,056</u>

The company and its subsidiaries follow its general risk management strategy to reduce the residual asset risk related to assets at the end of relevant lease.

- b. The investment properties held by the Company and its subsidiaries were depreciated over 6-55 years, using the straight-line method.
- c. The fair value of the Company and its subsidiaries' investment properties as of December 31, 2019 and 2018 were \$31,233,859 and \$31,177,400, respectively.

The fair value of HNCB's investment properties as of December 31, 2019 and 2018 were \$29,869,298 and \$29,796,233, 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 HNSC's investment properties as of December 31, 2019 and 2018 were \$257,932 and \$204,268, respectively. The fair value by management of the Company and its subsidiaries evaluated local market price.

The fair value of SCIC's investment properties as of December 31, 2019 was not performed by independent qualified professional valuers, and the evaluation of the fair value of properties as of December 31, 2018 were regarded effective on December 31, 2019 by SCIC management after reviewing the validity of appraisal report on December 31, 2018 and the rental price in adjacent area.

The fair value of SCIC's investment properties as of December 31, 2018 was performed by Affluence Real Estate Appraiser Firm on December 31, 2018. The fair value of SCIC's investment properties was valued using the market and income approach, using important unobservable inputs include discount rate (level 3 inputs). The fair value and the inputs were as below:

	December 31	
	2019	2018
The fair value	\$ <u>631,042</u>	\$ <u>631,042</u>
Discount rate	1.53%-2.90%	1.53%-2.90%

The fair value of HNAMC's investment properties as of December 31, 2019 was evaluated based on market evidence of similar properties transaction's price.

The fair value of HNAMC's investment properties was performed by independent qualified professional values. The evaluations were used the market and income approach, and the fair value of the key assumptions and evaluations were as below:

	December 31	
	2019	2018
The fair value	\$ <u>622,777</u>	\$ <u>1,638,983</u>
Income capital interest rate	0.74%-2.61%	1.18%-2.61%

The fair value of the others HNAMC's investment properties were not performed by independent qualified professional values. The Management of HNAMC evaluated fair value based on the model that market participants would use in determining fair value, used level 3 inputs. The evaluation based on market evidence of similar properties transaction's price, the fair value as below:

	December 31	
	2019	2018
The fair value	\$ 3,412,735	\$ 2,313,816

- d. The accumulated impairment of investment properties as of December 31, 2019 and 2018 were \$6,704 and \$24,638.
- e. For the years ended December 31, 2019 and 2018, the rental income from investment properties were \$533,551 and \$524,146, respectively. For the years ended December 31, 2019 and 2018, the direct operating expenses of investment properties including depreciation expenses were \$155,290 and \$183,189, respectively, the gain on disposal of investment properties were \$278,101 and \$76,718 for the years ended December 31, 2019 and 2018, respectively. Refer to Note 47 for information relating to investments properties pledged as security.

20. INTANGIBLE ASSETS, NET

	December 31	
	2019	2018
Computer software	\$ 810,121	\$ 663,713
Goodwill	40,662	40,662
Others	63,223	57,669
	<u>\$ 914,006</u>	<u>\$ 762,044</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, 2019 and 2018.

The movements of computer software and others were as follows:

	For the Year Ended December 31	
	2019	2018
<u>Cost</u>		
Balance, beginning of the year	\$ 3,021,173	\$ 2,658,573
Additions	304,586	318,133
Decrease	(143,127)	(53,132)
Reclassification	111,185	96,908
Effect of exchange rate changes	(4,208)	691
Balance, end of the year	<u>3,289,609</u>	<u>3,021,173</u>
<u>Accumulated amortization</u>		
Balance, beginning of the year	2,299,791	2,134,003
Amortization	263,118	218,178
Impairment loss	-	1,500
Decrease	(143,127)	(54,535)
Effect of exchange rate changes	(3,517)	645
Balance, end of the year	<u>2,416,265</u>	<u>2,299,791</u>
Net amount	<u>\$ 873,344</u>	<u>\$ 721,382</u>

Apportionment of amortization expense from HNCB to HNFH were \$2,402 and \$9,626 for the years ended December 31, 2019 and 2018.

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

21. OTHER ASSETS, NET

	December 31	
	2019	2018
Refundable deposits	\$ 1,922,870	\$ 1,310,581
Operating deposits and settlement fund	876,930	675,343
Prepayments	248,687	340,144
Pledged assets	107,500	217,500
Temporary payments and suspense accounts	203,633	118,341
Others, net	144,172	237,250
	<u>\$ 3,503,792</u>	<u>\$ 2,899,159</u>

The amounts of the other assets pledged as of December 31, 2019 and 2018 are disclosed in Note 47.

22. DEPOSITS FROM THE CENTRAL BANK AND BANKS

	December 31	
	2019	2018
Call loans from banks	\$ 114,425,290	\$ 127,217,302
Overdraft	2,087,125	2,456,430
Deposits from banks	564,294	1,720,877
Deposits from the Central Bank	62,882	71,409
Deposits from Chunghwa Post Co., Ltd.	559,162	801,023
	<u>\$ 117,698,753</u>	<u>\$ 132,267,041</u>

23. COMMERCIAL PAPER PAYABLE, NET

a. Commercial paper

Institution	December 31	
	2019	2018
Yuanta Commercial Bank	\$ 3,100,000	\$ 3,900,000
Taishin International Bank Corp.	2,600,000	2,500,000
International Bills Finance Corp.	2,200,000	200,000
E.SUN Bank	2,000,000	-
Union Bank of Taiwan Corp.	1,890,000	500,000
Dah Chung Bills Finance Corp.	1,500,000	35,000
Taipei Fubon Commercial Bank Co., Ltd.	1,480,000	-
China Bills Finance Corp.	812,000	387,000
Bank SinoPac	750,000	5,000,000
Ta Ching Bill Finance Corp.	627,000	-
Mega Bills Finance Corp.	550,000	2,452,000
KGI Commercial Bank Co., Ltd.	500,000	-
Taiwan Finance Corp.	272,000	309,000
Grand Bills Finance Corp.	100,000	300,000
Far Eastern International Bank Ltd.	80,000	-
The Shanghai Commercial & Saving Bank, Ltd.	50,000	-
Taiwan Cooperative Bills Finance Corp.	35,000	384,000
Discount of commercial paper payable	(15,012)	(16,531)
	<u>\$ 18,530,988</u>	<u>\$ 15,950,469</u>

- b. Ranges of annual interest rates of the commercial paper payable were 0.57%-1.14% and 0.63%-1.25% as of December 31, 2019 and 2018, 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.

24. SECURITIES SOLD UNDER REPURCHASE AGREEMENTS

The amounts of securities sold under repurchase agreements were \$36,570,660 and \$46,323,247 as of December 31, 2019 and 2018, respectively. Ranges of interest rates were (0.30%)-2.35% and 0.24%-3.00% as of December 31, 2019 and 2018, respectively. The maturity date of securities sold under repurchase agreements were November 2020 and November 2019, respectively.

25. PAYABLES

	December 31	
	2019	2018
Accounts payable	\$ 11,227,075	\$ 7,692,002
Accrued expenses	5,093,593	4,996,257
Notes and checks in clearing	3,689,944	13,348,984
Acceptances	3,650,116	4,173,894
Interests payable	3,119,420	3,379,007
Collections for others	1,762,956	1,303,106
Short sales proceeds payable	1,717,366	1,753,089
Deposit for short sales	1,499,103	1,604,287
Options payables - nominal amounts	860,373	444,831
Dividends payable	544,698	526,540
Attachment of debts	318,285	388,277
Payable - factoring	206,872	183,395
Others	3,609,034	3,687,646
	<u>\$ 37,298,835</u>	<u>\$ 43,481,315</u>

26. DEPOSITS AND REMITTANCES

	December 31	
	2019	2018
Checking account deposits	\$ 55,494,897	\$ 59,279,711
Demand deposits	646,361,302	597,829,403
Time deposits	428,615,464	460,479,356
Negotiable certificates of deposits	26,201,209	27,458,634
Savings deposits	1,065,880,878	1,009,531,341
Remittances	<u>1,463,212</u>	<u>1,072,006</u>
	<u>\$ 2,224,016,962</u>	<u>\$ 2,155,650,451</u>

27. BONDS PAYABLE

	December 31	
	2019	2018
Bank debentures	\$ 43,400,000	\$ 41,700,000
Corporate debentures	16,900,000	16,900,000
Discount of corporate debentures	<u>(8,389)</u>	<u>(10,977)</u>
	<u>\$ 60,291,611</u>	<u>\$ 58,589,023</u>

a. Bank debentures as of December 31, 2019 and 2018 were as follow:

	December 31	
	2019	2018
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
99-1 term ten-year subordinated debenture; 1.65% fixed rate; maturity on November 23, 2020	5,000,000	5,000,000
101-1A term seven-year subordinated debenture; 1.43% fixed rate; maturity on November 6, 2019	-	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	3,200,000
107-2 term three-year dominant debenture; 0.69% fixed rate; maturity on April 25, 2021	1,000,000	1,000,000
108-1 term subordinated debenture without maturity date; 1.95% fixed rate; maturity on July 29, 2024	6,000,000	-
	<u>\$ 43,400,000</u>	<u>\$ 41,700,000</u>

b. Corporate bonds as of December 31, 2019 and 2018 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 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.

28. OTHER BORROWINGS

a. Short-term debts

Character of Debts	December 31	
	2019	2018
Credit loans	\$ 758,000	\$ 636,000
Guaranteed loans	\$ -	\$ 985,000

b. Long-term debts

Character of Debts	December 31	
	2019	2018
Credit loans	\$ 700,000	\$ 500,000

c. The ranges of interest rate of other borrowings were 0.90%-1.40% and 0.65%-1.25% as of December 31, 2019 and 2018, respectively. The maturity date of other borrowings was September 2022.

d. The aforementioned related collaterals of other borrowings please refer to Note 47.

29. PROVISIONS

	December 31	
	2019	2018
Reserves of insurance industry	\$ 12,441,832	\$ 11,737,106
Provisions for employee benefits	6,279,250	6,206,672
Provision for loan commitment	1,350,949	1,386,283
Reserve for losses on guarantees	533,286	610,450
Others	27,145	27,146
	<u>\$ 20,632,462</u>	<u>\$ 19,967,657</u>

Provision for loan commitment were summarized below:

	For the Year Ended December 31	
	2019	2018
Balance, beginning of the year	\$ 1,386,283	\$ -
Effect of application IFRS 9	-	1,324,238
Adjustment Balance, beginning of the year	1,386,283	1,324,238
Provision	(34,617)	61,002
Foreign exchange gains and losses	(717)	1,043
Balance, end of the year	<u>\$ 1,350,949</u>	<u>\$ 1,386,283</u>

Reserve for losses on guarantees movement were summarized below:

	For the Year Ended December 31	
	2019	2018
Balance, beginning of the year	\$ 610,450	\$ 750,077
Provision	(77,049)	(139,852)
Foreign exchange	(115)	225
Balance, end of the year	<u>\$ 533,286</u>	<u>\$ 610,450</u>

Reserves of insurance industry were summarized below:

Unearned Premium Reserve

a. Details of unearned premium reserve are as follows:

	December 31	
	2019	2018
One-year commercial fire insurance	\$ 242,273	\$ 243,911
Personal automobile property damage insurance	1,333,929	1,280,182
Personal automobile liabilities insurance	761,453	712,517
Compulsory personal automobile liabilities insurance	267,318	249,782
Injury insurance	407,607	445,083
Other insurance	1,634,829	1,432,115
	<u>\$ 4,647,409</u>	<u>\$ 4,363,590</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, 2019			
	Unearned Premium Reserve		Ceded Unearned Premium Reserve	Retention
	Direct Insurance	Assumed Reinsurance Business	Ceded Reinsurance Business	
Fire insurance	\$ 673,954	\$ 25,601	\$ 348,612	\$ 350,943
Marine insurance	136,711	5,124	107,992	33,843
Motor insurance	2,568,074	146,201	669,351	2,044,924
Casualty insurance	422,873	27,626	198,541	251,958
Health and injury insurance	425,575	2,367	58,578	369,364
Foreign inward business insurance	-	213,303	319	212,984
	<u>\$ 4,227,187</u>	<u>\$ 420,222</u>	<u>\$ 1,383,393</u>	<u>\$ 3,264,016</u>

	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>

c. The movements of unearned premium reserve and ceded unearned premium reserve are as follows:

	For the Year Ended December 31			
	2019		2018	
	Unearned Premium Reserve	Ceded Unearned Premium Reserve	Unearned Premium Reserve	Ceded Unearned Premium Reserve
Balance, beginning of the year	\$ 4,363,590	\$ 1,332,927	\$ 4,063,331	\$ 1,128,659
Provision	4,653,210	1,383,393	4,361,271	1,332,927
Release	(4,364,403)	(1,332,927)	(4,064,040)	(1,128,659)
Exchange difference	(4,988)	-	3,028	-
Balance, end of the year	<u>\$ 4,647,409</u>	<u>\$ 1,383,393</u>	<u>\$ 4,363,590</u>	<u>\$ 1,332,927</u>

Claims Reserve

a. Details of claims reserve are as follows:

	December 31	
	2019	2018
One-year commercial fire insurance	\$ 637,188	\$ 372,775
Hull insurance	717,513	756,724
Personal automobile property damage insurance	468,850	455,504
Personal automobile liability insurance	849,175	806,036
Compulsory personal automobile liability insurance	471,195	439,360
General liability insurance	321,468	362,823
Engineering insurance	290,814	190,301
Other insurance	1,307,053	1,239,427
	<u>\$ 5,063,256</u>	<u>\$ 4,622,950</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, 2019			
	Claim Reserve		Ceded Claims Reserve	Retention
	Direct Underwriting Business	Assumed Reinsurance Business	Ceded Reinsurance Business	
<u>Reported but not paid</u>				
Fire insurance	\$ 668,677	\$ 6,703	\$ 491,513	\$ 183,867
Marine insurance	829,520	29,026	794,167	64,379
Motor insurance	1,643,100	61,806	401,277	1,303,629
Casualty insurance	701,425	3,546	405,052	299,919
Health and injury insurance	44,537	16	2,192	42,361
Foreign inward business insurance	-	120,349	-	120,349
	<u>3,887,259</u>	<u>221,446</u>	<u>2,094,201</u>	<u>2,014,504</u>
<u>Incurred but not reported</u>				
Fire insurance	27,469	452	8,139	19,782
Marine insurance	41,427	2,585	26,284	17,728
Motor insurance	369,432	146,111	195,691	319,852
Casualty insurance	136,907	7,209	50,793	93,323
Health and injury insurance	198,100	1,198	25,638	173,660
Foreign inward business insurance	-	23,661	-	23,661
	<u>773,335</u>	<u>181,216</u>	<u>306,545</u>	<u>648,006</u>
	\$ 4,660,594	\$ 402,662	\$ 2,400,746	\$ 2,662,510

	December 31, 2019			
	Claim Reserve		Ceded Claims Reserve	Retention
	Direct Underwriting Business	Assumed Reinsurance Business	Ceded Reinsurance Business	
Reported but not paid				
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>
Incurred but not reported				
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>
	<u>\$ 4,262,972</u>	<u>\$ 359,978</u>	<u>\$ 2,134,135</u>	<u>\$ 2,488,815</u>

c. The movements of claims reserve and ceded claims reserve are as follows:

	For the Year Ended December 31			
	2019		2018	
	Claims Reserve	Ceded Claims Reserve	Claims Reserve	Ceded Claims Reserve
Balance, beginning of the year	\$ 4,622,950	\$ 2,134,135	\$ 4,951,090	\$ 2,342,177
Provision	5,067,343	2,400,746	4,621,417	2,134,135
Release	(4,623,484)	(2,134,135)	(4,951,392)	(2,342,177)
Exchange difference	(3,553)	-	1,835	-
Balance, end of the year	<u>\$ 5,063,256</u>	<u>\$ 2,400,746</u>	<u>\$ 4,622,950</u>	<u>\$ 2,134,135</u>

d. The movements of claims reserve and ceded claims reserve are as follows:

	For the Year Ended December 31, 2019							
	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	\$ 668,677	\$ 447,680	\$ 6,703	\$ 8,466	\$ 219,234	\$ 491,513	\$ 306,461	\$ 185,052
Marine insurance	829,520	879,505	29,026	26,214	(47,173)	794,167	821,117	(26,950)
Motor insurance	1,643,100	1,580,535	61,806	54,880	69,491	401,277	401,112	165
Casualty insurance	701,425	560,319	3,546	4,763	139,889	405,052	265,933	139,119
Health and injury insurance	44,537	53,986	16	11	(9,444)	2,192	3,773	(1,581)
Foreign inward business insurance	-	-	123,727	105,145	18,582	-	-	-
	<u>3,887,259</u>	<u>3,522,025</u>	<u>224,824</u>	<u>199,479</u>	<u>390,579</u>	<u>2,094,201</u>	<u>1,798,396</u>	<u>295,805</u>
<u>Incurred but not reported</u>								
Fire insurance	27,469	33,953	452	506	(6,538)	8,139	20,401	(12,262)
Marine insurance	41,427	59,174	2,585	5,052	(20,214)	26,284	51,832	(25,548)
Motor insurance	369,432	335,582	146,111	141,346	38,615	195,691	181,883	13,808
Casualty insurance	136,907	150,622	7,209	7,170	(13,676)	50,793	63,818	(13,025)
Health and injury insurance	198,100	161,616	1,198	824	36,858	25,638	17,805	7,833
Foreign inward business insurance	-	-	24,370	6,135	18,235	-	-	-
	<u>773,335</u>	<u>740,947</u>	<u>181,925</u>	<u>161,033</u>	<u>53,280</u>	<u>306,545</u>	<u>335,739</u>	<u>(29,194)</u>
	<u>\$ 4,660,594</u>	<u>\$ 4,262,972</u>	<u>\$ 406,749</u>	<u>\$ 360,512</u>	<u>\$ 443,859</u>	<u>\$ 2,400,746</u>	<u>\$ 2,134,135</u>	<u>\$ 266,611</u>

	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>	

Special Reserve

a. Details of special reserve were as follows:

	December 31	
	2019	2018
Catastrophe	\$ 307,294	\$ 318,375
Risk-volatility	2,418,576	2,426,343
	<u>\$ 2,725,870</u>	<u>\$ 2,744,718</u>

b. Special reserve - the movements of compulsory automobile liability insurance were as follows:

	For the Year Ended December 31	
	2019	2018
Balance, beginning of the year	\$ 1,495,826	\$ 1,434,824
Provision	20,438	93,130
Release	(28,205)	(32,128)
Balance, end of the year	<u>\$ 1,488,059</u>	<u>\$ 1,495,826</u>

c. Special reserve - the movements of non-compulsory automobile liability insurance were as follows:

	Liabilities					
	For the Year Ended December 31					
	2019			2018		
	Catastrophe	Risk-volatility	Total	Catastrophe	Risk-volatility	Total
Balance, beginning of the year	\$ 318,375	\$ 930,517	\$ 1,248,892	\$ 329,456	\$ 930,517	\$ 1,259,973
Release	(11,081)	-	(11,081)	(11,081)	-	(11,081)
Balance, end of the year	<u>\$ 307,294</u>	<u>\$ 930,517</u>	<u>\$ 1,237,811</u>	<u>\$ 318,375</u>	<u>\$ 930,517</u>	<u>\$ 1,248,892</u>

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, 2019	December 31, 2018
1.	Cash and cash in banks	\$ 2,119,312	\$ 2,096,252
2.	Cash equivalents	-	-
3.	Notes receivable	6,863	7,035
4.	Premiums receivable	17,347	14,537
5.	Indemnity refundable on reinsurance ceded	49,312	48,549
6.	Refundable reinsurance	42,197	40,447
7.	Other receivable	-	-
8.	Financial assets at fair value through other comprehensive income	-	-
9.	Ceded unearned premium reserve	199,216	191,473
10.	Ceded claims reserve	292,462	273,810
11.	Temporary payments	6,174	1,441
12.	Other assets	-	-
13.	Total	<u>\$ 2,732,883</u>	<u>\$ 2,673,544</u>

Items		Amount	
	Assets	December 31, 2019	December 31, 2018
1.	Notes payable	\$ -	\$ -
2.	Insurance claims and benefits payable	-	-
3.	Reinsurance indemnity payable	-	-
4.	Due to reinsurance and ceding companies	64,310	61,643
5.	Unearned premium reserve	476,199	457,512
6.	Claims reserve	697,325	654,839
7.	Special reserve	1,488,059	1,495,826
8.	Temporary receipts	6,561	3,292
9.	Other liabilities	429	432
10.	Total	\$ 2,732,883	\$ 2,673,544

2) The revenues and costs of compulsory automobile liability insurance

	For the Year Ended December 31	
	2019	2018
Operating revenues		
Direct written premiums	\$ 595,870	\$ 568,481
Reinsurance premiums	254,930	243,328
Premiums income	850,800	811,809
Less: Reinsurance expense	(357,522)	(341,088)
Net changes in unearned premium reserve	(10,942)	(8,084)
Retained earned premium	482,336	462,637
Interest revenue	15,482	14,851
Total operating revenues	<u>\$ 497,818</u>	<u>\$ 477,488</u>
Operating costs		
Claims incurred and paid	\$ 582,365	\$ 509,074
Reinsurance claims incurred	252,795	235,350
Less: Claims recovered from reinsurance	(353,408)	(308,672)
Net claims	481,752	435,752
Net changes in claims reserve	23,833	(19,266)
Net changes in special reserve	(7,767)	61,002
Total operating costs	<u>\$ 497,818</u>	<u>\$ 477,488</u>

Reserve for Deficiency Premium

a. Details of reserve for deficiency premium and ceded reserve for deficiency premium are as follows:

	December 31, 2019			
	Reserve for Deficiency Premium		Ceded Reserve for Deficiency Premium	Retention
	Direct Underwriting Business	Assumed Reinsurance Business	Ceded Reinsurance Business	
Fire insurance	\$ -	\$ -	\$ -	\$ -
Marine insurance	4,129	-	-	4,129
Motor insurance	-	-	-	-
Casualty insurance	-	-	-	-
Health and injury insurance	-	-	-	-
Foreign inward business insurance	-	1,168	-	1,168
	<u>\$ 4,129</u>	<u>\$ 1,168</u>	<u>\$ -</u>	<u>\$ 5,297</u>

	December 31, 2019			
	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>

b. The movements of reserve for deficiency premium and ceded reserve for deficiency premium are as follows:

	For the Year Ended December 31			
	2019		2018	
	Reserve for Deficiency Premium	Ceded Reserve for Deficiency Premium	Reserve for Deficiency Premium	Ceded Reserve for Deficiency Premium
Balance, beginning of the year	\$ 5,848	\$ -	\$ 3,289	\$ -
Provision	5,297	-	5,813	-
Release	(5,860)	-	(3,289)	-
Exchange difference	12	-	35	-
Balance, end of the year	<u>\$ 5,297</u>	<u>\$ -</u>	<u>\$ 5,848</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, 2019									
	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			Deficiency Premium	
	Provision	Release	Provision	Release		Provision	Release		Reserve	
Fire insurance	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Marine insurance	4,129	-	-	-	4,129	-	-	-	-	4,129
Motor insurance	-	-	-	-	-	-	-	-	-	-
Casualty insurance	-	-	-	-	-	-	-	-	-	-
Health and injury insurance	-	-	-	-	-	-	-	-	-	-
Foreign inward business insurance	-	-	1,168	5,860	(4,692)	-	-	-	-	(4,692)
	\$ 4,129	\$ -	\$ 1,168	\$ 5,860	\$(563)	\$ -	\$ -	\$ -	\$ -	\$(563)

	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			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	\$	-
	-	-	-	-	-	-	-	-	-	-	-	-

30. PROVISIONS FOR EMPLOYEE BENEFITS

	December 31	
	2019	2018
Recognized in consolidated balance sheet		
Defined benefit plans	\$ 5,063,337	\$ 5,061,209
Preferential interest on employees' deposits	<u>1,215,913</u>	<u>1,145,463</u>
	<u>\$ 6,279,250</u>	<u>\$ 6,206,672</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, 2019 and 2018 were \$294,824 and \$266,999, 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 HNMC 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, 2019 and 2018 were \$360,862 and \$371,142, respectively.

The amount of defined benefit plans which listed in balance sheet are as follow:

	December 31	
	2019	2018
Present value of funded defined benefit obligation	\$ 12,302,313	\$ 12,042,030
Fair value of plan asset	(7,238,976)	(6,980,821)
Deficit	5,063,337	5,061,209
Net defined benefit liability	\$ 5,063,337	\$ 5,061,209

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	\$ 11,556,221	\$(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)	\$ -	\$(183,271)	\$(183,271)
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	-	476,711
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, 2018	\$ 12,042,030	\$(6,980,821)	\$ 5,061,209
Balance at January 1, 2019	\$ 12,042,030	\$(6,980,821)	\$ 5,061,209
Service cost			
Current service cost	306,553	-	306,553
Past service cost	-	-	-
Net interest expense (income)	132,196	(77,887)	54,309
Recognized in profit or loss	438,749	(77,887)	360,862
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	(237,921)	(237,921)
Actuarial loss - changes in demographic assumptions	4,128	-	4,128
Actuarial loss - changes in financial assumptions	423,896	-	423,896
Actuarial loss - experience adjustments	264,295	-	264,295
Recognized in other comprehensive income	692,319	(237,921)	454,398
Contributions from the employer	-	(578,601)	(578,601)
Benefits paid	(870,785)	636,254	(234,531)
Balance at December 31, 2019	\$ 12,302,313	\$(7,238,976)	\$ 5,063,337

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	
	2019	2018
Discount rate	0.50%-0.76%	0.75%-1.18%
Expected rate of salary increase	2.00%-3.00%	2.00%-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	
	2019	2018
Discount rate		
0.25%-0.5% increase	<u>\$ (227,046)</u>	<u>\$ (300,095)</u>
0.25%-0.5% decrease	<u>\$ 396,624</u>	<u>\$ 313,249</u>
Expected rate of salary increase		
0.25%-0.5% increase	<u>\$ 427,447</u>	<u>\$ 345,838</u>
0.25%-0.5% decrease	<u>\$ (252,332)</u>	<u>\$ (326,644)</u>

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	
	2019	2018
The expected contributions to the plan for the next year	<u>\$ 11,472,379</u>	<u>\$ 855,479</u>
The average duration of the defined benefit obligation	5-13 years	6-14 years

c. Preferential interest on employees' deposits

HNCB offers preferential interest on employees' deposits to both current and retired employees.

	December 31	
	2019	2018
Present value of funded defined preferential interest on employee's deposits obligation	\$ 1,215,913	\$ 1,145,463
Fair value of plant assets	-	-
Net preferential interest on employee's deposits liability	<u>\$ 1,215,913</u>	<u>\$ 1,145,463</u>

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, 2018	\$ 1,155,298	\$ -	\$ 1,155,298
Service cost			
Past service cost	74,925	-	74,925
Net interest expense	43,628	-	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	<u>\$ 1,145,463</u>	<u>\$ -</u>	<u>\$ 1,145,463</u>
Balance at January 1, 2019	\$ 1,145,463	\$ -	\$ 1,145,463
Service cost			
Past service cost	96,929	-	96,929
Net interest expense	43,205	-	43,205
Actuarial loss in the rules of the Banking Bureau	195,865	-	195,865
Recognized in profit or loss	335,999	-	335,999
Benefits paid	(265,549)	-	(265,549)
Balance at December 31, 2019	<u>\$ 1,215,913</u>	<u>\$ -</u>	<u>\$ 1,215,913</u>

The principal assumptions used for the purposes of the actuarial valuations were as follows:

	December 31	
	2019	2018
Discount rate	4.00%	4.00%
Expected return on employees' deposits	2.00%	2.00%
Account decline rate	2.50%	2.75%
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	
	2019	2018
Discount rate		
0.25% increase	<u>\$ (20,827)</u>	<u>\$ (19,500)</u>
0.25% decrease	<u>\$ 21,450</u>	<u>\$ 20,085</u>
Expected return on employees' deposits		
0.25% increase	<u>\$ (136,753)</u>	<u>\$ (126,002)</u>
0.25% decrease	<u>\$ 136,752</u>	<u>\$ 126,002</u>
Account decline rate		
2% increase	<u>\$ (162,892)</u>	<u>\$ (152,857)</u>
2% decrease	<u>\$ 201,161</u>	<u>\$ 188,945</u>
The probability of changes in preferential interest on employees' deposits		
10% increase	<u>\$ 243,182</u>	<u>\$ 229,093</u>
10% decrease	<u>\$ (243,183)</u>	<u>\$ (229,093)</u>

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	
	2019	2018
The expected contributions to the plan for the next year	<u>\$ 132,775</u>	<u>\$ 130,678</u>
The average duration of preferential interest on employees' deposits	7.2 years	7.2 years

31. OTHER FINANCIAL LIABILITIES

	December 31	
	2019	2018
Principal of structured products	\$ 8,074,125	\$ 11,204,709
Futures traders' equity	2,705,458	2,407,762
Appropriations loan funds	<u>12,622</u>	<u>18,867</u>
	<u>\$ 10,792,205</u>	<u>\$ 13,631,338</u>

32. OTHER LIABILITIES

	December 31	
	2019	2018
Guarantee deposits received	\$ 1,145,486	\$ 3,960,992
Advance receipts	889,096	784,349
Deposits from securities borrowing	667,663	4,194,513
Temporary receipt and suspense accounts	263,480	216,111
Others	<u>365,051</u>	<u>311,892</u>
	<u>\$ 3,330,776</u>	<u>\$ 9,467,857</u>

33. EQUITY

a. Capital stock

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 shareholders resolved the stock dividends of \$6,291,269 to paid-in capital, the number of common shares is 629,127 thousand at the shareholders' meeting on June 14, 2019. Total capital stock was increased to \$121,727,402. These appropriations of stock dividends were approved by the Securities and Futures Bureau, and the record date for stock dividends was August 23, 2019.

The issued common stocks of a par value of \$10 are 12,172,740 shares as of December 31, 2019.

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	
	2019	2018
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, 2019 were as follows:

	December 31, 2019
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 40.

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 2018 and 2017 had been approved by the shareholders' meeting on June 14, 2019 and June 22, 2018, respectively. The appropriations and dividends per share were as follows:

	Appropriation of Earnings		Dividends Per Share (NT\$)	
	2018	2017	2018	2017
Legal reserve	\$ 1,462,132	\$ 1,201,548	- \$	-
Cash dividends	6,291,269	5,523,260	0.545	0.500
Stock dividends	6,291,269	4,970,934	0.545	0.450

e. Unrealized gain (loss) on financial assets at fair value through other comprehensive income

	For the Year Ended December 31, 2019	
	Gain and Loss on Equity Instruments	Gain and Loss on Debt Instruments
Balance at January 1 per IFRS 9	\$ 4,591,269	\$(679,088)
Unrealized loss - equity instruments	4,247,435	-
Unrealized loss - debt instruments	-	2,837,346
Income tax related to unrealized loss - debt instruments	-	(48,211)
Loss allowance adjustment - debt instruments	-	28,604
Disposal of investments in debt instruments	-	(787,084)
Cumulative unrealized loss of equity instruments transferred to retained earnings due to disposal	453,112	-
Balance at December 31	<u>\$ 9,291,816</u>	<u>\$ 1,351,567</u>

	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	<u>\$ 4,591,269</u>	<u>\$(679,088)</u>

f. Gain and loss on overlay approach measured at other comprehensive income

	For the Year Ended December 31	
	2019	2018
Balance at January 1	\$(34,097)	\$ -
Effect of application	-	88,903
Balance at January 1 per IFRS 9	(34,097)	88,903
Loss on overlay approach measured at other comprehensive income	183,524	(133,078)
Income tax related to loss on overlay approach measured at other comprehensive income	(11,265)	10,078
Balance at December 31	<u>\$ 138,162</u>	<u>\$(34,097)</u>

34. NET INTEREST

	For the Year Ended December 31	
	2019	2018
Interest revenue		
Discounts and loans	\$ 33,213,083	\$ 32,753,898
Securities investments	7,538,052	7,033,505
Others	<u>4,305,081</u>	<u>4,926,316</u>
	<u>45,056,216</u>	<u>44,713,719</u>
Interest expense		
Deposits	14,119,450	13,443,321
Due to the Central Bank and banks	3,345,589	2,426,746
Others	<u>2,177,600</u>	<u>2,283,433</u>
	<u>19,642,639</u>	<u>18,153,500</u>
	<u>\$ 25,413,577</u>	<u>\$ 26,560,219</u>

35. COMMISSION AND FEE REVENUES, NET

	For the Year Ended December 31	
	2019	2018
Commission and fee revenues		
Commission	\$ 3,806,663	\$ 3,600,365
Trust and financial management business	2,504,752	2,135,090
Brokerage business	2,256,671	2,532,677
Credit card business	1,108,906	1,099,064
Remittance business	723,923	678,286
Others	<u>1,478,999</u>	<u>1,484,858</u>
	<u>11,879,914</u>	<u>11,530,340</u>
Commission and fee expense		
Insurance commission	1,558,491	1,431,255
Credit card business	673,138	616,298
Others	<u>213,162</u>	<u>226,620</u>
	<u>719,397</u>	<u>587,659</u>
	<u>3,164,188</u>	<u>2,861,832</u>
	<u>\$ 8,715,726</u>	<u>\$ 8,668,508</u>

36. INCOME FROM INSURANCE PREMIUMS, NET

	For the Year Ended December 31	
	2019	2018
Insurance revenue		
Direct written premiums	\$ 9,834,426	\$ 9,265,013
Indemnity refundable on reinsurance ceded	<u>1,478,082</u>	<u>1,664,779</u>
	<u>11,312,508</u>	<u>10,929,792</u>
Insurance expense		
Insurance claims and benefits	4,973,472	5,067,698
Reinsurances premiums ceded	3,188,045	3,065,854
Disbursements toward industry stability	<u>16,551</u>	<u>15,789</u>
	<u>8,178,068</u>	<u>8,149,341</u>
	<u>\$ 3,134,440</u>	<u>\$ 2,780,451</u>

37. GAIN (LOSS) ON FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	For the Year Ended December 31	
	2019	2018
Realized gain or loss on financial assets at fair value through profit or loss		
Currency swap	\$ 5,994,407	\$ 5,293,890
Listed stocks	606,807	(695,884)
Foreign exchange options	115,048	200,145
Cross currency swap	38,834	164,944
Others	(158,507)	(349,842)
	<u>6,596,589</u>	<u>4,613,253</u>
Valuated gain or loss on financial assets at fair value through profit or loss		
Listed stock	361,549	202,292
Forward	119,708	(145,219)
Issuing bank debenture liabilities	73,163	154,231
Cross currency swap	7,330	47,109
Currency swap	(5,419,672)	4,631,905
Others	86,391	83,910
	<u>(4,771,531)</u>	<u>4,974,228</u>
Dividend income on financial assets at fair value through profit or loss	<u>206,739</u>	<u>170,197</u>
Interest revenue on financial assets at fair value through profit or loss	<u>758,603</u>	<u>825,870</u>
Interest expense on financial liabilities at fair value through profit or loss	<u>(166,220)</u>	<u>(224,670)</u>
	<u>\$ 2,624,180</u>	<u>\$ 10,358,878</u>

When the Company and its subsidiaries designated financial instruments measure at fair value through profit or loss, fair value change in derivative instruments is also listed in “financial assets and liabilities at fair value through profit or loss”.

38. REALIZED GAIN ON FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	For the Year Ended December 31	
	2019	2018
Dividend income	\$ 1,495,826	\$ 1,261,330
Gain from disposal		
Corporate bonds	8,130,193	9,809,172
Government bonds	425,455	382,947
Bank debentures	137,567	2,402
Agency mortgage-backed securities	31,085	124
	<u>8,724,300</u>	<u>10,194,645</u>
Loss from disposal		
Corporate bonds	(7,936,313)	(9,745,876)
Agency mortgage-backed securities	(633)	(35)
Bank debentures	(270)	(292)
Government bonds	-	(79,896)
	<u>(7,937,216)</u>	<u>(9,826,099)</u>
	<u>\$ 2,282,910</u>	<u>\$ 1,629,876</u>

39. FOREIGN EXCHANGE GAIN (LOSS), NET

	For the Year Ended December 31	
	2019	2018
Foreign exchange gain	\$ 3,967,615	\$ 46,706
Foreign exchange loss	(140,188)	(4,762,501)
	<u>\$ 3,827,427</u>	<u>\$(4,715,795)</u>

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”.

40. EMPLOYEE BENEFITS EXPENSE

	For the Year Ended December 31	
	2019	2018
Salaries and wages	\$ 13,480,641	\$ 13,111,280
Labor insurance and national health insurance	928,395	849,111
Pension and compensation	691,851	682,323
Others	<u>1,636,696</u>	<u>1,456,500</u>
	<u>\$ 16,737,583</u>	<u>\$ 16,099,214</u>

For the years ended December 31, 2019 and 2018, the amount of incentives and bonus were \$4,802,126 and \$4,796,530 included in salaries and wages.

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 23, 2020 and March 25, 2019, which resolution compensations to employees and remuneration to directors for 2018 and 2017.

For the year ended December 31, 2019, the employees’ and board of directors’ compensation were \$14,844 and \$160,988 representing 0.922‰ and 0.998‰ of the base net profit, respectively. 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.

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 2019 and 2018.

The information on the approved compensations to employees and remuneration to directors for 2019 and 2018 is available on the Market Observation Post System (M.O.P.S.) website of the Taiwan Stock Exchange.

41. DEPRECIATION AND AMORTIZATION EXPENSE

	For the Year Ended December 31	
	2019	2018
Depreciation expense		
Properties equipments		
Buildings	\$ 318,913	\$ 307,272
Computer and Machinery	377,579	344,756
Transportation equipment	74,127	71,611
Other equipment	240,961	213,599
Lease improvements	41,332	41,538
	1,052,912	978,776
Investments properties	61,620	69,683
Right-of-use assets	761,463	-
	1,875,995	1,048,459
Amortization expense	268,393	213,993
	\$ 2,144,388	\$ 1,262,452

42. OTHER OPERATING EXPENSES

	For the Year Ended December 31	
	2019	2018
Taxation and government fee	\$ 2,469,449	\$ 2,490,710
Membership fee	584,192	609,182
Rent	447,696	1,218,153
Postage fee	510,408	489,153
Insurance	517,570	502,869
Professional fee	494,634	751,727
Advertisement	604,858	605,095
Maintenance and warranty fee	277,825	265,342
Others	1,414,148	1,480,643
	\$ 7,320,780	\$ 8,412,874

43. 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	
	2019	2018
Current tax		
In respect of the current year	\$ 1,929,582	\$ 2,117,786
Income tax of overseas branches	573,774	454,994
In respect of prior years	28,006	(114,276)
	<u>2,531,362</u>	<u>2,458,504</u>
Deferred tax		
In respect of the current year	209,528	6,585
Tax rate change	-	(415,315)
Income tax expenses recognized through profit or loss	<u>\$ 2,740,890</u>	<u>\$ 2,049,774</u>

A reconciliation of accounting profit and income tax expenses were as follows:

	For the Year Ended December 31	
	2019	2018
Income tax expenses calculated at the statutory rate	\$ 3,739,252	\$ 3,334,242
Tax effect of adjusting items:		
Permanent differences	(1,791,440)	(1,326,844)
Temporary differences	(29,986)	152,212
Tax credit of investment	-	(53,530)
Income tax of overseas branches	573,774	454,994
Effects of different income tax rate of subsidiaries operating in other jurisdiction	11,756	11,706
Adjustments for prior years' tax	28,006	(114,276)
Current tax	2,531,362	2,458,504
Deferred tax	209,528	6,585
Tax rate change	-	(415,315)
Income tax expenses recognized in profit or loss	<u>\$ 2,740,890</u>	<u>\$ 2,049,774</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	
	2019	2018
Deferred tax		
Tax rate change	\$ -	\$ 53,865
In respect of the current period		
Remeasurement of defined benefit plans	88,088	91,408
Fair value changes on financial assets as at fair value through other comprehensive income	(48,211)	29,511
Loss on overlay approach measured at other comprehensive income	(11,265)	10,078
Income tax recognized in other comprehensive income	\$ 28,612	\$ 184,862

c. Current tax assets and liabilities

	December 31	
	2019	2018
Current tax assets		
Tax refund receivable	\$ 219,630	\$ 224,626
Others	136,639	193,723
	\$ 356,269	\$ 418,349
Current tax liabilities		
Income tax payable	\$ 1,252,443	\$ 1,677,066

d. Deferred tax assets and liabilities

The components of deferred tax assets and liabilities were as follows:

	December 31	
	2019	2018
<u>Deferred tax assets</u>		
Provisions for bad debts and losses on guarantees over limitation	\$ 1,598,911	\$ 1,765,648
Defined benefit plans and preferential interest rate plan for employees' deposits	1,057,285	1,044,967
Provisions for financing commitments of loans	264,848	264,848
Business losses	229,521	229,521
Others	202,986	191,816
	\$ 3,353,551	\$ 3,496,800
<u>Deferred tax liabilities</u>		
Land value increment tax	\$ 6,087,943	\$ 6,098,182
Others	69,469	21,563
	\$ 6,157,412	\$ 6,119,745

The movements of deferred tax assets and deferred tax liabilities were as follows:

For the year ended December 31, 2019

	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	\$ 1,765,648	\$(166,737)	\$ -	\$ 1,598,911
Defined benefit plans and preferential interest rate plan for employees' deposits	1,044,966	(75,769)	88,088	1,057,285
Provision for financing commitments of loans	264,848	-	-	264,848
Business losses	229,521	-	-	229,521
Others	191,817	47,119	(35,950)	202,986
	<u>\$ 3,496,800</u>	<u>\$(195,387)</u>	<u>\$ 52,138</u>	<u>\$ 3,353,551</u>
<u>Deferred tax liabilities</u>				
Land value increment tax	\$ 6,098,182	\$(10,239)	\$ -	\$ 6,087,943
Temporary differences				
Others	21,563	24,380	23,526	69,469
	<u>\$ 6,119,745</u>	<u>\$ 14,141</u>	<u>\$ 23,526</u>	<u>\$ 6,157,412</u>

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>

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 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. The income tax expense and income tax payable were accrued in the books based on the conservative principle. However, HNSC disagreed with the tax authorities assessment of its tax return and had applied for a re-examination.

Income tax return through 2014 of SCIC, HNIT, HNVC and HNAMC had been assessed by the tax authority.

Income tax returns through 2017 of HNIM, HNILC and HNFC had been assessed by the tax authorities.

44. 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	
	2019	2018
Basic and diluted earnings per share		
Profit for the year attributable to HNFH's shareholders	\$ 1.31	\$ 1.20

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	
	2019	2018
Profit for the year attributable to HNFH's shareholders	\$ 15,955,270	\$ 14,621,319

Shares

	For the Year Ended December 31	
	2019	2018
Weighted average number of ordinary shares in computation of basic and diluted earnings per share	12,172,740	12,172,740

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, 2018 to decrease from \$1.27 to \$1.20. Additionally, the basic and diluted earnings per share were the same both for the years ended December 31, 2019 and 2018.

45. 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 relative of the directors of HNSC
Shin Kong Commercial Bank Co., Ltd. (SKCB)	The Chairman of its parent company is a close relative 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			
	2019		2018	
	Amount	%	Amount	%
BOT	\$ 291,259	1.42	\$ 228,890	1.13

2) Call loans to banks

	For the Year Ended December 31, 2019			
	Highest	Ending	Interest	Interest Rate
	Balance	Balance	Income	(%)
BOT	\$ 20,909,960	\$ -	\$ 22,093	0.17-3.10
SKCB	1,000,000	-	21	0.25
	\$ 21,909,960	\$ -	\$ 22,114	

	For the Year Ended December 31, 2018			
	Highest	Ending	Interest	Interest Rate
	Balance	Balance	Income	(%)
BOT	\$ 10,670,305	\$ 245,880	\$ 8,693	0.09-4.4

3) Call loans from banks

	For the Year Ended December 31, 2019				
	Highest	Ending	Interest	Interest Rate	
	Balance	Balance	Expense	(%)	
BOT	\$ 18,372,412	\$ 2,023,490	\$ 59,275	0.17-3.25	
SKCB	3,000,000	-	33	0.17-1.65	
	<u>\$ 21,372,412</u>	<u>\$ 2,023,490</u>	<u>\$ 59,308</u>		

	For the Year Ended December 31, 2018				
	Highest	Ending	Interest	Interest Rate	
	Balance	Balance	Expense	(%)	
BOT	<u>\$ 19,663,275</u>	<u>\$ 1,299,175</u>	<u>\$ 46,434</u>	0.178-5.08	

4) Deposits

	For the Year Ended December 31					
	2019			2018		
	Ending Balance	Interest Rate (%)	Interest Expenses	Ending Balance	Interest Rate (%)	Interest Expenses
Chung-Hua Real Estate	\$ 59,871	0-0.6	\$ 70	\$ 53,532	0-0.082	\$ 32
Yuan-Ding Investment	3,187	-	-	2,474	-	-
Taipei 101	263	0.08	-	58	-	-
Yung-Chi AMC	-	-	-	-	0-0.08	2
Shiun-You	-	-	-	-	0-0.08	2
Others	<u>18,059,545</u>	0-13	<u>198,617</u>	<u>18,394,146</u>	0-13	<u>169,315</u>
	<u>\$ 18,122,866</u>		<u>\$ 198,687</u>	<u>\$ 18,450,210</u>		<u>\$ 169,351</u>

5) Loans

For the Year Ended December 31, 2019							
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	6	\$ 4,127	\$ 3,575	\$ 3,575	\$ -	None	Yes
Household mortgages	40	437,418	332,022	332,022	-	Real estate	Yes
Other	Taipei 101	1,000,000	-	-	-	None	Yes
Others	Others	99,293	87,404	87,404	-	Real estate, over-draft	Yes

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, 2019			
	Highest	Ending	Interest	Interest
	Balance	Balance	Rates (%)	Revenue
SCIC				
Main management	\$ 130,178	\$ 128,033	1.445-71.570	\$ 1,680

	For the Year Ended December 31, 2018			
	Highest	Ending	Interest	Interest
	Balance	Balance	Rates (%)	Revenue
SCIC				
Main management	\$ 14,549	\$ 8,700	1.445-1.570	\$ 193

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, 2019 and 2018.

6) Operating deposits

	December 31			
	2019		2018	
	Amount	%	Amount	%
BOT	\$ 345,000	39.34	\$ 350,000	52.08

7) Futures traders' equity

	December 31	
	2019	2018
Fund under HNIT	\$ 2,996	\$ 2,994

8) Securities transaction

For the years ended December 31, 2019 and 2018, HNSC purchased open-end mutual funds for \$2,700 and \$325,300, respectively, and disposed HNIT open-end mutual funds for \$10,496 and \$434,118, respectively. The disposal loss were \$196 and \$2,882, 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 \$20,327 and \$26,927 as of December 31, 2019 and 2018, 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 \$15,525 and \$29,185 for the years ended December 31, 2019 and 2018 respectively. The disposals loss and gain were \$525 and \$815, respectively, and were calculated on the basis of the net assets value on the transaction dates.

The cost of mutual funds purchased by SCIC from HNIT on December 31, 2019 and 2018, amounts to \$217,000 and \$177,000, respectively (on December 31, 2019 recorded as financial assets at fair value through profit or loss and recorded as available-for-sale financial assets on December 31, 2018).

For the years ended December 31, 2019 and 2018, the gain or loss from the sale of funds under HNIT and related revenues were loss \$759 and gain \$8,644, respectively.

9) Receivables - management expense

	December 31			
	2019		2018	
	Amount	%	Amount	%
Fund under HNIT	\$ 8,936	0.02	\$ 13,064	0.03

10) Other borings

	For the Year Ended December 31, 2019			
	Highest	Ending	Interest	Interest Rate
	Balance	Balance	Income	(%)
BOT	\$ 73,000	\$ -	\$ 95	0.98

	For the Year Ended December 31, 2018			
	Highest	Ending	Interest	Interest Rate
	Balance	Balance	Income	(%)
BOT	\$ 100,000	\$ 73,000	\$ 203	0.93-1.06

11) Other liabilities

	December 31			
	2019		2018	
	Amount	%	Amount	%
Fund under HNIT	\$ 8,375	0.25	\$ 14,139	0.15

12) Sales or purchase of bills and bonds

	For the Year Ended December 31, 2019				
	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
SKCB	\$ -	\$ 698,228	\$ -	\$ -	-
BOT	1,334,503	2,581,902	-	-	-
Others	2,797,399	2,473,472	-	-	-

	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
SKCB	\$ -	\$ 100,618	\$ -	\$ -	-
BOT	-	2,140,533	-	-	-
Others	2,904,954	3,156,434	-	-	-

13) Trust business commission

	For the Year Ended December 31			
	2019		2018	
	Amount	%	Amount	%
Fund under HNIT	\$ 134,265	5.36	\$ 165,135	7.73

14) Brokerage commission

	For the Year Ended December 31			
	2019		2018	
	Amount	%	Amount	%
Fund under HNIT	\$ 1,685	0.07	\$ 1,559	0.06
Others	5,411	0.24	9,094	0.36
	\$ 7,096	0.31	\$ 10,653	0.42

15) Brokerage commission discount (decrease in the brokerage commission)

	For the Year Ended December 31			
	2019		2018	
	Amount	%	Amount	%
Others	\$ 2,467	0.11	\$ 5,396	0.21

16) Commission

	For the Year Ended December 31			
	2019		2018	
	Amount	%	Amount	%
SKLI	\$ 322,810	8.48	\$ 264,121	7.34
BOT	7,898	0.21	8,260	0.23
BTLI	6,406	0.17	4,671	0.13
Shiun-You	-	-	22	-
Chung-Hua Real Estate	-	-	20	-
	<u>\$ 337,114</u>	<u>8.86</u>	<u>\$ 277,094</u>	<u>7.70</u>

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) Lease arrangements - 2019

Line Item	Related Party Name	December 31, 2019
Acquisition of investment properties	SKLI	\$ 27,327
	Yung-Chi AMC	15,030
	BOT	910
	Chou Dang-Yin	395
	Yung-Ding Investment	3
	Others	1,751
		<u>\$ 45,416</u>
Lease liabilities	SKLI	\$ 15,494
	Yung-Chi AMC	13,397
	BOT	888
	Chou Dang-Yin	399
	Others	1,768
		<u>\$ 31,946</u>
Refundable deposits	Chou Dang-Yin	\$ 900
	Yung-Ding Investment	107
	BOT	100
	Others	225
		<u>\$ 1,332</u>

Line Item	Related Party Name	For the Year Ended December 31, 2018
Interest expense	SKLI	\$ 440
	Yung-Chi AMC	287
	Yung-Ding Investment	225
	BOT	22
	Chou Dang-Yin	18
	Others	39
		<u>\$ 1,031</u>
Other operating expenses - rent	Yung-Ding Investment	\$ 758
	Others	72
		<u>\$ 830</u>

18) Leases - 2018

- 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
Yung-Chi AMC	\$ 1,920

- 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
SKLI	\$ 13,273

- 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
Yuan-Ding	\$ 3,624

Lease expenses

	For the Year Ended December 31, 2018
Yuan-Ding	\$ 10,906

- 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
Chou Dang-Yin	\$ 900

Lease expenses

	For the Year Ended December 31, 2018
Chou Dang-Yin	\$ 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
BOT	\$ 100

Lease expenses

	For the Year Ended December 31, 2018
BOT	\$ 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
Others	\$ 225

Lease expenses

	For the Year Ended December 31, 2018
Others	\$ 899

19) Interest expense

	For the Year Ended December 31			
	2019		2018	
	Amount	%	Amount	%
Fund under HNIT	\$ 2	-	\$ 4	-

20) Other operating expenses

	For the Year Ended December 31			
	2019		2018	
	Amount	%	Amount	%
BOT	\$ -	-	\$ 88	-
Others	767	0.01	2,570	0.03
	\$ 767	0.01	\$ 2,658	0.03

21) Other non-interest net revenues

	For the Year Ended December 31			
	2019		2018	
	Amount	%	Amount	%
BOT	\$ 960	0.01	\$ 956	0.01
SKCB	26	-	26	-
	<u>\$ 986</u>	<u>0.01</u>	<u>\$ 982</u>	<u>0.01</u>

22) Cash and cash equivalents

Checking deposits and savings deposits (foreign currency included)

	December 31			
	2019		2018	
	Amount	%	Amount	%
BOT	\$ 8,375	0.53	\$ 8,697	0.49
SKCB	1	-	1	-
	<u>\$ 8,376</u>	<u>0.53</u>	<u>\$ 8,698</u>	<u>0.49</u>

Time deposits

	December 31			
	2019		2018	
	Amount	%	Amount	%
BOT	\$ 12,800	0.81	\$ 12,800	0.72
SKCB	2,500	0.16	2,500	0.14
	<u>\$ 15,300</u>	<u>0.97</u>	<u>\$ 15,300</u>	<u>0.86</u>

Interest revenues from related parties were \$975 and \$982 for the three months and years ended December 31, 2019 and 2018, respectively.

- 23) 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.

24) Compensation of key managements personnel

The key managements refer to directors, supervisors, and managements personnel beyond vice president.

	For the Year Ended December 31	
	2019	2018
Short-term employee benefits	\$ 506,519	\$ 456,556
Post-employment benefits	21,903	32,800
Lease-employment benefits	167	-
Other long-term employee benefits	18	18
	<u>\$ 528,607</u>	<u>\$ 489,374</u>

25) 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					
	2019			2018		
	Ending Balance	Interest Rate (%)	Interest Expense	Ending Balance	Interest Rate (%)	Interest Expense
SCIC	\$ 913,417	0-1.065	\$ 1,387	\$ 691,706	0-1.065	\$ 1,386
HNLC Shenzhen	326,981	0.05-2.25	5,258	444,581	0.05-2.25	7,264
HNSC	312,354	0-1.065	396	474,552	0-1.065	642
HNFC	307,147	0-1.065	644	506,288	0-2.2	859
HNFH	300,085	0.08-0.217	5,773	422,124	0.08-0.39	5,400
HNAMC	114,118	0-0.08	22	39,791	0-0.13	19
Hua Nan Securities (HK) Limited	106,818	0.001-0.1	2	56,536	0.001-0.1	2
HNVC	98,047	0-1.065	718	98,505	0-2.1	699
HNIT	69,488	0.08-0.354	57	82,610	0.08-0.443	71
Chung-Hua Real Estate	59,871	0-0.6	70	53,532	0-0.082	32
HNIM	27,872	0.08-1.065	253	27,941	0.08-1.065	254
HNILC	19,627	0.08-0.081	38	12,169	0-1.85	39
Yuan Ding Investment	3,187	-	-	2,474	-	-
Taipei 101	263	0.08	-	58	-	-
Hua Nan Holdings Corp.	3	-	-	3	-	-
Yung-Chi Amc	-	-	-	-	0-0.08	2
Shiun-You	-	-	-	-	0-0.08	2
Others	18,059,545	0-13	198,617	18,394,146	0-13	169,315
	<u>\$ 20,718,823</u>		<u>\$ 213,235</u>	<u>\$ 21,307,016</u>		<u>\$ 185,986</u>

b) Sales or purchases of bills and bonds

	For the Year Ended December 31, 2019				
	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
HNSC	\$ 599,184	\$ 648,453	\$ -	\$ -	-

	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
HNSC	\$ 450,496	\$ 50,294	\$ -	\$ -	-

c) Payable to related party for allocation under the linked-tax system

	December 31			
	2019		2018	
	Amount	%	Amount	%
Tax payable to the parent company	\$ 268,432	23.35	\$ 706,290	49.19

2) HNSC

a) Cash and cash equivalents

	December 31			
	2019		2018	
	Amount	Annual Interest Rate (%)	Amount	Annual Interest Rate (%)
HNCB	\$ 312,354	0-1.065	\$ 474,552	0-1.065

b) Payable to related party for allocation under the linked-tax system

	For the Year Ended December 31			
	2019		2018	
	Amount	%	Amount	%
Tax payable to the parent company	\$ -	-	\$ 164,314	100

3) SCIC

a) Cash and cash equivalents

	December 31			
	2019		2018	
	Amount	Annual Interest Rate (%)	Amount	Annual Interest Rate (%)
HNCB	\$ 913,417	0-1.065	\$ 691,706	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			
	2019		2018	
	The Amount of Discretionary Investment	Value of the Assets Under Management	The Amount of Discretionary Investment	Value of the Assets Under Management
HNIT	\$ 100,000	\$ 115,846	\$ 150,000	\$ 137,627

4) HNAME

a) Cash and cash equivalents

	December 31			
	2019		2018	
	Ending Balance	Annual Interest Rate (%)	Ending Balance	Annual Interest Rate (%)
HNCB	\$ 114,118	0-0.08	\$ 39,791	0-0.13

b) HNAME purchased non-performing loans ("NPLS") from HNBF in October 2005. As of December 31, 2019 and 2018, there were \$174,198 of NPL which have not been sold or recovered, respectively.

5) HNLC - Shenzhen

Cash and cash equivalents

	December 31			
	2019		2018	
	Amount	Annual Interest Rate (%)	Amount	Annual Interest Rate (%)
HNCB	\$ 326,981	0.05-2.25	\$ 444,581	0.05-2.25

6) Subsidiaries of HNSC

a) Cash and cash equivalents

	December 31			
	2019		2018	
	Amount	Annual Interest Rate (%)	Amount	Annual Interest Rate (%)
HNCB	\$ 441,840	0-1.065	\$ 590,768	0-0.3001

b) Customers' margin account-deposit

	December 31	
	2019	2018
HNCB	\$ 268,753	\$ 475,397

46. CASH FLOW INFORMATION

Changes in Liabilities Arising from Financing Activities

For the year ended December 31, 2019

	Opening Balance	Application Effect IFRS 16	Adjustment Amounts	Cash Flows	Non-cash Changes			Other	Closing Balance
					Increase In Leasing	Change in Exchange Rates	Other Changes		
Short-term debts	\$ 1,621,000	\$ -	\$ 1,621,000	\$(863,000)	\$ -	\$ -	\$ -	\$ -	\$ 758,000
Commercial paper payable	15,950,469	-	15,950,469	2,578,623	-	-	1,896	-	18,530,988
Corporate debentures	16,889,023	-	16,889,023	-	-	-	2,588	-	16,891,611
Bank debentures	41,700,000	-	41,700,000	1,700,000	-	-	-	-	43,400,000
Long-term debts	500,000	-	500,000	200,000	-	-	-	-	700,000
Lease liabilities	-	1,841,034	1,841,034	(689,89)	928,201	(1,063)	-	(31,999)	2,046,274
	<u>\$ 76,660,492</u>	<u>\$ 1,841,034</u>	<u>\$ 78,501,526</u>	<u>\$ 2,925,724</u>	<u>\$ 928,201</u>	<u>\$(1,063)</u>	<u>\$ 4,484</u>	<u>\$(31,999)</u>	<u>\$ 82,326,873</u>

For the year ended December 31, 2018

	Opening Balance	Cash Flows	Non-cash Changes		Closing Balance
			Change in Exchange Rates	Other Changes	
Short-term debts	\$ 403,000	\$ 1,218,000	\$ -	\$ -	\$ 1,621,000
Commercial paper payable	27,524,893	(11,572,628)	-	(1,796)	15,950,469
Corporate debentures	9,898,450	7,000,000	-	(9,427)	16,889,023
Bank debentures	43,550,000	(1,850,000)	-	-	41,700,000
Long-term debts	300,000	200,000	-	-	500,000
	<u>\$ 81,676,343</u>	<u>\$(5,004,628)</u>	<u>\$ -</u>	<u>\$(11,223)</u>	<u>\$ 76,660,492</u>

47. PLEDGED ASSETS

The pledged assets as of December 31, 2019 and 2018 were as follows:

	December 31	
	2019	2018
Equity instruments at fair value through other comprehensive income	\$ 511,466	\$ 171,641
Debt instruments at fair value through other comprehensive income - par value	1,033,425	1,055,232
Financial assets at amortized cost - bond investment - par value	8,332,500	5,078,700
Financial assets at amortized cost - negotiable certificates of deposits	39,200,000	39,050,000
Other assets - operating deposits and settlement fund	876,930	675,343
Other assets - restricted assets	122,195	233,130
Property and equipment - land	938,871	938,871
Property and equipment - buildings, net	231,891	242,881
Investment properties - land	88,500	88,500
Investment properties - buildings, net	13,035	13,434
	<u>\$ 51,348,813</u>	<u>\$ 47,547,732</u>

48. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

a. HNCB and its subsidiaries

1) As of December 31, 2019 and 2018, HNCB and its subsidiaries had commitments as follows:

	December 31	
	2019	2018
Undrawn loan commitment (Note)	\$ 150,264,736	\$ 150,289,304
Undrawn credit card commitment	93,693,995	95,642,222
Standby letters of credit	24,053,258	26,943,628
Guarantees issued	42,699,314	40,722,624
Collections for customers	92,435,837	105,236,245
Commissioned deposit	1,263	1,263
Travelers' checks consigned-in	178,317	220,511
Guarantee notes payable	48,512,220	45,129,280
Trust assets	802,121,803	535,520,121
Marketable securities under custody	10,075,969	10,811,711
Agent for book-entry government bonds	56,667,600	73,657,300
Agent for short-term bills under custody	68,450,319	55,164,860

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.
First Life Insurance Co., Ltd.	2019.09.23	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.

b. HNSC and its subsidiaries

- 1) 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.
- 2) 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.
- 3) 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.
- 4) Former HNSC Minchuan Branch employee Mr. Dong was laid off by the Company on January 19, 2018. The plaintiff filed a lawsuit related to salary payment, stating that the employment agreement remains effective. The plaintiff declared HNSC should pay 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 but a settlement cannot be reached. Trial was held on December 5, 2018. On July 26, 2019, the Court sentence that the plaintiff's complaint was rejected. On the basis of whether Mr. Dong file an appeal or not, HNSC will go through formalities while the loss had been estimated and recorded. This case was heard by the Supreme Court Kaohsiung Branch at 11:00 a.m. on December 31, 2019. The court asked them to try settlement, trial will be held at 11:00 a.m. on February 25, 2020.
- 5) The plaintiff, Mr. Huang, Mr. Shi and Mr. Huang filed a lawsuit to Taiwan Kaohsiung District Court against Mr. Yu, Mr. Wu and HNSC requested \$12,575 as compensation for investment loss along with the interest which 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. Trial was held on April 11, December 12, 2019 and February 10, 2020. The case is pending as the court has not informed court session.
- 6) The plaintiff, Mr. Wang's mother is the stakeholder of the company, died on August 20, 2017, The company distributed the dividends to Mr. Wang and send the Dividend Statement to Mr. Wang as his income, Mr. Wang declared the dividends that is his mother estate not his income, appealed a lawsuit to Taiwan Kaohsiung District Court, against HNSC requested \$64 as compensation for investment loss along with the interest which was calculated at 5% interest rate per annum from the delivery date of declaration to the settlement date. This case will transfer from Taiwan Kaohsiung District Court to Taiwan Taipei District Court. Already sent the replication on January 31, 2020.
- 7) The plaintiff, Mr. Tsai, was a former HNSC Fengshan Branch employee sales senior manager, working period from July 7, 2017 to October 31, 2018. After personal reason to resign, declared HNSC offer contract "Guarantee the Year-End Bonus 2 months", he appealed a lawsuit to Taiwan Kaohsiung District Court Fengshan Simple Court, against HNSC paid \$150 the Year-End Bonus. The Court sentence that first appealed HNSC win, the plaintiff's complaint was rejected. The plaintiff didn't accept the result, he appealed second. The preparation of second on March 4, 2020.

c. SCIC

Unrecognized contractual agreements

	December 31	
	2019	2018
Purchase of property, equipment and intangible assets	\$ 5,162	\$ 6,857

49. 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, 2019, HNCB and HNIT had bought back \$5,674,542 and \$1,714,352, 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 \$3,261,389 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.

50. 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, 2019			
	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	\$ 8,166,233	\$ 6,979,796	\$ 61,450	\$ 1,124,987
Investment in bonds	2,844,290	428,758	2,415,532	-
Others	67,928,539	1,073,414	66,595,869	259,256
Financial assets at fair value through other comprehensive income				
Investment in stocks	34,480,143	25,729,177	-	8,750,966
Investment in bonds	182,983,876	4,270,207	178,713,669	-
Others	4,220,042	-	4,220,042	-
Other financial assets				
Buy the overdue receivable	41,227	-	-	41,227

Assets and Liabilities Items	December 31, 2019			
	Total	Level 1	Level 2	Level 3
<u>Liabilities</u>				
Financial liabilities at fair value through profit or loss				
Held for trading financial liabilities	\$ 42,742	\$ 42,742	\$ -	\$ -
<u>Derivative financial instruments</u>				
<u>Assets</u>				
Financial assets at fair value through profit or loss	893,136	713	892,423	-
<u>Liabilities</u>				
Financial liabilities at fair value through profit or loss	3,007,447	2,893	3,004,554	-
<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	18,554,635	-	7,134,259
Investment in bonds	160,701,589	20,455,323	140,246,266	-
Others	5,057,190	-	5,057,190	-
Other financial assets				
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	-

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, 2019

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	
Financial assets at fair value through profit or loss								
Unlisted stocks	\$ 1,055,965	\$ 6,295	\$ -	\$ 93,072	\$ -	\$ 30,345	\$ -	\$ 1,124,987
Equity investment	271,047	(30,791)	-	19,000	-	-	-	259,256
Financial assets at fair value through other comprehensive income								
Unlisted stocks	7,134,259	-	1,628,517	-	-	11,810	-	8,750,966
Other financial assets								
Overdue receivables	43,429	2,912	-	-	-	5,114	-	41,227

As of December 31, 2019, the valuation loss included in profit and loss for assets still held was \$33,185.

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	
Financial assets at fair value through profit or loss								
Unlisted stocks	\$ 1,011,016	\$ 59,158	\$ -	\$ 41,478	\$ -	\$ 55,687	\$ -	\$ 1,055,965
Equity investment	-	(7,453)	-	278,500	-	-	-	271,047
Financial assets at fair value through other comprehensive income								
Unlisted stocks	7,682,561	-	(302,562)	75,000	-	320,740	-	7,134,259
Other financial assets								
Overdue receivables	58,197	12,827	-	-	-	27,595	-	43,429

As of December 31, 2018, the valuation loss included in profit and loss for assets still held was \$51,705.

c. Quantitative information about the significant unobservable inputs (Level 3) used in the fair value measurement

As of December 31, 2019 and 2018, Level 3 items of financial assets and financial liabilities held by the Company and its subsidiaries. The quantitative information about the unobservable inputs is as follows:

Name	Fair Value on December 31, 2019	Fair Value on December 31, 2018	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						
Unlisted stocks	\$ 1,124,987	\$ 1,055,965	Sellers' quote (Monte Carlo Simulation Method)	Volatility	0%-30%	Positive correlation
Equity investment	259,256	271,047	Sellers' quote (Monte Carlo Simulation Method)	Volatility	0%-30%	Positive correlation
Financial assets at fair value through other comprehensive income						
Unlisted stocks	8,750,966	7,134,259	Sellers' quote (Monte Carlo Simulation Method)	Volatility	0%-30%	Positive correlation
Other financial assets						
Overdue receivables	41,227	43,429	Market approach	Discount rate	5%	Negative correlation

HNFH

As of December 31, 2019 and 2018, Level 3 items of financial assets and financial liabilities held by HNFH. The quantitative information about the unobservable inputs is as follows:

Name	Fair Value on December 31, 2019	Fair Value on December 31, 2018	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 other comprehensive income						
Unlisted stocks	\$ 761,454	\$ 874,254	Sellers' quote (Monte Carlo Simulation Method)	Volatility	0%-30%	Positive correlation

HNCB and its subsidiaries

As of December 31, 2019 and 2018, Level 3 items of financial assets and financial liabilities held by HNFH. The quantitative information about the unobservable inputs is as follows:

Name	Fair Value on December 31, 2019	Fair Value on December 31, 2018	Valuation Techniques	Significant Unobservable Inputs	Interval (Weighted-average)	Correlation Between Inputs and Fair Value
<u>Measured on a recurring basis</u>						
Financial assets mandatorily at fair value through profit or loss						
Equity investment	\$ 169,029	\$ 190,000	Sellers' quote (Monte Carlo Simulation Method)	Volatility	0%-30%	Positive correlation
Financial assets at fair value through other comprehensive income						
Unlisted stocks	7,399,126	5,681,765	Sellers' quote (Monte Carlo Simulation Method)	Volatility	0%-30%	Positive correlation

HNSC and its subsidiaries

Significant unobservable inputs are as follow:

Non-controlling interest and liquidity discount. The discount rate was 10% since companies which HNSC invested are government institutions, therefore it would not incur much loss on non-controlling interest.

Name	Fair Value on December 31, 2019	Fair Value on December 31, 2018	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 other comprehensive income						
Unlisted stocks	\$ 481,725	\$ 456,081	Sellers' quote (Monte Carlo Simulation Method)	Volatility	0%-30%	Positive correlation

SCIC

Significant unobservable inputs are as below. When liquidity discount and non-controlling interest discount decrease, the investments' fair value will increase.

	Fair Value on December 31, 2019	Fair Value on December 31, 2018	Valuation Techniques	Significant Unobservable Inputs	Interval (Weighted- average)	Correlation Between Inputs and Fair Value
<u>Measured on a recurring basis</u>						
Financial assets mandatorily at fair value through profit or loss						
Unlisted stocks	\$ 61,171	\$ 64,819	Sellers' quote (Monte Carlo Simulation Method)	Volatility	0%-30%	Positive correlation
Equity investment	13,344	15,000	Sellers' quote (Monte Carlo Simulation Method)	Volatility	0%-30%	Positive correlation
Financial assets at fair value through other comprehensive income						
Unlisted stocks	23,100	29,994	Sellers' quote (Monte Carlo Simulation Method)	Volatility	0%-30%	Positive correlation

	December 31	
	2019	2018
Liquidity discount	10%-20%	10%-20%
Non-controlling interest discount	10%-20%	20%

HNAMC

Significant unobservable input is 5% discount rate.

Name	Fair Value on December 31, 2019	Fair Value on December 31, 2018	Valuation Techniques	Significant Unobservable Inputs	Interval (Weighted- average)	Correlation Between Inputs and Fair Value
<u>Measured on a recurring basis</u>						
Financial assets mandatorily at fair value through profit or loss						
Overdue receivables	\$ 41,227	\$ 43,429	Market approach	Discount rate	5%	Negative correlation
Financial assets at fair value through other comprehensive income						
Unlisted stocks	16,911	25,000	Sellers' quote (Monte Carlo Simulation Method)	Volatility	0%-30%	Positive correlation

HNIT

Significant unobservable inputs are as follow:

Name	Fair Value on December 31, 2019	Fair Value on December 31, 2018	Valuation Techniques	Significant Unobservable Inputs	Interval (Weighted-average)	Correlation Between Inputs and Fair Value
Measured on a recurring basis						
Financial assets at fair value through other comprehensive income						
Unlisted stocks	\$ 68,650	\$ 67,165	Sellers' quote (Monte Carlo Simulation Method)	Volatility	10%	Positive correlation

Non-controlling interest and liquidity discount. The discount rate was 10% respectively since companies which HNIT invested are government institutions, therefore it would not incur much loss on non-controlling interest.

HNVC

Significant unobservable inputs are as follow:

Name	Fair Value on December 31, 2019	Fair Value on December 31, 2018	Valuation Techniques	Significant Unobservable Inputs	Interval (Weighted-average)	Correlation Between Inputs and Fair Value
Measured on a recurring basis						
Financial assets mandatorily at fair value through profit or loss						
Unlisted stocks	\$ 1,063,816	\$ 991,146	Sellers' quote (Monte Carlo Simulation Method)	Volatility	0%-30%	Positive correlation
Equity investment	76,883	66,047	Sellers' quote (Monte Carlo Simulation Method)	Volatility	0%-30%	Positive correlation

d. 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.

SCIC

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.

- e. 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, 2019 and 2018, 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, 2019</u>				
<u>Assets</u>				
Financial assets mandatorily at fair value through profit or loss				
Equity investment	\$ 1,165	\$(1,165)	\$ -	\$ -
Financial assets at fair value through other comprehensive income - equity instruments				
Unlisted stocks	-	-	529,676	(529,676)
<u>Liabilities</u>				
Financial liabilities at fair value through profit or loss				
Assets swap	47	(47)	-	-

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)	-	-

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, Securities sold under resale agreements, 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, 2019</u>		
Financial assets		
Financial assets at amortized cost	\$ 447,029,802	\$ 449,411,863
Non-financial assets		
Investment properties	8,472,084	29,869,298
Financial liabilities		
Bank debentures	43,400,000	49,678,605
<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

b. Hierarchy information of fair value of financial instruments

Assets and Liabilities Items	December 31, 2019			
	Total	Level 1	Level 2	Level 3
Financial assets				
Financial assets at amortized cost	\$ 449,411,863	\$ 12,691,639	\$ 436,720,224	-
Non-financial assets				
Investment properties	29,869,298	-	-	29,869,298
Financial liabilities				
Bank debentures	49,678,605	-	49,678,605	-

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	-

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, securities purchased under agreements to resell, 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: 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 0.9597% to 1.0707%.

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 and marginal receivables for future exchanges	Discounted cash flow. Future cash flows are discounted at a rate that reflects current borrowing interest rates of the 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.
Derivatives - contract value of assets swap IRS	Discounted cash flow. Future cash flows are discounted at the end of the reporting period.
Derivatives - assets swap option	Calculated by deducting bond value from the closing price of convertible bond.
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	
	2019	2018
Financial assets		
Mandatory at fair value through profit or loss	\$ 2,854,850	\$ 1,166,003
Financial assets of amortized cost (Note 1)	25,598,358	25,727,078
Financial assets at fair value through other comprehensive income		
Investments in equity instruments	3,134,698	1,889,438
Investments in debt instruments	13,943,061	8,042,504
Financial liabilities		
Financial liabilities at fair value through profit or loss		
Held for trading	79,834	49,752
Financial liabilities valued at amortized cost (Note 2)	33,712,340	25,747,635

Note 1: 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 deferred expenses and prepayments for equipment).

Note 2: 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, guarantee deposits received and other non-current liabilities.

SCIC

a. The information of fair value

1) Financial instruments not valued at fair value

December 31, 2019

		Fair Value			
	Book Value	Level 1	Level 2	Level 3	Total
Financial assets at amortized cost (Note)					
Domestic bank debentures	\$ 99,072	\$ -	\$ 99,996	\$ -	\$ 99,996
Domestic government bonds	296,346	324,991	-	-	324,991
Foreign bank debentures	456,650	-	480,008	-	480,008
Foreign corporate bonds	1,024,639	-	1,064,726	-	1,064,726
Foreign government bonds	<u>179,185</u>	<u>188,441</u>	<u>-</u>	<u>-</u>	<u>188,441</u>
	<u>\$ 2,055,892</u>	<u>\$ 513,432</u>	<u>\$ 1,644,730</u>	<u>\$ -</u>	<u>\$ 2,158,162</u>

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	<u>183,514</u>	<u>175,284</u>	<u>-</u>	<u>-</u>	<u>175,284</u>
	\$ 2,013,735	\$ 481,184	\$ 1,469,598	\$ -	\$ 1,950,782

Note: Included amortized cost 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.

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	
	2019	2018
<u>Financial assets</u>		
Mandatory at fair value through profit or loss	\$ 4,641,533	\$ 2,672,268
Financial assets at amortized costs (Note 1)	6,709,572	6,633,697
Financial assets at fair value through other comprehensive income		
Equity instruments	23,100	29,994
Debt instruments	3,112,277	3,468,980
<u>Financial liabilities</u>		
Financial liabilities at fair value through profit or loss		
Held for trading	4,507	19,487
Financial liabilities at amortized cost (Note 2)	707,353	592,752

Note 1: Balance includes cash and cash equivalents, receivables, financial assets amortized at cost, other financial assets, loans and refundable deposits.

Note 2: 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	
	2019	2018
<u>Financial assets</u>		
Financial liabilities value at amortized cost (Note 1)	\$ 474,818	\$ 489,329
Mandatorily at fair value through profit or loss	-	4,156
Fair value through other comprehensive income - equity instruments	68,650	67,165
<u>Financial liabilities</u>		
Financial liabilities valued at amortized cost (Note 2)	315,090	320,076

Note 1: 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 2: Balances include financial liabilities amortized at cost such as short-term loans, short-term bill and other payables (excluding dividend payable, salary and incentive payable, incentive payable, pension payable, labor insurance and national health insurance payable and sales tax payable).

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	
	2019	2018
<u>Financial assets</u>		
Fair value through profit or loss		
Mandatorily at fair value through profit or loss	\$ 1,191,891	\$ 1,106,031
Financial assets at amortized cost (Note 1)	299,678	394,987
<u>Financial liabilities</u>		
Financial liabilities at amortized cost (Note 2)	128	89

Note 1: Balances include financial assets at amortized cost such cash and cash equivalents, accounts receivable, other receivables, other receivables - related party, other financial assets and refundable deposit.

Note 2: 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	
	2019	2018
<u>Financial assets</u>		
Financial assets at amortized cost (Note 1)	\$ 124,943	\$ 48,935
Fair value through other comprehensive income - equity instruments	16,911	25,000
Mandatorily at fair value through profit or loss	41,226	43,430
<u>Financial liabilities</u>		
Financial liabilities valued at amortized cost (Note 2)	2,608,263	2,410,504

Note 1: 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 2: 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).

51. 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.

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

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:

December 31, 2019

	Book Value	Allowance Impairment	Exposure	Collateral Fair Value
Receivables				
Credit card receivables	\$ 136,433	\$ 19,801	\$ 116,632	\$ -
Others	5,811,722	3,334,851	2,476,871	-
Discounts and loans	17,911,783	4,067,366	13,844,417	21,540,041
	<u>\$ 23,859,938</u>	<u>\$ 7,422,018</u>	<u>\$ 16,437,920</u>	<u>\$ 21,540,041</u>

December 31, 2018

	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	17,647,558	4,274,535	13,373,023	20,527,741
	<u>\$ 23,686,032</u>	<u>\$ 7,780,244</u>	<u>\$ 15,905,788</u>	<u>\$ 20,527,741</u>

d) The determination since the initial recognition of the credit risk has increased significantly

i. Loan business

HNCB and its subsidiaries assess the change in the probability of default of discounts and loans, financing commitments of loans 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 as debtors' internal evaluation, default condition and the domain which pledge situated in. 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 that do not meet the definition of stage 3, but whose loan or receivable were overdue 8 to 30 days.

Stage 3: Clients which meet the definition of e) Definition of financial asset default and credit impairment.

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

i. Loan business

If one or more of the following condition are met, HNCB and its subsidiaries determine such financial assets as default and with credit impairment:

- 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.

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

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

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 interest, 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

• Loan business

HNCB and its subsidiaries divide loan business into corporate banking and customer banking. Corporate banking includes 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, debit and 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 "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".

• 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

• 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

Changes of discounts and loans allowance loss

	For the Year Ended December 31, 2019						
	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	\$ 5,086,731	\$ 570,509	\$ 4,127,617	\$ 146,918	\$ 9,931,775	\$ 10,580,374	\$ 20,512,149
Changes of financial instruments that have been identified at the beginning of the year:							
To lifetime ECL	(172,372)	180,373	(6,072)	(1,929)	-	-	-
To credit impaired financial assets	(478,228)	(61,908)	500,766	39,370	-	-	-
To 12-month ECL	3,921	(3,163)	(726)	(32)	-	-	-
Derecognizing financial assets during the current period	(3,756,396)	(269,726)	(2,253,010)	(79,978)	(6,359,110)	-	(6,359,110)
Purchased or originated financial assets	4,526,890	422,677	1,560,882	50,820	6,561,269	-	6,561,269
Loss recognized based on the regulations	-	-	-	-	-	(249,007)	(249,007)
Exchange rate and others changes	(53,705)	(63)	(17,260)	-	(71,028)	-	(71,028)
Balance, December 31	<u>\$ 5,156,841</u>	<u>\$ 838,699</u>	<u>\$ 3,912,197</u>	<u>\$ 155,169</u>	<u>\$ 10,062,906</u>	<u>\$ 10,331,367</u>	<u>\$ 20,394,273</u>

	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	(183,460)	198,168	(12,573)	(2,135)	-	-	-
To credit impaired financial assets	(542,944)	(46,891)	542,287	47,548	-	-	-
To 12-month ECL	37,493	(37,189)	(277)	(27)	-	-	-
Derecognizing financial assets during the current period	(4,121,752)	(2,192,033)	(3,987,500)	(88,565)	(10,389,850)	-	(10,389,850)
Purchased or originated financial assets	4,663,096	128,547	1,727,101	41,352	6,560,096	-	6,560,096
Loss recognized based on the regulations	-	-	-	-	-	4,942,535	4,942,535
Exchange rate and others changes	65,496	832	19,326	-	85,654	-	85,654
Balance, December 31	<u>\$ 5,086,731</u>	<u>\$ 570,509</u>	<u>\$ 4,127,617</u>	<u>\$ 146,918</u>	<u>\$ 9,931,775</u>	<u>\$ 10,580,374</u>	<u>\$ 20,512,149</u>

Changes of discounts and loans book value

	For the Year Ended December 31, 2019				
	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	\$ 1,587,472,419	\$ 38,382,559	\$ 16,918,719	\$ 728,839	\$ 1,643,502,536
Changes of financial instruments that have been identified at the beginning of the year:					
To lifetime ECL	(3,607,390)	3,725,692	(80,719)	(37,583)	-
To credit impaired financial assets	(3,495,668)	(399,894)	3,703,147	192,415	-
To 12-month ECL	2,603,055	(1,881,982)	(695,273)	(25,800)	-
Derecognizing financial assets during the current period	(794,809,629)	(10,229,801)	(8,278,242)	(406,483)	(813,724,155)
Purchased or originated financial assets	849,533,179	8,828,009	5,568,547	370,374	864,300,109
Exchange rate and others changes	(3,528,646)	(7,122)	(46,158)	-	(3,581,926)
Balance, December 31	\$ 1,634,167,320	\$ 38,417,461	\$ 17,090,021	\$ 821,762	\$ 1,690,496,564

	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	(3,753,206)	3,894,163	(133,426)	(7,531)	-
To credit impaired financial assets	(3,317,241)	(277,789)	3,334,310	260,720	-
To 12-month ECL	8,497,431	(8,085,691)	(374,031)	(37,709)	-
Derecognizing financial assets during the current period	(760,806,538)	(16,872,627)	(12,245,927)	(416,933)	(790,342,025)
Purchased or originated financial assets	809,640,048	10,390,538	5,574,365	202,428	825,807,379
Exchange rate and others changes	6,626,408	58,653	72,368	-	6,757,429
Balance, December 31	\$ 1,587,472,419	\$ 38,382,559	\$ 16,918,719	\$ 728,839	\$ 1,643,502,536

Changes of receivable allowance loss

	For the Year Ended December 31, 2019						
	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	\$ 64,753	\$ 30,401	\$ 3,479,224	\$ 26,485	\$ 3,600,863	\$ 65,923	\$ 3,666,786
Changes of financial instruments that have been identified at the beginning of the year:							
To lifetime ECL	(3,894)	3,900	(2)	(4)	-	-	-
To credit impaired financial assets	(11,905)	(1,354)	2,038	11,221	-	-	-
To 12-month ECL	9	(8)	-	(1)	-	-	-
Derecognizing financial assets during the current period	(68,944)	(3,947)	(183,273)	(19,069)	(275,233)	-	(275,233)
Purchased or originated financial assets	75,877	8,413	32,140	6,002	122,432	-	122,432
Loss recognized based on the Regulations	-	-	-	-	-	(23,724)	(23,724)
Exchange rate and others changes	(1,485)	(58)	(109)	-	(1,652)	-	(1,652)
Balance, December 31	\$ 54,411	\$ 37,347	\$ 3,330,018	\$ 24,634	\$ 3,446,410	\$ 42,199	\$ 3,488,609

	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	(2,196)	2,205	(4)	(5)	-	-	-
To credit impaired financial assets	(13,143)	(2,083)	1,708	13,518	-	-	-
To 12-month ECL	33	(33)	-	-	-	-	-
Derecognizing financial assets during the current period	(55,070)	(6,212)	(27,327)	(17,114)	(105,723)	-	(105,723)
Purchased or originated financial assets	72,185	23,566	102,069	7,093	204,913	-	204,913
Loss recognized based on the Regulations	-	-	-	-	-	7,278	7,278
Exchange rate and others changes	1,533	28	7	-	1,568	-	1,568
Balance, December 31	\$ 64,753	\$ 30,401	\$ 3,479,224	\$ 26,485	\$ 3,600,863	\$ 65,923	\$ 3,666,786

Changes of receivable book value

	For the Year Ended December 31, 2019				
	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	\$ 15,340,111	\$ 6,582,923	\$ 5,898,853	\$ 139,621	\$ 27,961,508
Changes of financial instruments that have been identified at the beginning of the year:					
To lifetime ECL	(122,718)	122,969	(160)	(91)	-
To credit impaired financial assets	(90,034)	(14,092)	15,088	89,038	-
To 12-month ECL	8,610	(7,221)	(938)	(451)	-
Derecognizing financial assets during the current period	(9,779,701)	(152,800)	(52,089)	(93,984)	(10,078,574)
Purchased or originated financial assets	9,360,349	2,099,682	64,459	12,878	11,537,368
Exchange rate and others changes	(104,997)	(2,974)	(124,069)	-	(232,040)
Balance, December 31	\$ 14,611,620	\$ 8,628,487	\$ 5,801,144	\$ 147,011	\$ 29,188,262

	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	(42,727)	43,133	(326)	(80)	-
To credit impaired financial assets	(87,792)	(12,843)	9,140	91,495	-
To 12-month ECL	153,816	(153,134)	(450)	(232)	-
Derecognizing financial assets during the current period	(9,905,378)	(260,066)	(113,861)	(91,659)	(10,370,964)
Purchased or originated financial assets	10,250,240	138,820	316,405	14,590	10,720,055
Exchange rate and others changes	155,323	635	109	-	156,067
Balance, December 31	\$ 15,340,111	\$ 6,582,923	\$ 5,898,853	\$ 139,621	\$ 27,961,508

Changes of other financial assets allowance loss

	For the Year Ended December 31, 2019						
	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	\$ 6,362	\$ -	\$ 42,099	\$ 4,152	\$ 52,613	\$ 6,756	\$ 59,369
Changes of financial instruments that have been identified at the beginning of the year:							
Derecognizing financial assets during the current period	(21,398)	-	(6,253)	(3,062)	(30,713)	-	(30,713)
Purchased or originated financial assets	20,700	-	22,990	3,280	46,970	-	46,970
Loss recognized based on the Regulations	-	-	-	-	-	(3,012)	(3,012)
Exchange rate and others changes	(131)	-	-	-	(131)	-	(131)
Balance, December 31	<u>\$ 5,533</u>	<u>\$ -</u>	<u>\$ 58,836</u>	<u>\$ 4,370</u>	<u>\$ 68,739</u>	<u>\$ 3,744</u>	<u>\$ 72,483</u>

	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:							
Derecognizing financial assets during the current period	(10,059)	-	(1,118,481)	(2,038)	(1,130,578)	-	(1,130,578)
Purchased or originated financial assets	15,263	-	4,757	3,841	23,861	-	23,861
Loss recognized based on the Regulations	-	-	-	-	-	27,124	27,124
Exchange rate and others changes	(173)	-	(165)	-	(338)	-	(338)
Balance, December 31	<u>\$ 6,362</u>	<u>\$ -</u>	<u>\$ 42,099</u>	<u>\$ 4,152</u>	<u>\$ 52,613</u>	<u>\$ 6,756</u>	<u>\$ 59,369</u>

Changes of other financial assets book value

	For the Year Ended December 31, 2019				
	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	\$ 408,266	\$ -	\$ 211,202	\$ 11,411	\$ 630,879
Changes of financial instruments that have been identified at the beginning of the year:					
To lifetime ECL	(139,784)	139,784	-	-	-
Derecognizing financial assets during the current period	(189,493)	(139,784)	(22,244)	(6,397)	(357,918)
Purchased or originated financial assets	250,990	-	22,261	7,589	280,840
Exchange rate and others changes	(6,543)	-	-	-	(6,543)
Balance, December 31	<u>\$ 323,436</u>	<u>\$ -</u>	<u>\$ 211,219</u>	<u>\$ 12,603</u>	<u>\$ 547,258</u>

	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:					
Derecognizing financial assets during the current period	(327,343)	-	(1,126,469)	(3,867)	(1,457,679)
Purchased or originated financial assets	369,952	-	7,095	9,049	386,096
Exchange rate and others changes	(3,675)	-	(165)	-	(3,840)
Balance, December 31	\$ 408,266	\$ -	\$ 211,202	\$ 11,411	\$ 630,879

Changes of commitment and guarantee liability provisions

	For the Year Ended December 31, 2019						
	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	\$ 1,314,884	\$ 11,337	\$ 125,873	\$ 9,693	\$ 1,461,787	\$ 534,946	\$ 1,996,733
Changes of financial instruments that have been identified at the beginning of the year:							
To lifetime ECL	(1,727)	1,727	-	-	-	-	-
To credit impaired financial assets	(149,546)	(149)	147,579	2,116	-	-	-
To 12-month ECL	613	(607)	(6)	-	-	-	-
Derecognizing financial assets during the current period	(1,082,543)	(9,225)	(89,665)	(4,467)	(1,185,900)	-	(1,185,900)
Purchased or originated financial assets	1,058,080	7,170	32,924	4,368	1,102,542	-	1,102,542
Loss recognized based on the Regulations	-	-	-	-	-	(24,429)	(24,429)
Exchange rate and others changes	(4,529)	(10)	(173)	-	(4,712)	-	(4,712)
Balance, December 31	\$ 1,135,232	\$ 10,243	\$ 216,532	\$ 11,710	\$ 1,373,717	\$ 510,517	\$ 1,884,234

	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	(2,036)	2,141	(105)	-	-	-	-
To credit impaired financial assets	(6,714)	(259)	3,866	3,107	-	-	-
To 12-month ECL	5,443	(4,097)	(1,346)	-	-	-	-
Derecognizing financial assets during the current period	(1,035,187)	(222,381)	(192,206)	(3,176)	(1,452,950)	-	(1,452,950)
Purchased or originated financial assets	1,104,266	5,791	94,235	1,446	1,205,738	-	1,205,738
Loss recognized based on the Regulations	-	-	-	-	-	161,589	161,589
Exchange rate and others changes	7,053	40	948	-	8,041	-	8,041
Balance, December 31	\$ 1,314,884	\$ 11,337	\$ 125,873	\$ 9,693	\$ 1,461,787	\$ 534,946	\$ 1,996,733

k) The maximum credit exposure of the financial instruments

- i. Maximum credit exposures of assets, excluding collaterals and other credit enhancement instruments, on consolidated balance sheet are almost equivalent to its carrying amount.
- ii. 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, 2019	December 31, 2018
Undrawn loan commitment	\$ 150,264,736	\$ 150,289,304
Undrawn credit card commitment	93,693,995	95,642,222
Standby letters of credit	24,053,258	26,943,628
Guarantees issued	42,699,314	40,722,624
Total	\$ 310,711,303	\$ 313,597,778

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, 2019

	Maximum Exposure to Credit Risk Mitigated by			
	Collateral	Master Netting Arrangement	Other Credit Enhancements	Total
<u>Balance sheet items</u>				
Cash and cash equivalents				
Due from other banks	\$ -	\$ -	\$ 39,016,035	\$ 39,016,035
Due from the Central Bank and other banks				
Others	-	-	142,073,952	142,073,952
Financial assets at fair value through other comprehensive income				
Bond investments	2,199,983	-	163,728,555	165,928,538
Others	-	-	4,220,042	4,220,042
Amortized costs - debt instruments				
Bond investments	6,101,333	-	101,425,089	107,526,422
Others	-	-	339,519,525	339,519,525
Receivables				
Credit cards business	-	-	8,885,482	8,885,482
Others	-	-	11,211,894	11,211,894
Discounts and loans	1,220,486,546	-	470,010,018	1,690,496,564
Other financial assets				
Others	-	-	508	508
Other assets				
Refundable deposit	-	-	1,562,787	1,562,787
<u>Off-balance sheet items</u>				
Undrawn loan commitment	38,196	-	150,226,540	150,264,736
Undrawn credit card commitment	-	-	93,693,995	93,693,995
Standby letters of credit	10,243,427	-	13,809,831	24,053,258
Guarantees issued	20,464,048	-	22,235,266	42,699,314

December 31, 2018

	Maximum Exposure to Credit Risk Mitigated by			
	Collateral	Master Netting Arrangement	Other Credit Enhancements	Total
<u>Balance sheet items</u>				
Cash and cash equivalents				
Due from other banks	\$ -	\$ -	\$ 40,659,318	\$ 40,659,318
Due from the Central Bank and other banks				
Others	-	-	156,719,466	156,719,466
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
Receivables				
Credit cards business	-	-	8,166,961	8,166,961
Others	-	-	10,632,377	10,632,377
Discounts and loans	1,169,546,964	-	473,955,572	1,643,502,536
Other financial assets				
Others	-	-	10,841	10,841
Other assets				
Refundable deposit	-	-	909,530	909,530
<u>Off-balance sheet items</u>				
Undrawn loan commitment	\$ 73,532	\$ -	\$ 150,215,772	\$ 150,289,304
Undrawn credit card commitment	-	-	95,642,222	95,642,222
Standby letters of credit	11,899,471	-	15,044,157	26,943,628
Guarantees issued	20,030,458	-	20,692,166	40,722,624

iii. Total book value of the maximum credit risk exposures discounted and loans

Categories of Financial Assets	December 31, 2019			
	Stage 1	Stage 2	Stage 3	Total
	12-month Expected Credit Losses	Duration Period Credit Losses	Duration Period Credit Losses	
Ratings				
Corporate finance	\$ 1,008,590,138	\$ 34,760,853	\$ 9,579,289	\$ 1,052,930,280
Personal finance	620,420,341	2,817,909	4,265,128	627,503,378
Total book value	\$ 1,629,010,479	\$ 37,578,762	\$ 13,844,417	\$ 1,680,433,658

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	\$ 972,978,684	\$ 35,467,758	\$ 9,072,019	\$ 1,017,518,461
Personal finance	609,407,004	2,344,292	4,301,004	616,052,300
Total book value	\$ 1,582,385,688	\$ 37,812,050	\$ 13,373,023	\$ 1,633,570,761

iv. Amount that does not apply impairment of financial instruments of the maximum credit risk exposure

	December 31	
	2019	2018
Financial assets at fair value through profit or loss		
Bonds	\$ 2,142,742	\$ 1,652,454
Derivative financial instruments	740,109	3,841,967
Others	68,261,073	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, 2019		December 31, 2018	
	Amount	%	Amount	%
Private enterprise	\$ 799,071,202	47	\$ 754,063,006	46
Natural person	627,458,292	37	616,645,751	37
Foreign institution	219,120,000	13	231,259,383	14
Government agency	26,193,908	2	28,214,822	2
Public enterprise	17,004,768	1	12,000,000	1
Non-profit organization	1,148,394	-	719,574	-
Financial institutions	500,000	-	600,000	-
Total	\$ 1,690,496,564	100	\$ 1,643,502,536	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 45.1%, 23.8%, 17.5% and 13.6%, 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, 2019		December 31, 2018	
	Amount	%	Amount	%
Credit	\$ 470,010,019	28	\$ 473,955,572	29
Secured				
Stocks	25,374,445	1	26,196,841	2
Liabilities	32,030,342	2	31,450,791	2
Real estate	1,041,628,704	62	992,745,846	60
Movables	39,316,045	2	39,323,371	2
Receivables	12,345,922	1	13,826,825	1
Guarantees	49,966,838	3	46,481,677	3
Others	19,824,249	1	19,521,613	1
Total	\$ 1,690,496,564	100	\$ 1,643,502,536	100

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, 2019	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	\$ 24,151,287	\$ 7,297,351	\$ 2,331,672	\$ 3,959,668	\$ -	\$ 37,739,978
Due from the Central Bank and other banks	70,009,108	43,836,900	6,028,014	4,862,131	17,337,799	142,073,952
Financial assets mandatorily at fair value through profit or loss	69,160,335	149,950	149,950	-	866,574	70,326,809
Securities purchased under agreements to resell	500,000	-	-	-	-	500,000
Loans (excluding nonperforming loans)	211,242,546	206,451,973	149,376,847	148,565,117	952,755,987	1,668,392,470
Financial assets at fair value through other comprehensive income	12,405,461	762,351	6,623,147	3,820,656	177,012,295	200,623,910
Amortized cost - debt instruments	197,680,356	17,937,964	42,419,217	57,792,044	131,200,221	447,029,802
Other capital inflow	3,740,336	1,070,346	1,064,189	859,802	466,550	7,201,223
Subtotal	588,889,429	277,506,835	207,993,036	219,859,418	1,279,639,426	2,573,888,144
<u>Main capital outflow on maturity</u>						
Deposits from the Central Bank and banks	57,383,073	51,443,485	1,267,661	858,932	6,745,602	117,698,753
Deposits	218,708,351	261,542,053	233,919,756	320,541,374	1,191,549,122	2,226,260,656
Securities sold under repurchase agreements	9,137,047	2,356,048	2,262,319	-	-	13,755,414
Bank debentures	-	-	-	5,000,000	38,400,000	43,400,000
Lease liabilities	89,084	105,442	137,848	280,041	1,379,225	1,991,640
Other capital outflow	2,685,284	2,813,452	1,986,374	1,646,941	2,283,641	11,415,692
Subtotal	288,002,839	318,260,480	239,573,958	328,327,288	1,240,357,590	2,414,522,155
Gap	\$ 300,886,590	\$ (40,753,645)	\$ (31,580,922)	\$ (108,467,870)	\$ 39,281,836	\$ 159,365,989

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	\$ 32,825,442	\$ 8,776,782	\$ 3,321,623	\$ 1,853,803	\$ -	\$ 46,777,650
Due from the Central Bank and other banks	75,326,868	54,752,112	12,078,991	3,022,612	11,539,833	156,720,416
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)	216,909,953	188,963,685	151,331,238	130,591,160	932,856,120	1,620,652,156
Financial assets at fair value through other comprehensive income	5,747,547	2,243,459	2,076,833	3,998,577	162,983,922	177,050,338
Amortized cost - debt instruments	210,241,219	27,135,759	12,283,676	49,581,020	149,530,581	448,772,255
Other capital inflow	1,439,845	1,296,577	741,523	424,612	439,296	4,341,853
Subtotal	618,753,488	283,168,374	181,833,884	189,937,809	1,258,543,502	2,532,237,057
<u>Main capital outflow on maturity</u>						
Deposits from the Central Bank and banks	64,009,300	53,777,450	8,726,033	368,153	5,386,105	132,267,041
Financial liabilities designated as at fair values through profit or loss	-	-	-	4,000,000	-	4,000,000
Deposits	248,693,133	268,962,193	220,452,321	292,413,133	1,127,495,312	2,158,016,092
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	330,030,651	330,794,735	234,473,205	302,121,497	1,170,422,532	2,367,842,620
Gap	\$ 288,722,837	(\$ 47,626,361)	(\$ 52,639,321)	\$(112,183,688)	\$ 88,120,970	\$ 164,394,437

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, 2019	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	\$ 66,645,171	\$ 70,897,315	\$ 64,057,283	\$ 25,582,708	\$ 1,810,005	\$ 228,992,482
Cash inflow	65,967,508	70,102,278	63,884,800	25,484,137	1,822,177	227,260,900
Total cash outflow	\$ 66,645,171	\$ 70,897,315	\$ 64,057,283	\$ 25,582,708	\$ 1,810,005	\$ 228,992,482
Total cash inflow	\$ 65,967,508	\$ 70,102,278	\$ 63,884,800	\$ 25,484,137	\$ 1,822,177	\$ 227,260,900

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
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

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, 2019	0-30 Days	31-90 Days	91-180 Days	181 Days to 1 Year	Over 1 Year	Total
Undrawn credit card commitment	\$ 179,463	\$ 1,882,566	\$ 2,767,777	\$ 6,212,166	\$ 82,652,023	\$ 93,693,995
Undrawn loan commitment	4,740	4,424	-	150,226,472	29,100	150,264,736
Standby letters of credit	6,117,003	14,793,276	2,366,591	624,325	152,063	24,053,258
Guarantee issued	5,496,613	5,524,354	4,259,569	6,906,726	20,512,052	42,699,314
Total	\$ 11,797,819	\$ 22,204,620	\$ 9,393,937	\$ 163,969,689	\$ 103,345,238	\$ 310,711,303

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

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					
	2019			2018		
	Average	Highest	Lowest	Average	Highest	Lowest
Exchange rate risk	\$ 11,688	\$ 26,246	\$ 7,644	\$ 17,527	\$ 49,939	\$ 5,904
Interest rate risk	10,929	25,186	8,163	16,877	44,551	5,310
Equity risk	22,536	46,669	4,781	20,641	38,306	8,569
Diversified risk	23,188	47,407	9,966	27,509	71,327	11,160

VaR information of banking book is shown below:

Banking Book Portfolio	For the Year Ended December 31					
	2019			2018		
	Average	Highest	Lowest	Average	Highest	Lowest
Exchange rate risk	\$ 668,922	\$ 989,217	\$ 392,235	\$ 1,069,004	\$ 2,625,772	\$ 823,624
Interest rate risk	459,439	630,611	343,576	550,666	858,109	428,030
Equity risk	1,266,016	1,677,182	779,417	707,279	1,175,216	354,454
Diversified risk	1,041,381	1,299,428	684,689	1,347,298	2,612,101	872,959

Limitation of VaR:

- i) Historical data may not be the best estimates of future risk factors, and cannot capture the extremely unfavorable market trend.
- ii) VaR cannot capture the market risk position that can not be convertible or be hedged.
- iii) 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, 2019		
	Foreign Currencies	Exchange Rate	New Taiwan Dollars
<u>Financial assets</u>			
Monetary items			
AUD	\$ 674,144	21.0150	\$ 14,167,146
CAD	60,979	22.9800	1,401,297
CNY	9,454,688	4.2950	40,607,887
EUR	411,092	33.6400	13,829,148
GBP	220,441	39.3800	8,680,969
HKD	3,669,963	3.8510	14,133,029
JPY	30,694,032	0.2761	8,474,622
NZD	39,179	20.2000	791,418
SGD	72,758	22.2600	1,619,584
USD	8,689,013	29.9900	260,583,491
VND	2,333,006,294	0.0013	3,019,769
ZAR	994,883	2.1200	2,109,153
PHP	2,025,081	0.5916	1,198,038
Nonmonetary items			
AUD	810,095	21.0150	17,024,149
CNY	270,184	4.2950	1,160,439
HKD	77,729	3.8510	299,335
SGD	36,321	22.2600	808,512
USD	4,015,443	29.9900	120,423,137
ZAR	1,209,169	2.1200	2,563,438
<u>Financial liabilities</u>			
Monetary items			
AUD	762,756	21.0150	16,029,316
CAD	66,396	22.9800	1,525,773
CNY	7,806,589	4.2950	33,529,301
EUR	690,410	33.6400	23,225,407
GBP	209,444	39.3800	8,247,905
HKD	2,696,621	3.8510	10,384,688
JPY	50,055,458	0.2761	13,820,312
NZD	73,806	20.2000	1,490,872
SGD	51,911	22.2600	1,155,528
USD	16,157,929	29.9900	484,576,299
VND	2,342,208,612	0.0013	3,031,680
PHP	2,614,607	2.1200	5,542,966
Nonmonetary item			
USD	5,486	29.9900	164,524

	December 31, 2018		
	Foreign Currencies	Exchange Rate	New Taiwan Dollars
<u>Financial assets</u>			
Monetary items			
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
Nonmonetary items			
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>			
Monetary items			
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
Nonmonetary item			
USD	4,109	30.7350	126,287

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, 2019				
	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	\$ 3,084,399	\$ 3,082,975	\$ 3,084,399	\$ 3,082,975	\$ 1,424
Amortized cost - debt instruments	18,587,648	19,435,651	19,471,805	19,435,651	36,154

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

7) Offsetting of financial assets and financial liabilities

HNCB and its subsidiaries did not hold financial instruments which meet Section 42 of IAS 32 “Financial Instruments: Presentation”, 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, 2019

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	\$ 740,109	\$ -	\$ 740,109	\$ 121,149	\$ -	\$ 618,960
Securities purchased under agreements of resell	500,000	-	500,000	500,000	-	-

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	\$ 2,965,848	\$ -	\$ 2,965,848	\$ 121,149	\$ -	\$ 2,844,699
Securities sold under repurchase agreements	13,755,414	-	13,755,414	21,672,047	180,035	(8,096,668)

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)

Note: Including netting settlement agreement and non-cash financial collaterals.

c. HNSC and its subsidiaries

- Financial risk management objectives and policies

HNSC and its subsidiaries' major financial instruments include equity investments, notes payables, bonds payable, and financial derivatives. HNSC and its subsidiaries' corporate risk control department provides services to the business, coordinates access to domestic and international financial markets, and monitors and manages the financial risks relating to the operations of HNSC and its subsidiaries through internal risk reports that analyze exposures by degree and magnitude of risks. These risks include market risk (including foreign currency risk, interest rate risk and other price risk), credit risk and liquidity risk.

HNSC and its subsidiaries seeks to minimize the effects of these risks by using derivative financial instruments to hedge risk exposures. The use of financial derivatives is governed by HNSC and its subsidiaries' policies approved by the board of directors, which provided written principles on foreign currency risk, interest rate risk, credit risk, the use of financial derivatives and non-derivative financial instruments, and the investment of excess liquidity. Compliance with policies and exposure limits is reviewed by the internal auditors on a continuous basis. HNSC and its subsidiaries did not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

The corporate risk control department reports bi-annually to HNSC and its subsidiaries' board.

1) Market risk

HNSC and its subsidiaries' activities exposed it primarily to the financial risks of changes in foreign currency exchange rates, interest rates and other price. HNSC and its subsidiaries entered into a variety of derivative financial instruments to manage its exposure to foreign currency risk and interest rate risk, including:

- Foreign currency risk: Conduct in transaction to mitigate exchange rate risk. Interest rate risk: Interest rate swaps to mitigate the risk of rising interest rates; and

b) Interest rate risk: Interest rate swaps to mitigate the risk of rising interest rates.

There has been no change to HNSC and its subsidiaries' exposure to market risks or the manner in which these risks are managed and measured.

Market risk exposures are measured using value-at-risk (VaR) and are supplemented by sensitivity analyses.

Value at Risk (VaR) analysis

The VaR measures the potential loss in pre-tax profit over a given holding period for a specified confidence level. The VaR methodology is a statistically defined, probability-based approach that takes into account market volatilities as well as risk diversification by recognizing offsetting positions and correlations between products and markets. Risks can be measured consistently across all markets and products, and risk measures can be aggregated to arrive at a single risk number. The 1-day 99% VaR number used by HNSC and its subsidiaries reflects the 99% probability that the daily loss will not exceed the reported VaR.

VaR methodologies employed to calculate daily risk numbers included the historical and variance-covariance approaches. In addition to these two methodologies, Monte Carlo simulations are applied to the various portfolios on a monthly basis to determine potential future exposure.

(In Thousands of New Taiwan Dollars)

Historic Risk Value (Daily Risk Level in 99% Confidence Level)	For the Year Ended December 31, 2019			December 31	
	Average	Min	Max	2019	2018
Equity risk	\$ 54,344	\$ 26,559	\$ 89,985	\$ 53,717	\$ 27,745
Interest risk	8,127	215	16,535	14,347	2,418
Exchange rate risk	15,253	-	32,380	15,761	3,619
Volatility risk	1,099	158	4,950	871	4,000
Risk diversification	(26,016)	-	-	(34,450)	(7,680)
Sum of risk level after risk diversification	\$ 52,807			\$ 50,246	\$ 30,102

(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, interest rate risk and other price risk daily. On the other hand, sensitivity analysis evaluates possible impact of a reasonably possible change in interest rates, exchange rates and other price risk 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, interest rates and other price risk sensitivity analysis are further described in point i., ii. and iii. below.

a) Foreign currency risk

Several departments of HNSC and its subsidiaries have foreign currency denominated sales and purchases, which expose HNSC and its subsidiaries to foreign currency risk. Exchange rate exposures are managed within approved policy parameters utilizing foreign exchange forward contracts.

Sensitivity analysis

HNSC and its subsidiaries is mainly exposed to UDF.

The following table details HNSC and its subsidiaries' sensitivity to a 3% increase in the New Taiwan dollar against USD. The sensitivity rate used when reporting foreign currency risk internally to key management personnel and representing management's assessment of the reasonably possible change in foreign exchange rates is 3%. The sensitivity analysis included only outstanding foreign currency denominated deposits, account receivables, refundable deposits, investing in bonds and notes and financial derivatives. A negative number below indicates an decrease in pre-tax profit associated with the New Taiwan dollar strengthening 3% against USD. For a 3% weakening of the New Taiwan dollar against USD, there would be an equal and opposite impact on pre-tax profit and other equity, and the balances below would be positive.

	USD Impact	
	For the Year Ended December 31	
	2019	2018
Profit or loss	\$ (7,903)*	\$ (9,826)*

* This was mainly attributable to the exposure on outstanding deposits, receivables, refundable deposits, bonds, notes and financial derivatives in USD that were not hedged at the end of the year.

b) Interest rate risk

HNSC and its subsidiaries is exposed to interest rate risk because entities in HNSC and its subsidiaries borrow funds at both fixed and floating interest rates. The risk is managed by HNSC and its subsidiaries by maintaining an appropriate mix of fixed and floating rate borrowings and using interest rate swap contracts and forward interest rate contracts. Hedging activities are evaluated regularly to align with interest rate views and defined risk appetites ensuring the most cost-effective hedging strategies are applied.

The carrying amounts of HNSC and its subsidiaries' financial assets and financial liabilities with exposure to interest rates at the end of the year were as follows:

	December 31	
	2019	2018
Fair value interest rate risk		
Financial assets (Note 1)	\$ 15,303,277	\$ 9,835,998
Financial liabilities (Note 2)	21,268,641	16,428,537
Cash flow interest rate risk		
Financial assets	808,342	853,730

Note 1: Includes all bonds and interest swap contracts.

Note 2: Includes interest swap contracts, short-term debts, commercial paper payable, bonds sold under repurchase agreements, securities financing refundable deposits, deposits payable for securities financing and securities lending refundable deposits.

Sensitivity analysis

i. Fair value interest rate risk

The sensitivity analysis below was determined based on HNSC and its subsidiaries' exposure to interest rates for non-derivative instruments at the end of the year. A 100 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 100 basis points higher and all other variables were held constant, HNSC and its subsidiaries' pre-tax profit for the years ended December 31, 2019 and 2018 would decrease by \$491,834 and \$322,148, respectively, which was mainly a result of interest risk exposure to interest swap contract and bond and notes investments.

ii. Cash flow interest rate risk

If interest rates had been 100 basis points higher/lower and all other variables were held constant, HNSC and its subsidiaries' pre-tax profit for the years ended December 31, 2019 and 2018 would increase/decrease by \$8,083 and \$8,537, respectively, which was mainly a result of interest risk exposure to deposits.

c) Other price risk

HNSC and its subsidiaries was exposed to equity price risk through its investments in equity securities, which are traded 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 sensitivity analysis below was determined based on the exposure to equity price risks at the end of the year.

If equity prices had been 15% lower, pre-tax profit for the years ended December 31, 2019 would have decreased by \$202,793 as a result of the changes in fair value of financial assets at FVTPL, and the pre-tax other comprehensive income for the year ended December 31, 2019 would have decreased by \$195,551 as a result of the changes in fair value of financial assets at FVTOCI.

If equity prices had been 15% lower, pre-tax profit for the years ended December 31, 2018 would have decreased by \$78,304 as a result of the changes in fair value of financial assets at FVTPL, and the pre-tax other comprehensive income for the year ended December 31, 2018 would have decreased by \$141,069 as a result of the changes in fair value of financial assets at FVTOCI.

2) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to HNSC and its subsidiaries. At the end of the year, HNSC and its subsidiaries' maximum exposure to credit risk, which would cause a financial loss to HNSC and its subsidiaries due to the failure of the counterparty to discharge its obligation could be equal to the carrying amount of the respective recognized financial assets as stated in the balance sheets.

HNSC and its subsidiaries transacts with a large number of unrelated customers and thus, credit risk is not highly concentrated.

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.

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, 2019

	Maximum Exposure to Credit Risk Mitigated by		
	Collateral	Other Credit Enhancements (Note)	Total
<u>Balance sheet items</u>			
Margin loans receivable	\$ 8,602,991	\$ -	\$ 8,602,991
Refinancing deposit receivable	74,267	-	74,267
Securities lending receivable customers margin account	1,118,390	-	1,118,390

December 31, 2018

	Maximum Exposure to Credit Risk Mitigated by		
	Collateral	Other Credit Enhancements (Note)	Total
<u>Balance sheet items</u>			
Margin loans receivable	\$ 8,060,285	\$ -	\$ 8,060,285
Refinancing deposit receivable	4,513	-	4,513
Securities lending receivable customers margin account	1,206,640	-	1,206,640

Note: There is no need to consider about other credit enhancements because items are fully covered by collaterals.

Changes of receivable allowance loss

	For the Year Ended December 31, 2019		
	12 Months ECL	Lifetime ECL - Not Credit-impaired	Lifetime ECL - Credit-impaired
Balance, January 1	\$ 18,978	\$ -	\$ -
Provision	24,171	-	-
Less: Amounts written off	(15,703)	-	-
Add: Amounts recovered	2,341	-	-
Less: Net remeasurement of loss allowance	(14,044)	-	-
Balance, December 31	<u>\$ 15,743</u>	<u>\$ -</u>	<u>\$ -</u>

	For the Year Ended December 31, 2018		
	12 Months ECL	Lifetime ECL - Not Credit-impaired	Lifetime ECL - Credit-impaired
Balance, beginning of year, 2018 per IAS 39	\$ 28	\$ -	\$ -
Effect of application	<u>6,907</u>	-	-
Balance, beginning of year, 2018 per IFRS 9	6,935	-	-
Provision	176,310	-	-
Less: Amounts written off	(1,407)	-	-
Add: Amounts recovered	2,598	-	-
Less: Net remeasurement of loss allowance	(165,458)	-	-
Balance, December 31	<u>\$ 18,978</u>	<u>\$ -</u>	<u>\$ -</u>

Changes of other financial assets allowance loss

	For the Year Ended December 31, 2019		
	12 Months ECL	Lifetime ECL - Not Credit-impaired	Lifetime ECL - Credit-impaired
Balance, January 1	\$ 189,451	\$ -	\$ -
Less: Amounts written off	(2,341)	-	-
Less: Net remeasurement of loss allowance	<u>14,044</u>	-	-
Balance, December 31	<u>\$ 201,154</u>	<u>\$ -</u>	<u>\$ -</u>

	For the Year Ended December 31, 2018		
	12 Months ECL	Lifetime ECL - Not Credit-impaired	Lifetime ECL - Credit-impaired
Balance, January 1	\$ 26,591	\$ -	\$ -
Less: Amounts written off	(2,598)	-	-
Less: Net remeasurement of loss allowance	<u>165,458</u>	<u>-</u>	<u>-</u>
Balance, December 31	<u>\$ 189,451</u>	<u>\$ -</u>	<u>\$ -</u>

3) Liquidity risk

HNSC and its subsidiaries manages liquidity risk by monitoring and maintaining a level of cash and cash equivalents deemed adequate to finance HNSC and its subsidiaries' operations and mitigate the effects of fluctuations in cash flows. In addition, management monitors the utilization of bank borrowings and ensures compliance with loan covenants.

HNSC and its subsidiaries relies on bank borrowings as a significant source of liquidity. As of December 31, 2019 and 2018, HNSC and its subsidiaries had available unutilized short-term bank loan facilities set out in (b) below.

a) Liquidity and interest rate risk tables for non-derivative financial liabilities

The following table details HNSC and its subsidiaries' remaining contractual maturities for its non-derivative financial liabilities with agreed upon repayment periods. The table has been drawn up based on the undiscounted cash flows of financial liabilities from the earliest date on which HNSC and its subsidiaries can be required to pay.

December 31, 2019

	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	-	\$ 9,592,784	\$ -	\$ 459,119	\$ 250,843	\$ 212,243
Floating interest rate instruments	0.08	2,778,656	-	-	-	-
Fixed interest rate instruments	(0.30)-2.34	<u>12,902,126</u>	<u>3,443,859</u>	<u>4,642,364</u>	<u>288,392</u>	<u>-</u>
		<u>\$ 25,273,566</u>	<u>\$ 3,443,859</u>	<u>\$ 5,101,483</u>	<u>\$ 539,235</u>	<u>\$ 212,243</u>

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	<u>9,524,593</u>	<u>846,119</u>	<u>5,716,116</u>	<u>345,126</u>	<u>-</u>
		<u>\$ 18,849,727</u>	<u>\$ 846,119</u>	<u>\$ 6,247,431</u>	<u>\$ 533,976</u>	<u>\$ 155,277</u>

The following table details HNSC and its subsidiaries' liquidity analysis of its derivative financial instruments. The table is based on the undiscounted contractual net cash inflows and outflows on derivative instruments that settle on a net basis.

December 31, 2019

	On Demand 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	\$(334)	\$(698)	\$(2,257)	\$(2,331)	\$ -
Exchange rate swap	607	-	-	-	-
Net cash outflow	<u>\$ 273</u>	<u>\$(698)</u>	<u>\$(2,257)</u>	<u>\$(2,331)</u>	<u>\$ -</u>

December 31, 2018

	On Demand 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	\$(345)	\$(485)	\$(2,432)	\$(6,162)	\$ -
Exchange rate swap	(57)	-	-	-	-
Net cash outflow	<u>\$(402)</u>	<u>\$(485)</u>	<u>\$(2,432)</u>	<u>\$(6,162)</u>	<u>\$ -</u>

b) Finance facilities

	December 31	
	2019	2018
Unsecured bank facilities		
Amount used	\$ 3,510,000	\$ 230,000
Amount unused	<u>15,700,450</u>	<u>18,884,050</u>
	<u>\$ 19,210,450</u>	<u>\$ 19,114,050</u>
Secured bank facilities		
Amount used	\$ -	\$ 985,000
Amount unused	<u>4,232,000</u>	<u>3,247,000</u>
	<u>\$ 4,232,000</u>	<u>\$ 4,232,000</u>

c) Transfers of financial assets

The transferred financial assets of the Company 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 the Company and its subsidiaries retains the liabilities to repurchase the transferred financial assets at fixed price in the future period. The Company and its subsidiaries can not use, sell, or pledge these transferred financial assets within the validity period of the transaction. However, the Company and its subsidiaries still bear the interest rate risk and credit risk thus, the Company 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, 2019				
	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	\$ 14,400,082	\$ 14,052,034	\$ 14,400,082	\$ 14,052,034	\$ 348,048

Category of Financial Asset	December 31, 2019				
	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	\$ 7,624,467	\$ 7,875,268	\$ 7,624,467	\$ 7,875,268	\$ (258,801)

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 which 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

- 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, exchange rate fluctuation risks and other price 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 financial assets at fair value through other comprehensive income.

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, 2019	December 31, 2018
Risk level of trading book	\$ 20	\$ 76
Risk level of non-trading book	40,788	94,156

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 details SCIC's sensitivity to a 1% increase and decrease in the New Taiwan dollar against the relevant foreign currencies. The sensitivity analysis included only outstanding foreign currency denominated deposits, financial assets and financial liabilities, and adjusts their translation at the end of the year for a 1% change in foreign currency rates. A positive number below indicates an increase in pre-tax profit associated with the New Taiwan dollar strengthening 1% against the relevant currency. For a 1% weakening of the New Taiwan dollar against the relevant currency, there would be an equal and opposite impact on pre-tax profit, and the balances below would be negative.

Unit: Thousand Dollars

	USD Impact	
	For the Year Ended December 31	
	2019	2018
Profit or loss	\$(17,422)	\$(13,580)

	CNY Impact	
	For the Year Ended December 31	
	2019	2018
Profit or loss	\$(113)	\$(919)

	EUR Impact	
	For the Year Ended December 31	
	2019	2018
Profit or loss	\$(146)	\$(95)

This was mainly attributable to the exposure on outstanding deposits, financial instruments and due to reinsurance and ceding companies of SCIC in relevant currency that were not hedged at the end of the year.

SCIC's sensitivity to USD increased during the current year mainly due to the increase of USD denominated investments. SCIC's sensitivity to CNY decreased during the current year mainly due to reduction of CNY denominated investments.

Concentration of exchange rate risk

Unit: Foreign/NTD Currency in Thousands.

December 31, 2019

	Foreign Currencies	Exchange Rate	Book Value
<u>Financial assets</u>			
Monetary items			
USD	\$ 109,036	29.98	\$ 3,268,872
CNY	20,638	4.305	88,848
EUR	55,436	33.59	1,862,074
<u>Financial liabilities</u>			
Monetary items			
USD	373	29.98	11,169
CNY	99	4.305	428

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

iii. Interest rate risk

The carrying amounts of SCIC's financial assets and financial liabilities with exposure to interest rates at the end of the year were as follows:

Unit: Thousand Dollars

	December 31	
	2019	2018
Fair value interest rate risk		
Financial assets	\$ 7,574,126	\$ 8,203,279
Cash flow interest rate risk		
Financial assets	1,715,114	1,387,981

Sensitivity analysis

The sensitivity analysis below was determined based on SCIC's exposure to interest rates for non-derivative instruments at the end of the year. For floating rate liabilities, the analysis was prepared assuming the amount of each liability outstanding at the end of the year was outstanding for the whole year. A 1 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 1 basis points higher/lower and all other variables were held constant, SCIC's pre-tax profit for the years ended December 31, 2019 would decrease/increase by \$172.

If interest rates had been 1 basis points higher/lower and all other variables were held constant, SCIC's pre-tax profit for the years ended December 31, 2018 would decrease/increase by \$139.

iv. Other price risk

Other price risk refers to the equity price risk, benefiting certificates and convertible corporate bonds exposure in securities investments of SCIC.

SCIC manages this exposure by maintaining a portfolio of investments within different risks.

Sensitivity analysis

The sensitivity analysis below was based on the exposure to equity price risk at the end of the year.

Taking overlay approach into consideration, if equity prices had been 1% higher/lower, pre-tax profit for the years ended December 31, 2019 and 2018 would have increased/decreased by \$368 thousand and \$442, respectively, as a result of the changes in fair value of financial assets at FVTPL, and the pre-tax other comprehensive income for the year ended December 31, 2019 and 2018 would have increased/decreased by \$44,866 and \$24,378, respectively, as a result of the changes in fair value of financial assets at FVTOCI.

3) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the SCIC. At the end of the year, the SCIC's maximum exposure to credit risk, which would cause a financial loss to the SCIC due to the failure of the counterparty to discharge its obligation and due to the financial guarantees provided by the SCIC, could be equal to the carrying amount of the respective recognized financial assets as stated in the balance sheets.

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.

Changes of receivable allowance loss

SCIC applied IFRS 9 expected credit loss and calculated allowance loss as below:

December 31, 2019

	Notes Receivable	Premiums Receivable	Other Receivable	Loans
Expected loss rate	0.1933%	0.0435%	(Note)	0.0011%-0.4429%
Gross carrying amount	\$ 113,396	\$ 132,539	\$ 183,799	\$ 240,476
Allowance loss	\$ 219	\$ 58	\$ -	\$ 417

December 31, 2018

	Notes Receivable	Premiums Receivable	Other Receivable	Loans
Expected loss rate	0.2077%	0.0475%	(Note)	0.0013%-0.0844%
Gross carrying amount	\$ 152,349	\$ 141,598	\$ 102,159	\$ 225,906
Allowance loss	\$ 2,638	\$ 1,208	\$ -	\$ 90

Note: As of December 31, 2019 and 2018, no other receivable was past due. SCIC has not recognized a loss allowance for the above receivable after taking into consideration the historical default experience and the future prospects of the industries.

Indemnity refundable on reinsurance ceded and refundable reinsurance is reinsurance contracts assets, and are evaluated under IAS39 for both are not included in the measurement of IFRS 9 under IFRS 4.

SCIC calculated allowance loss according to the regulation of guidelines for Handling Assessment of Assets, Loans Overdue, Receivable on Demand and Bad Debts as below:

December 31, 2019

	Notes Receivable	Premiums Receivable	Indemnity Refundable on Reinsurance Ceded	Refundable Reinsurance	Other Receivable	Loans
Balance, January 1	\$ 3,442	\$ 2,570	\$ 1,925	\$ 4,284	\$ 511	\$ 3,388
Provision	-	4,124	-	-	408	219
Less: Amounts reversed	(210)	-	(251)	(1,620)	-	-
Less: Amounts written off	(2,665)	(1,293)	-	-	-	-
Allowance loss	<u>\$ 567</u>	<u>\$ 5,401</u>	<u>\$ 1,674</u>	<u>\$ 2,664</u>	<u>\$ 919</u>	<u>\$ 3,607</u>

December 31, 2018

	Notes Receivable	Premiums Receivable	Indemnity Refundable on Reinsurance Ceded	Refundable Reinsurance	Other Receivable	Loans
Balance, January 1	\$ 3,579	\$ 2,563	\$ 1,989	\$ 2,927	\$ 541	\$ 3,458
Provision	-	7	-	1,357	-	-
Less: Amounts reversed	(137)	-	(64)	-	(30)	(70)
Allowance loss	<u>\$ 3,442</u>	<u>\$ 2,570</u>	<u>\$ 1,925</u>	<u>\$ 4,284</u>	<u>\$ 511</u>	<u>\$ 3,388</u>

Changes of other financial assets allowance loss

SCIC calculated allowance loss as below:

	For the Year Ended December 31, 2019		
	12 Months ECL	Lifetime ECL - Not Credit- impaired	Lifetime ECL - Credit- impaired
Balance, January 1	\$ 4,755	\$ -	\$ -
Provision	2,832	-	-
Less: Amounts written off	(2,665)	-	-
Balance, December 31	<u>\$ 4,922</u>	<u>\$ -</u>	<u>\$ -</u>

	For the Year Ended December 31, 2018		
	12 Months ECL	Lifetime ECL - Not Credit- impaired	Lifetime ECL - Credit- impaired
Balance, beginning of year, 2018 per IAS 39	\$ 5,172	\$ -	\$ -
Effect of application	-	-	-
Balance, beginning of year, 2018 per IFRS 9	5,172	-	-
Provision	(417)	-	-
Balance, December 31	<u>\$ 4,755</u>	<u>\$ -</u>	<u>\$ -</u>

4) Liquidity risk

Table of liquidity and interest rate risk of non-derivatives financial liabilities

Ultimate responsibility for liquidity risk management rests with the board. 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, 2019

	On Demand or Less than 1 Month	Within Three Months	Three Months to One Year	One Year to Five Years	Over Five Years
<u>Non-derivatives financial liabilities</u>					
Liabilities with no interest	\$ -	\$ 212,162	\$ 477,669	\$ 17,342	\$ 180
Lease liabilities	2,313	4,625	17,401	20,828	463
	<u>\$ 2,313</u>	<u>\$ 216,787</u>	<u>\$ 495,070</u>	<u>\$ 38,170</u>	<u>\$ 643</u>

Additional information about the maturity analysis for lease liabilities:

	Less than 1 Year	1-5 Years	5-10 Years	10-15 Years	15-20 Years	20+ Years
Lease liabilities	\$ 24,339	\$ 20,828	\$ 463	\$ -	\$ -	\$ -

December 31, 2018

	Within Three Months	Three Months to One Year	One Year to Five Years	Over Five Years
<u>Non-derivatives financial liabilities</u>				
Liabilities with no interest	\$ 165,380	\$ 411,036	\$ 16,156	\$ 180

Liquidity and interest rate risk table for derivative financial liabilities

The table is based on the undiscounted contractual net cash inflows and outflows on derivative instruments that settle on a net basis, and the undiscounted gross inflows and outflows on those derivatives that require gross settlement.

December 31, 2019

	Less than Three Months	Three Months to One Year	One Year to Five Years	More than Five Years
Net delivery				
Foreign exchange forward contract	\$ 8,178	\$ 9,616	\$ -	\$ -
Gross delivery				
Currency swap				
Inflow	\$ 1,697,800	\$ 3,029,485	\$ -	\$ -
Outflow	(1,659,748)	(2,948,695)	-	-
	\$ 38,052	\$ 80,790	\$ -	\$ -

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	\$ -	\$ -

5) Offsetting of financial assets and financial liabilities

December 31, 2019

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	
Securities sold under resale agreements	\$ 299,551	\$ -	\$ 299,551	\$ 299,551	\$ -	\$ -

December 31, 2018

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	
Securities sold under resale agreements	\$ 489,059	\$ -	\$ 489,059	\$ 489,059	\$ -	\$ -

e. HNIT

- Financial risk management objectives and policies

HNIT's major financial instruments include account receivables, other financial assets and loans. HNIT's corporate treasury function provides services to the business, and monitors and manages the financial risks relating to the operations of HNIT through internal risk reports that analyze exposures by degree and magnitude of risks. These risks include market risk (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.

a) Interest rate risk

The carrying amounts of HNIT's financial assets and financial liabilities with exposure to interest rates at the end of the year were as follows:

	December 31	
	2019	2018
Cash flow interest rate risk		
Financial assets	\$ 75,588	\$ 88,692
Financial liabilities	299,784	299,962

Sensitivity analysis

The sensitivity analysis below was determined based on HNIT's exposure to interest rates for non-derivative instruments at the end of the year. For floating rate liabilities, the analysis was prepared assuming the amount of each liability outstanding at the end of the year was outstanding for the whole year. A 20 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 20 basis points higher/lower and all other variables were held constant, HNIT's pre-tax profit for the years ended December 31, 2019 and 2018 would decrease/increase by \$448 and \$423, respectively, which was mainly a result of deposits and variable-rate borrowings

b) Other price risk

HNIT was exposed to equity price risk through its investments in equity securities. HNIT manages this exposure by maintaining a portfolio of investments with different risks.

2) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to HNIT. At the end of the year, HNIT's maximum exposure to credit risk, which would cause a financial loss to HNIT due to the failure of the counterparty to discharge its obligation and due to the financial guarantees provided by HNIT, could be equal to the carrying amount of the respective recognized financial assets as stated in the balance sheets.

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.

The following table details the loss allowance of account receivables and receivable - related party based on HNIT's provision matrix.

Changes of receivable allowance loss

	For the Year Ended December 31, 2019		
	12 Months ECL	Lifetime ECL - Not Credit-impaired	Lifetime ECL - Credit-impaired
Balance, January 1	\$ 1,350,124	\$ -	\$ -
Provision	-	-	-
Less: Amounts written off	-	-	-
Add: Amounts recovered	-	-	-
Less: Net remeasurement of loss allowance	-	-	-
Balance, December 31	<u>\$ 1,350,124</u>	<u>\$ -</u>	<u>\$ -</u>

	For the Year Ended December 31, 2018		
	12 Months ECL	Lifetime ECL - Not Credit-impaired	Lifetime ECL - Credit-impaired
Balance, beginning of year, 2018 per IAS 39	\$ 1,350,124	\$ -	\$ -
Effect of application	-	-	-
Balance, beginning of year, 2018 per IFRS 9	1,350,124	-	-
Provision	-	-	-
Less: Amounts written off	-	-	-
Add: Amounts recovered	-	-	-
Less: Net remeasurement of loss allowance	-	-	-
Balance, December 31	<u>\$ 1,350,124</u>	<u>\$ -</u>	<u>\$ -</u>

3) Liquidity risk

HNIT manages liquidity risk by monitoring and maintaining a level of cash and cash equivalents deemed adequate to finance HNIT's operations and mitigate the effects of fluctuations in cash flows. In addition, management monitors the utilization of bank borrowings and ensures compliance with loan covenants.

HNIT relies on bank borrowings as a significant source of liquidity. As of December 31, 2019 and 2018, HNIT had available unutilized short-term bank loan facilities set out in b) below.

a) Liability and interest rate risk tables for non-derivative financial liabilities.

The following table details HNIT's remaining contractual maturities for its non-derivative financial liabilities with agreed upon repayment periods. The table has been drawn up based on the undiscounted cash flows of financial liabilities from the earliest date on which HNIT can be required to pay. The table includes both interest and principal cash flows. Specifically, bank loans with a repayment on demand clause were included in the earliest time band regardless of the probability of the banks choosing to exercise their rights. The maturity dates for other non-derivative financial liabilities were based on the agreed upon repayment dates.

December 31, 2019

	On Demand or Less than 1 Month	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	\$ 1,465	\$ 1,788	\$ 12,040	\$ -
Lease liabilities	51	101	455	406
Floating interest instrument	12	299,784	-	-
	<u>\$ 1,528</u>	<u>\$ 301,673</u>	<u>\$ 12,495</u>	<u>\$ 406</u>

Additional information about the maturity analysis for lease liabilities:

	Less than 1 Year	1-5 Years
Lease liabilities	<u>\$ 606,000</u>	<u>\$ 406,000</u>

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	\$ 2,424	\$ 2,949	\$ 14,685
Floating interest instrument	200,018	100,000	-
	<u>\$ 202,442</u>	<u>\$ 102,949</u>	<u>\$ 14,685</u>

b) Financing facilities

	December 31	
	2019	2018
Unsecured bank overdraft facility		
Drawn amount	\$ 100,000	\$ 100,000
Undrawn amount	300,000	300,000
	<u>\$ 400,000</u>	<u>\$ 400,000</u>

f. HNVC

1) The goal and policy of financial risk management

The primary financial instruments of HNVC include equity investments, accounts receivable and accounts payable. HNVC's corporate treasury function provides services to the business, and monitors and manages the financial risks relating to the operations of HNVC through internal risk reports that analyze exposures by degree and magnitude of risks. These risks include market risk (including foreign currency risk, interest rate risk and other price risk), credit risk and liquidity risk.

a) Exchange risk

HNVC's activities exposed it primarily to the financial risks of changes in foreign currency exchange rates (see (a) below), interest rates (see (b) below) and other price (see (c) below).

There has been no change to HNVC's exposure to market risks or the manner in which these risks are managed and measured.

- i. The carrying amounts of HNVC's foreign currency denominated monetary assets at the end of the year are as below:

	December 31	
	2019	2018
Assets		
USD	\$ 898	\$ 12,159

Sensitivity analysis

HNVC is mainly exposed to USD.

The following table details HNVC's sensitivity to a 1% increase and decrease in the New Taiwan dollar against USD. The sensitivity rate used when reporting foreign currency risk internally to key management personnel and representing management's assessment of the reasonably possible change in foreign exchange rates is 1%. The sensitivity analysis included only outstanding foreign currency denominated monetary items. A positive number below indicates a decrease in pre-tax profit with the New Taiwan dollar strengthening 1% against USD.

	USD Impact	
	For the Year Ended December 31	
	2019	2018
Profit or loss	\$ 9	\$ 122

ii. Interest rate risk

The carrying amounts of the HNIT's financial assets with exposure to interest rates at the end of the year were as follows:

	December 31	
	2019	2018
Fair value interest rate risk		
Financial assets	\$ 248,293	\$ 357,103
Financial liabilities	2,347	-
Cash flow interest rate risk		
Financial assets	49,627	36,251

Sensitivity analysis

The sensitivity analysis below was determined based on HNIT's exposure to interest rates for non-derivative instruments at the end of the year. A 1% basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 1% basis points higher/lower and all other variables were held constant, HNIT's pre-tax profit for the years ended December 31, 2019 and 2018 would decrease/increase by \$496 and \$363, respectively, which was mainly a result of interest rate risk exposure derived from financial assets.

iii. Other price risk

HNIT was exposed to equity price risk through its investments in equity securities. HNIT manages this exposure by maintaining a portfolio of investments with different risks.

Sensitivity analysis

The sensitivity analysis below was determined based on the exposure to equity price risks at the end of the year.

If equity prices had been 1% higher/lower, pre-tax profit for the years ended December 31, 2019 and 2018 would have increased/decreased by \$11,919 and \$11,060, respectively, as a result of the changes in fair value of financial assets at FVTPL.

b) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to HNIT. At the end of the year, HNIT's maximum exposure to credit risk, which would cause a financial loss to HNIT due to the failure of the counterparty to discharge its obligation and due to the financial guarantees provided by HNIT, could be equal to the carrying amount of the respective recognized financial assets as stated in the balance sheets.

The maximum credit exposures of each financial instruments HNIT holds are the same as their book value.

HNIT transacts with a large number of unrelated customers and thus, credit risk is not highly concentrated.

c) Liquidity risk

HNIT manages liquidity risk by monitoring and maintaining a level of cash and cash equivalents deemed adequate to finance HNIT's operations and mitigate the effects of fluctuations in cash flows.

The following table details HNIT's remaining contractual maturities for its non-derivative financial liabilities with agreed upon repayment periods. The table has been drawn up based on the undiscounted cash flows of financial liabilities from the earliest date on which HNIT can be required to pay.

December 31, 2019

	On Demand or Less than 1 Month	1-3 Months	3 Months to 1 Year	1-5 Years
Non-interest bearing	\$ 78	\$ 50	\$ -	\$ -
Lease liabilities	438	438	877	638
	<u>\$ 516</u>	<u>\$ 488</u>	<u>\$ 877</u>	<u>\$ 638</u>

December 31, 2018

	On Demand or Less than 3 Month	3-6 Months
Non-interest bearing	\$ 49	\$ 40

g. HNAME

- Financial risk management objectives and policies

HNAME's major financial instruments include account receivables and borrowings. HNAME's corporate treasury function provides services to the business, and monitors and manages the financial risks relating to the operations of HNAME through internal risk reports that analyze exposures by degree and magnitude of risks. These risks include market risk (including foreign currency risk and other price risk), credit risk and liquidity risk.

Market risk

HNAME's activities exposed it primarily to the financial risks of changes in interest rates.

1) Interest rate risk

The carrying amounts of HNAME's financial assets and financial liabilities with exposure to interest rates at the end of the year were as follows:

	December 31	
	2019	2018
Fair value interest rate risk		
Financial liabilities	\$ 1,697,258	\$ 1,398,554
Cash flow interest rate risk		
Financial assets	118,292	42,511
Financial liabilities	775,000	900,000

Sensitivity analysis

The sensitivity analysis below was determined based on HNAME's exposure to interest rates for non-derivative instruments at the end of the year. For floating rate liabilities, the analysis was prepared assuming the amount of each liability outstanding at the end of the year was outstanding for the whole year. A 10 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 10 basis points higher/lower and all other variables were held constant, HNAME's pre-tax profit for the years ended December 31, 2019 would decrease/increase by \$657, which was mainly a result of demand deposits and variable-rate borrowings.

If interest rates had been 10 basis points higher/lower and all other variables were held constant, HNAME's pre-tax profit for the years ended December 31, 2018 would decrease/increase by \$857, respectively, which was mainly a result of demand deposits and variable-rate borrowings.

HNAME's sensitivity to interest rates increased during the current year mainly due to the increase in variable-rate borrowings.

2) Other price risk

HNAMC was exposed to equity price risk through its investments in equity securities. HNAMC manages this exposure by maintaining a portfolio of investments with different risks.

Sensitivity analysis

The sensitivity analysis below was determined based on the exposure to equity price risks at the end of the year.

If equity prices had been 1% higher/lower, pre-tax profit for the years ended December 31, 2019 and 2018 would have increased/decreased by \$169 and \$250, respectively, as a result of the changes in fair value of financial assets at FVTPL.

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to HNAMC. At the end of the year, HNAMC's maximum exposure to credit risk, which would cause a financial loss to HNAMC due to the failure of the counterparty to discharge its obligation and due to the financial guarantees provided by HNAMC, could be equal to the carrying amount of the respective recognized financial assets as stated in the balance sheet. HNAMC transacts with a large number of unrelated customers and thus, credit risk is not highly concentrated.

The policy of HNAMC 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 HNAMC assigns specific team to review 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 HNAMC considers the credit risk has been reduced considerably.

Changes of receivable allowance loss

	For the Year Ended December 31	
	2019	2018
Balance at January 1	\$ 97	\$ 301
Less: Amounts written off	(97)	(204)
Balance at December 31	<u>\$ -</u>	<u>\$ 97</u>

3) Liquidity risk

HNAMC manages liquidity risk by monitoring and maintaining a level of cash and cash equivalents deemed adequate to finance HNAMC's operations and mitigate the effects of fluctuations in cash flows. In addition, management monitors the utilization of bank borrowings and ensures compliance with loan covenants.

NAMC relies on bank borrowings as a significant source of liquidity. As of December 31, 2019 and 2018, HNAMC had available unutilized short-term bank loan facilities set out in b) below.

a) Liquidity and interest rate risk tables for non-derivative financial liabilities

The following table details HNAMC's remaining contractual maturities for its non-derivative financial liabilities with agreed upon repayment periods. The table has been drawn up based on the undiscounted cash flows of financial liabilities from the earliest date on which HNAMC can be required to pay. (The table includes both interest and principal cash flows.) Specifically, bank loans with a repayment on demand clause were included in the earliest time band regardless of the probability of the banks choosing to exercise their rights. The maturity dates for other non-derivative financial liabilities were based on the agreed upon repayment dates.

To the extent that interest flows are at floating rates, the undiscounted amount was derived from the interest rate curve at the end of the year.

December 31, 2019

	On Demand or Less than 1 Month	1-3 Months	3 Months to 1 Year	1-5 Years
Non-interest bearing	\$ 482	\$ 10,503	\$ -	\$ 125,020
Variable interest rate liabilities	814	76,512	6,818	713,393
Fixed interest rate liabilities	1,431	1,698,376	-	-
Lease liabilities	574	1,148	2,522	1,033
	<u>\$ 3,301</u>	<u>\$ 1,786,539</u>	<u>\$ 9,340</u>	<u>\$ 839,446</u>

December 31, 2018

	On Demand or Less than 1 Month	1-3 Months	3 Months to 1 Year	1-5 Years
Non-interest bearing	\$ 210	\$ 3,051	\$ -	\$ 108,689
Variable interest rate liabilities	821	401,230	4,664	508,081
Fixed interest rate liabilities	1,319	1,400,909	-	-
	<u>\$ 2,350</u>	<u>\$ 1,805,190</u>	<u>\$ 4,664</u>	<u>\$ 616,770</u>

b) Financing facilities

	December 31	
	2019	2018
Unsecured bank overdraft facilities		
Amount used	\$ 2,473,000	\$ 2,300,000
Amount unused	<u>3,577,000</u>	<u>3,050,000</u>
	<u>\$ 6,050,000</u>	<u>\$ 5,350,000</u>

52. 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, 2019				
Companies	Items	Percentage of Ownership	The Group's Net Eligible Capital	The Group's Statutory Capital Requirement
Financial Holdings Co Ltd		100%	\$ 193,695,089	\$ 220,766,709
Commercial Bank Ltd		100%	221,008,574	167,163,909
Securities Corp		100%	9,273,025	3,954,638
Insurance Corp		100%	5,933,472	2,119,862
Investment Trust Corp		100%	1,566,274	797,665
Others		100%	1,599,889	2,317,705
Deduction			227,623,463	219,581,779
Total			(A) 205,452,860	(B) 177,538,709
Group capital adequacy ratio (C) = (A) ÷ (B)				115.72%

(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%

Financial Holding Company's Net Eligible Capital

(In Thousands of New Taiwan Dollars)

December 31, 2019	
Item	Amount
Common stock	\$ 121,727,402
Unaccumulated preferred stocks which meet Tier 1 capital requirement and unaccumulated subordinated debts with no maturity date	-
Other preferred stocks and subordinated debts	5,000,000
Stock dividends to be distributed	-
Capital surplus	17,758,986
Legal reserve	16,322,174
Special reserve	6,471,594
Unappropriated earnings	16,941,042
Equity adjustments	9,477,311
Less: Goodwill and intangible assets	(612)
Less: Deferred assets	(2,808)
Less: Treasury stock	-
Total net eligible capital	193,695,089

(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

53. 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	
	2019	2018
<u>Trust assets</u>		
Bank deposits	\$ 13,372,538	\$ 7,980,976
Bonds	8,141,348	6,101,387
Stocks	9,999,476	12,169,159
Mutual funds	179,400,372	171,092,574
Real estate	37,035,532	19,135,231
Custodial securities	554,172,537	319,040,794
Total trust assets	<u>\$ 802,121,803</u>	<u>\$ 535,520,121</u>
<u>Trust liabilities</u>		
Other liabilities	\$ 42	\$ 45
Custodial securities payable	554,172,537	319,040,794
Trust capital		
Monetary trust	197,727,632	186,135,989
Securities trust	7,153,171	9,332,762
Real estate trust	42,163,402	19,865,140
Accumulated deficit	135,882	(168,548)
Net income	769,137	1,313,939
Total trust liabilities	<u>\$ 802,121,803</u>	<u>\$ 535,520,121</u>

Note: Trust accounts including OBU's foreign currency mutual funds that invested in foreign securities amounted to \$2,961,103 as of December 31, 2019. Additionally, foreign currency mutual funds that invested in domestic securities amounted to \$348,551 as of December 31, 2019.

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 Properties of Trust Accounts

	December 31	
	2019	2018
<u>Investment portfolio</u>		
Bank deposits	\$ 13,372,538	\$ 7,980,976
Bonds	8,141,348	6,101,387
Stocks	9,999,476	12,169,159
Mutual funds	179,400,372	171,092,574
Real estate		
Land	33,961,721	18,122,091
Building	4,591	4,591
Construction in progress	3,069,220	1,008,549
Custodial securities	<u>554,172,537</u>	<u>319,040,794</u>
	<u>\$ 802,121,803</u>	<u>\$ 535,520,121</u>

Trust Income Statements

Item	For the Year Ended December 31	
	2019	2018
Trust income		
Interest income	\$ 65,393	\$ 64,532
Rental income	4,272	4,337
Cash dividends	500,865	560,540
Realized investment income - bonds	22,834	25,072
Realized investment income - stocks	117,752	67,362
Realized investment income - mutual funds	1,317	1,009
Income apportion from beneficiary certificates	7,939	7,720
Cash dividends from capital surplus	616	71
Other income	<u>105,867</u>	<u>650,471</u>
Total trust income	<u>826,855</u>	<u>1,381,114</u>
Trust expense		
Administrative expenses	25,448	26,366
Inspection expense	2,185	2,085
Signing bonus and planning fees	10,096	9,881
Health insurance fees	3,750	3,280
Realized investment loss - bonds	457	7,464
Realized investment loss - stocks	139	220
Realized investment loss - mutual funds	3,686	3,652
Income tax expense	352	204
Other expenses	<u>11,605</u>	<u>14,023</u>
Total trust expenses	<u>57,718</u>	<u>67,175</u>
Net income	<u>\$ 769,137</u>	<u>\$ 1,313,939</u>

54. PUBLIC ANNOUNCEMENTS PRESCRIBED IN ARTICLE 46 OF THE FINANCIAL HOLDING COMPANY ACT: TABLE 13.**55. COLLABORATIVE MARKETING**

HNCB, HNSC, SCIC, HNIT, HNVC, HNAME and HNFC signed an agreement and the term of the agreement was from January 2019 to December 2019 (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, 2019 and 2018, HNCB paid HNSC and its subsidiaries \$127,899 and \$101,255 for business promotion and infrastructures sharing. For the years ended December 31, 2019 and 2018, HNCB was paid \$25,934 and \$29,394 from HNSC, \$81,098 and \$88,947 from SCIC, SCIC was paid \$167 and \$254 from HNCB under the agreement, \$8,985 and \$14,152 from HNIT, \$249 and \$295 from HNVC, \$383 and \$432 from HNAME.

56. SEGMENT INFORMATION

	For the Year Ended December 31, 2019				
	Bank Division	Securities Division	Insurance Division	Other Divisions	Consolidation
Net interest revenue (expense)	\$ 25,228,657	\$ 361,502	\$ 154,283	\$(330,865)	\$ 25,413,577
Other non-interest income, net	15,340,995	2,973,390	2,537,817	438,554	21,290,756
Net revenues	40,569,652	3,334,892	2,692,100	107,689	46,704,333
Allowance for doubtful accounts, commitments and guarantees	(1,382,305)	(24,171)	(2,670)	-	(1,409,146)
Change in provisions for insurance liabilities, net	-	-	(396,178)	-	(396,178)
Operating expenses	(21,500,410)	(2,397,052)	(1,499,497)	(805,792)	(26,202,751)
Net profit (loss) before income tax from continuing operations	17,686,937	913,669	793,755	(698,103)	18,696,258
Income tax (expense) revenue	(2,536,350)	(83,401)	(104,164)	(16,975)	(2,740,890)
Net profit (loss) from continuing operations	\$ 15,150,587	\$ 830,268	\$ 689,591	\$(715,078)	\$ 15,955,368

	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	\$(315,923)	\$ 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	(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

57. FINANCIAL STATEMENTS OF HUA NAN FINANCIAL HOLDINGS CO., LTD.

Hua Nan Financial Holdings Co., Ltd.

Balance Sheets

December 31, 2019 and 2018

(In Thousands of New Taiwan Dollars)

	2019	2018
Assets		
Cash and cash equivalents	\$ 300,089	\$ 422,127
Financial assets at fair value through other comprehensive income	761,454	874,254
Receivables, net	321,981	329,475
Current tax assets	494,240	1,086,735
Investments accounted for using equity method, net	219,581,779	204,742,800
Property and equipment, net	36,679	47,224
Right-of-use assets	64,816	-
Intangible assets, net	612	1,277
Deferred tax assets	2,808	2,808
Total	\$ 221,564,458	\$ 207,506,700
Liabilities		
Commercial paper payable, net	\$ 13,686,553	\$ 13,885,360
Payables	1,840,505	1,613,780
Current tax liabilities	331,493	922,734
Bonds payable	16,891,611	16,889,023
Provision	50,254	40,042
Lease liabilities	65,253	-
Other liabilities	280	280
Total liabilities	32,865,949	33,351,219
Equity		
Share capital		
Ordinary shares	121,727,402	115,436,133
Capital surplus	17,758,986	17,758,986
Retained earnings		
Legal reserve	16,322,174	14,860,042
Special reserve	6,471,594	6,492,093
Unappropriated earnings	16,941,042	15,829,364
Total retained earnings	39,734,810	37,181,499
Other equity		
Exchange differences on translating the financial statements of foreign operations	(1,304,234)	(109,568)
Unrealized gain on investments in equity instruments measured at fair value through other comprehensive income	9,291,816	4,591,269
Unrealized gain (loss) on investments in debt instruments measured at fair value through other comprehensive income	1,351,567	(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
Gain (loss) on overlay approach measured at fair value through other comprehensive income	138,162	(34,097)
Total other equity	9,477,311	3,778,863
Total equity	188,698,509	174,155,481
Total	\$ 221,564,458	\$ 207,506,700

Hua Nan Financial Holdings Co., Ltd.
Statements of Comprehensive Income
For the Years Ended December 31, 2019 and 2018

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

	2019	2018	Percentage Increase (Decrease)%
REVENUES			
Interest revenue	\$ 6,877	\$ 6,408	7
Interest expense	(316,037)	(307,912)	3
Share of profit of subsidiaries and associates	16,802,143	15,433,564	9
Other non-interest income, net	<u>51,413</u>	<u>51,827</u>	(1)
Total revenues	<u>16,544,396</u>	<u>15,183,887</u>	9
OPERATING EXPENSES			
Employee benefits	(360,335)	(337,058)	7
Depreciation and amortization	(73,336)	(13,401)	447
Others	<u>(155,455)</u>	<u>(212,109)</u>	(27)
Total operating expenses	<u>(589,126)</u>	<u>(562,568)</u>	5
NET PROFIT BEFORE INCOME TAX	15,955,270	14,621,319	9
INCOME TAX EXPENSE	<u>-</u>	<u>-</u>	-
NET PROFIT FOR THE YEAR	<u>15,955,270</u>	<u>14,621,319</u>	9
OTHER COMPREHENSIVE INCOME			
Items that will not be reclassified subsequently to profit or loss:			
Remeasurement of defined benefit plans	(13,957)	(1,333)	947
Share of other comprehensive income (loss) of subsidiaries and associates accounted for using the equity method	3,909,448	(601,865)	750
Unrealized loss on investment in equity instruments measured at fair value through other comprehensive income	(112,800)	(107,401)	5
Income tax of items that will not be reclassified subsequently to profit or loss	88,088	145,273	(39)
Items that may be reclassified subsequently to profit or loss:			
Share of other comprehensive income (loss) of subsidiaries and associates accounted for using the equity method	\$ 1,067,724	\$(872,874)	222
Income tax relating to items that may be reclassified subsequently to profit or loss	<u>(59,476)</u>	<u>39,589</u>	(250)
Total other comprehensive income (loss) for the year	<u>4,879,027</u>	<u>(1,398,611)</u>	(449)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>\$ 20,834,297</u>	<u>\$ 13,222,708</u>	58
EARNINGS PER SHARE			
Basic and diluted	<u>\$ 1.31</u>	<u>\$ 1.20</u>	

HUA NAN FINANCIAL HOLDINGS CO., LTD.
STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	Share Capital	Capital Surplus					Retained Earnings	
	Capital Stock	Share Premium	Treasury Stock	Donated Assets	Others	Total	Legal Reserve	Special Reserve
BALANCE AT JANUARY 1, 2018	\$ 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 RE- STATED	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 (loss) income 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
Appropriation of 2018 earnings								
Legal reserve	-	-	-	-	-	-	1,462,132	-
Cash dividends	-	-	-	-	-	-	-	-
Stock dividends	6,291,269	-	-	-	-	-	-	-
Special reserve reverse	-	-	-	-	-	-	-	(20,499)
Net profit for the year ended December 31, 2019	-	-	-	-	-	-	-	-
Other comprehensive (loss) income for the year ended December 31, 2019	-	-	-	-	-	-	-	-
Total comprehensive (loss) income for the year ended December 31, 2019	-	-	-	-	-	-	-	-
Disposal of equity instruments at fair value through other comprehensive income	-	-	-	-	-	-	-	-
BALANCE AT DECEMBER 31, 2019	\$ 121,727,402	\$ 17,702,376	\$ 52,349	\$ 2,936	\$ 1,325	\$ 17,758,986	\$ 16,322,174	\$ 6,471,594

(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
\$ 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
(1,462,132)	-	-	-	-	-	-	-	-
(6,291,269)	(6,291,269)	-	-	-	-	-	-	(6,291,269)
(6,291,269)	(6,291,269)	-	-	-	-	-	-	-
20,499	-	-	-	-	-	-	-	-
15,955,270	15,955,270	-	-	-	-	-	-	15,955,270
(366,309)	(366,309)	(1,194,666)	-	4,247,435	2,030,655	(10,347)	172,259	4,879,027
15,588,961	15,588,961	(1,194,666)	-	4,247,435	2,030,655	(10,347)	172,259	20,834,297
(453,112)	(453,112)	-	-	453,112	-	-	-	-
\$ 16,941,042	\$ 39,734,810	\$(1,304,234)	\$ -	\$ 9,291,816	\$ 1,351,567	\$ -	\$ 138,162	\$ 188,698,509

Hua Nan Financial Holdings Co., Ltd.
Statements of Cash Flows
For the Years Ended December 31, 2019 and 2018

(In Thousands of New Taiwan Dollars)

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Net profit before income tax	\$ 15,955,270	\$ 14,621,319
Adjustments for		
Depreciation expense	72,637	12,548
Amortization expense	699	853
Interest expense	316,037	307,912
Interest revenue	(6,877)	(6,408)
Dividend income	(57,277)	(58,513)
Share of profit of subsidiaries and associates accounted for using the equity method	(16,802,143)	(15,433,564)
Changes in operating assets and liabilities		
Decrease in receivable	7,471	-
Increase in payables	210,168	174,874
(Decrease) increase in provisions	(3,745)	3,448
Interest received	6,900	6,386
Dividend received	7,026,225	6,380,027
Interest paid	(312,256)	(228,694)
Income tax paid	(802)	(679)
Net cash generated from operating activities	<u>6,412,307</u>	<u>5,779,509</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of financial assets at fair value through other comprehensive income	- (25,000)	-
Acquisition of property and equipment	(1,973)	(905)
Acquisition of intangible assets	(34)	(457)
Net cash used in investing activities	<u>(2,007)</u>	<u>(26,362)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Decrease in commercial paper payables	(200,000)	(7,100,000)
Proceeds from corporate debentures	-	12,000,000
Repayments of corporate debentures	-	(5,000,000)
Repayment of the principal portion of lease liabilities	(59,682)	-
Cash dividends paid	(6,272,656)	(5,506,742)
Net cash used in financing activities	<u>(6,532,338)</u>	<u>(5,606,742)</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(122,038)	146,405
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	<u>422,127</u>	<u>275,722</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	<u>\$ 300,089</u>	<u>\$ 422,127</u>

58. SUBSIDIARIES' CONDENSED FINANCIAL STATEMENTS

a. Condensed balance sheets

Hua Nan Commercial Bank, Ltd.

Condensed Balance Sheets

December 31, 2019 and 2018

(In Thousands of New Taiwan Dollars)

Assets	2019	2018
Cash and cash equivalents	\$ 37,714,313	\$ 46,773,964
Due from the Central Bank and other banks	142,073,952	156,720,416
Financial assets at fair value through profit or loss	71,143,924	81,757,016
Financial assets at fair value through other comprehensive income		
Investments in debt instruments measured at amortized, net	200,623,910	177,050,338
Derivative financial assets for hedging, net	447,029,802	448,772,255
Receivables, net	500,000	-
Current tax assets	24,967,298	23,354,473
Discounts and loans, net	187,714	250,408
Available-for-sale financial assets, net	1,670,213,196	1,623,095,331
Other financial assets, net	1,465,002	1,462,912
Property and equipment, net	18,843,776	20,785,736
Right-of-use assets, net	28,364,531	28,701,082
Investment properties, net	1,936,115	-
Intangible assets, net	8,493,112	8,619,748
Deferred tax assets	629,590	549,423
Other assets, net	2,885,079	3,028,919
	<u>1,894,291</u>	<u>1,225,335</u>
Total	\$ 2,658,965,605	\$ 2,622,147,356

Liabilities	2019	2018
Deposits from the Central Bank and banks	\$ 117,698,753	\$ 132,267,041
Financial liabilities at fair value through profit or loss	2,965,848	4,733,832
Securities sold under repurchase agreements	22,518,626	38,447,979
Payables	21,307,250	30,784,344
Current tax liabilities	1,149,636	1,435,835
Deposits and remittances	2,226,607,265	2,158,472,842
Bank debentures	43,400,000	41,700,000
Other financial liabilities	8,086,747	11,223,576
Provisions	7,611,323	7,721,159
Lease liabilities	1,884,571	-
Deferred tax liabilities	6,011,414	6,021,653
Other liabilities	2,070,067	4,681,953
Total liabilities	<u>2,461,311,500</u>	<u>2,437,490,214</u>
Equity		
Share capital		
Common shares	82,865,000	79,992,000
Capital surplus	37,762,777	37,762,777
Retained earnings		
Legal reserve	47,414,136	43,220,683
Special reserve	6,498,481	6,447,863
Unappropriated earnings	14,622,419	13,978,179
Total retained earnings	<u>68,535,036</u>	<u>63,646,725</u>
Other equity		
Exchange differences on translating the financial statements of foreign operations	(1,256,388)	(84,138)
Unrealized gain on investments in equity instruments measured at fair value through other comprehensive income	8,574,199	3,942,581
Unrealized loss on investments in debt instruments measured at fair value through other comprehensive income	1,173,481	(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
Total other equity	<u>8,491,292</u>	<u>3,255,640</u>
Total equity	<u>197,654,105</u>	<u>184,657,142</u>
Total	\$ 2,658,965,605	\$ 2,622,147,356

Hua Nan Securities Co., Ltd.
Condensed Balance Sheets
December 31, 2019 and 2018

(In Thousands of New Taiwan Dollars)

Assets	2019	2018
Current assets	\$ 39,739,054	\$ 31,223,539
Investments	2,189,067	2,153,264
Right-of-use assets, net	112,510	-
Property and equipment, net	1,437,153	1,406,053
Intangible assets	192,111	147,283
Other assets, net	<u>1,212,299</u>	<u>1,183,580</u>
Total	<u>\$ 44,882,194</u>	<u>\$ 36,113,719</u>

Liabilities	2019	2018
Current liabilities	\$ 31,267,956	\$ 23,501,181
Non-current liabilities	<u>520,029</u>	<u>343,050</u>
Total liabilities	<u>31,787,985</u>	<u>23,844,231</u>
Equity		
Share capital	8,111,743	8,111,743
Capital surplus	494,998	494,998
Retained earnings	3,837,358	3,220,459
Other equity	<u>650,110</u>	<u>442,288</u>
Total equity	<u>13,094,209</u>	<u>12,269,488</u>
Total	<u>\$ 44,882,194</u>	<u>\$ 36,113,719</u>

South China Insurance Co., Ltd.
Condensed Balance Sheets
December 31, 2019 and 2018

(In Thousands of New Taiwan Dollars)

Assets	2019	2018
Cash and cash equivalents	\$ 1,990,374	\$ 1,649,142
Receivables, net	422,847	389,583
Investments	11,760,041	10,430,985
Reinsurance contracts assets, net	4,288,211	4,030,604
Property and equipment, net	866,549	894,604
Right-of-use assets, net	44,844	-
Intangible assets	36,452	39,143
Deferred tax assets	118,753	129,746
Other assets, net	<u>409,104</u>	<u>434,324</u>
Total	<u>\$ 19,937,175</u>	<u>\$ 17,998,131</u>

Liabilities	2019	2018
Payables	\$ 934,596	\$ 774,925
Current tax liabilities	63,863	51,844
Financial liabilities at fair value through profit or loss	4,507	19,487
Reserves of insurance industry	12,441,832	11,737,106
Provisions	310,109	306,817
Lease liabilities	45,037	-
Deferred tax liabilities	127,269	95,676
Other liabilities	<u>65,955</u>	<u>63,120</u>
Total liabilities	<u>13,993,168</u>	<u>13,048,975</u>
Equity		
Share capital	2,001,386	2,001,386
Capital surplus	5,278	5,278
Retained earnings	3,707,583	3,087,110
Other equity	<u>229,760</u>	<u>(144,618)</u>
Total equity	<u>5,944,007</u>	<u>4,949,156</u>
Total	<u>\$ 19,937,175</u>	<u>\$ 17,998,131</u>

Hua Nan Venture Capital Co., Ltd.
Condensed Balance Sheets
December 31, 2019 and 2018

(In Thousands of New Taiwan Dollars)

Assets	2019	2018
Current assets	\$ 351,236	\$ 443,942
Non-current assets	<u>1,244,231</u>	<u>1,108,016</u>
Total	<u>\$ 1,595,467</u>	<u>\$ 1,551,958</u>

Liabilities	2019	2018
Current liabilities	\$ 6,227	\$ 4,406
Non-current liabilities	<u>22,966</u>	<u>5,070</u>
Total liabilities	<u>29,193</u>	<u>9,476</u>
Equity		
Share capital	2,000,000	2,000,000
Accumulated deficits	(<u>433,726</u>)	(<u>457,518</u>)
Total equity	<u>1,566,274</u>	<u>1,542,482</u>
Total	<u>\$ 1,595,467</u>	<u>\$ 1,551,958</u>

Hua Nan Assets Management Co., Ltd.

Condensed Balance Sheets

December 31, 2019 and 2018

(In Thousands of New Taiwan Dollars)

Assets	2019	2018
Current assets	\$ 184,189	\$ 221,177
Property and equipment, net	53,942	42,374
Intangible assets	1,364	1,939
Other assets	<u>3,486,350</u>	<u>3,290,235</u>
Total	<u>\$ 3,725,845</u>	<u>\$ 3,555,725</u>

Liabilities	2019	2018
Current liabilities	\$ 1,809,651	\$ 1,860,936
Long-term liabilities	700,000	500,000
Other liabilities	<u>129,162</u>	<u>111,365</u>
Total liabilities	<u>2,638,813</u>	<u>2,472,301</u>
Equity		
Share capital	1,000,000	1,000,000
Capital surplus	892	892
Retained earnings	94,229	82,532
Other equity	<u>(8,089)</u>	<u>-</u>
Total equity	<u>1,087,032</u>	<u>1,083,424</u>
Total	<u>\$ 3,725,845</u>	<u>\$ 3,555,725</u>

Note: HNAMC sold land to HNCB in 2017 and generate disposal gain of \$277,522. Since aforementioned transaction was unrealized intercompany transaction, the disposal gain was adjusted during financial statement consolidation process.

b. Condensed statements of comprehensive income

Hua Nan Commercial Bank, Ltd.

Condensed Statements of Comprehensive Income

For the Years Ended December 31, 2019 and 2018

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

	2019	2018
Net interest	\$ 25,131,010	\$ 26,120,711
Other non-interest income, net	15,576,171	14,622,647
Total net revenues	40,707,181	40,743,358
Allowance for doubtful accounts, commitments and guarantees	(1,383,577)	(3,351,857)
Operating expenses	(21,629,592)	(21,356,357)
Net profit before income tax	17,694,012	16,035,144
Income tax expense	(2,524,962)	(1,728,406)
Net profit for the year	15,169,050	14,306,738
Other comprehensive (loss) income	4,531,980	(880,844)
Total comprehensive income for the year	\$ 19,701,030	\$ 13,425,894
Earnings per share	\$ 1.83	\$ 1.73

Hua Nan Securities Co., Ltd.

Condensed Statements of Comprehensive Income

For the Years Ended December 31, 2019 and 2018

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

	2019	2018
Revenues	\$ 3,246,326	\$ 2,934,370
Expenses	(2,494,407)	(2,523,194)
Non-operating income	254,769	211,040
Net profit before income tax	1,006,688	622,216
Income tax expense	(75,582)	(166,129)
Net profit for the year	931,106	456,087
Other comprehensive (loss) income	114,728	(140,377)
Total comprehensive income for the year	\$ 1,045,834	\$ 315,710
Earnings per share	\$ 1.15	\$ 0.56

South China Insurance Co., Ltd.
Condensed Statements of Comprehensive Income
For the Years Ended December 31, 2019 and 2018

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

	2019	2018
Operating income	\$ 7,549,247	\$ 7,012,032
Operating cost	(5,210,433)	(4,751,213)
Operating expenses	(1,586,394)	(1,481,299)
Net operating income	752,420	779,520
Non-operating revenue and expense	2,725	(7,102)
Net profit before income tax	755,145	772,418
Income tax expense	(104,164)	(137,183)
Net profit for the year	650,981	635,235
Other comprehensive (loss) income	365,918	(273,788)
Total comprehensive income for the year	<u>\$ 1,016,899</u>	<u>\$ 361,447</u>
Earnings per share	<u>\$ 3.25</u>	<u>\$ 3.17</u>

Hua Nan Investment Trust Corp.
Condensed Statements of Comprehensive Income
For the Years Ended December 31, 2019 and 2018

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

	2019	2018
Operating income	\$ 148,989	\$ 167,539
Operating expenses	(146,509)	(153,118)
Net operating income	2,480	14,421
Non-operating revenue and expense	4,121	2,013
Net profit before income tax	6,601	16,434
Income tax expense	(51)	(2,523)
Net profit for the year	6,550	13,911
Other comprehensive income (loss)	981	5,260
Total comprehensive income for the year	<u>\$ 7,531</u>	<u>\$ 19,171</u>
Earnings per share	<u>\$ 0.21</u>	<u>\$ 0.45</u>

Hua Nan Venture Capital Co., Ltd.
Condensed Statements of Comprehensive Income
For the Years Ended December 31, 2019 and 2018

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

	2019	2018
Revenues	\$ 108,997	\$ 135,444
Expenses and expenditures	(68,122)	(122,687)
Net loss before income tax	40,875	12,757
Income tax benefit	(17,094)	(78)
Net loss for the year	23,781	12,679
Other comprehensive income	11	22
Total comprehensive loss for the year	<u>\$ 23,792</u>	<u>\$ 12,701</u>
Earnings per share	<u>\$ 0.12</u>	<u>\$ 0.06</u>

Hua Nan Assets Management Co., Ltd.
Condensed Statements of Comprehensive Income
For the Years Ended December 31, 2019 and 2018

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

	2019	2018
Operating income	\$ 176,119	\$ 137,485
Operating expenses	(133,856)	(111,920)
Net operating income	42,263	25,565
Non-operating revenue and expense	(22,576)	(15,671)
Net profit before income tax	19,687	9,894
Income tax (expense) benefit	170	(980)
Net profit for the year	19,857	8,914
Other comprehensive loss	(7,834)	(151)
Total comprehensive income for the year	<u>\$ 12,023</u>	<u>\$ 8,763</u>
Earnings per share	<u>\$ 0.20</u>	<u>\$ 0.09</u>

59. 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, 2019	December 31, 2018
Return on total assets	Before income tax	7.43	7.19
	After income tax	7.43	7.19
Return on equity	Before income tax	8.79	8.59
	After income tax	8.79	8.59
Profit margin		96.44	96.29

2) Hua Nan Financial Holdings Corp. and its subsidiaries

Unit: %

Items		December 31, 2019	December 31, 2018
Return on total assets	Before income tax	0.69	0.63
	After income tax	0.59	0.56
Return on equity	Before income tax	10.30	9.79
	After income tax	8.79	8.59
Profit margin		34.16	31.78

3) Hua Nan Commercial Bank, Ltd.

Unit: %

Items		December 31, 2019	December 31, 2018
Return on total assets	Before income tax	0.67	0.63
	After income tax	0.57	0.56
Return on equity	Before income tax	9.26	8.88
	After income tax	7.94	7.92
Profit margin		37.26	35.11

4) Hua Nan Securities Co., Ltd.

Unit: %

Items		December 31, 2019	December 31, 2018
Return on total assets	Before income tax	2.48	1.54
	After income tax	2.29	1.13
Return on equity	Before income tax	7.94	5.01
	After income tax	7.34	3.67
Profit margin		28.68	15.54

5) South China Insurance Co., Ltd.

Unit: %

Items		December 31, 2019	December 31, 2018
Return on total assets	Before income tax	3.98	4.30
	After income tax	3.43	3.54
Return on equity	Before income tax	13.86	15.78
	After income tax	11.95	12.98
Profit margin		8.62	9.06

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, 2019				
			Overdue Amounts (Note 1)	Total Loans	Overdue Ratio (Note 2)	Allowance For Impairment Loss	Coverage Ratio (Note 3)
Corporate banking	Secured		\$ 666,438	\$ 481,282,239	0.14%	\$ 5,829,821	874.77%
	Unsecured		563,139	580,201,146	0.10%	6,922,364	1,229.25%
Consumer banking	Mortgage (Note 4)		599,683	523,359,140	0.11%	6,329,167	1,055.42%
	Cash card		-	23,365	-	19,277	-
	Small amount of credit loans (Note 5)		46,142	15,831,923	0.29%	208,082	450.96%
	Others (Note 6)	Secured	63,932	83,329,491	0.08%	1,005,585	1,572.90%
		Unsecured	37,532	6,469,260	0.58%	79,977	213.90%
	Total			1,976,866	1,690,496,564	0.12%	20,394,273	1,031.65%
			Overdue Amounts	Receivables Balance	Overdue Ratio	Allowance Amounts	Coverage Ratio
Credit card			4,793	8,885,481	0.05%	44,225	922.70%
Receivable factoring-without recourse (Notes 7 and 8)			-	338,325	-	6,149	-

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	-

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, 2019		December 31, 2018	
	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)	\$ 5,827	\$ 6,637	\$ 7,947	\$ 8,628
Amount that are exempted from being reported according to the law of consumer liquidate (Note 2)	52,932	101,243	52,824	85,346
Total	\$ 58,759	\$ 107,880	\$ 60,771	\$ 93,974

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, 2019		
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	\$ 30,566,085	15.46
2	B Group of aviation transportation	23,308,545	11.79
3	C Group of smelting and refining of iron and steel	23,087,175	11.68
4	D Group of railway transportation	19,173,338	9.70
5	E Group of real estate development	14,285,000	7.23
6	F Group of real estate development	11,267,559	5.70
7	G Group of woven and fabric mills	10,767,670	5.45
8	H Group of wholesaling computers, personnel equipment and software	8,788,451	4.45
9	I Group of cable television	8,350,897	4.23
10	J Group of electric wires and cables manufacturing	7,884,758	3.99

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

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, 2019						
	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	\$ 2,213,525,475	\$ 239,082,343	\$ 275,780,014	\$ 211,153,232	\$ 185,958,178	\$ 200,644,347	\$ 1,100,907,361
Main capital outflow on maturity	2,873,148,425	93,359,094	140,264,593	306,301,052	354,010,699	517,793,724	1,461,419,263
Gap	\$(659,622,950)	\$ 145,723,249	\$ 135,515,421	\$(95,147,820)	\$(168,052,521)	\$(317,149,377)	\$(360,511,902)

	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)

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, 2019					
	Total	11-30 Days	31-90 Days	91-180 Days	181 Days to 1 Year	Over 1 Year
Main capital inflow on maturity	\$ 22,120,524	\$ 5,379,718	\$ 5,385,539	\$ 2,784,825	\$ 1,233,289	\$ 7,337,153
Main capital outflow on maturity	24,928,397	6,457,658	6,717,039	2,557,948	2,794,093	6,401,659
Gap	\$(2,807,873)	\$(1,077,940)	\$(1,331,500)	\$ 226,877	\$(1,560,804)	\$ 935,494

	December 31, 2019					
	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

f. Interest rate sensitivity information

Hua Nan Commercial Bank, Ltd.

Interest Rate Sensitivity (New Taiwan Dollars)

December 31, 2019

(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	\$ 1,641,237,628	\$ 79,165,330	\$ 127,356,847	\$ 213,951,101	\$ 2,061,710,906
Interest-sensitive liabilities	1,634,143,723	137,464,054	119,282,027	48,567,632	1,939,457,436
Interest-sensitive gap	7,093,905	(58,298,724)	8,074,820	165,383,469	122,253,470
Net assets					173,212,671
Ratio of interest-sensitive assets to liabilities (%)					106.30%
Ratio of interest-sensitive gap to net assets (%)					70.58%

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%

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, 2019

(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	\$ 15,877,527	\$ 2,557,582	\$ 761,391	\$ 2,162,985	\$ 21,359,485
Interest-sensitive liabilities	16,882,857	1,811,435	1,615,278	21,158	20,330,728
Interest-sensitive gap	(1,005,330)	746,147	(853,887)	2,141,827	1,028,757
Net assets					1,000,444
Ratio of interest-sensitive assets to liabilities (%)					105.06%
Ratio of interest-sensitive gap to net assets (%)					102.83%

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%

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 sensitivity 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)

60. SIGNIFICANT EVENTS AFTER REPORTING PERIOD

HNSC engaged in derivative instruments trading, and incurred related losses amounted to 3,413,710 as of March 23, 2020, accounting for 26.07% of HNSC's equity attributable to the parent company's owners' equity on December 31, 2019.

61. 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: Table 7.
 - 5) Receivables from related parties over NT\$300 million or 10% of the issued capital: None.
 - 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 50 and 51.
- 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 13.
- f. The Company's shares held by subsidiaries: None.

62. 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 HNILC and its subsidiaries, HNSC and its subsidiaries, SCIC, HNIT, HNVC and HNAMEC, etc.

Department Income and Operation Results

	For the Year Ended December 31, 2019		
	Bank	Other Operating Departments	Total
Net interest	\$ 25,131,010	\$ 282,567	\$ 25,413,577
Other non-interest income, net	15,576,171	5,714,585	21,290,756
Total net revenues	40,707,181	5,997,152	46,704,333
Allowance for doubtful accounts, commitments and guarantees	(1,383,577)	(25,569)	(1,409,146)
Change in provisions for insurance liabilities, net	-	(396,178)	(396,178)
Operating expenses	(21,629,592)	(4,573,159)	(26,202,751)
Net profit before income tax	17,694,012	1,002,246	18,696,258
Income tax expense	(2,524,962)	(215,928)	(2,740,890)
Net profit for the year	\$ 15,169,050	\$ 786,318	\$ 15,955,368

	For the Year Ended December 31, 2019		
	Bank	Other Operating Departments	Total
Net interest	\$ 26,120,711	\$ 439,508	\$ 26,560,219
Other non-interest income, net	14,622,647	4,819,618	19,442,265
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	(21,356,357)	(4,418,183)	(25,774,540)
Net profit before income tax	16,035,144	636,065	16,671,209
Income tax expense	(1,728,406)	(321,368)	(2,049,774)
Net profit for the year	\$ 14,306,738	\$ 314,697	\$ 14,621,435

TABLE 1

HUA NAN FINANCIAL HOLDINGS CO., LTD. AND SUBSIDIARIES
INFORMATION AND PROPORTIONATE SHARE IN INVESTEEES
FOR THE YEAR ENDED DECEMBER 31, 2019

(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	\$ 197,654,686	\$ 15,169,631	8,286,500,000	-	8,286,500,000	100.00	Note 1	
	Hua Nan Securities Co., Ltd.	Taipei	Security	100.00	13,094,401	931,298	811,174,346	-	811,174,346	100.00	Note 1	
	South China Insurance Co., Ltd.	Taipei	Insurance	100.00	5,944,031	651,005	200,138,625	-	200,138,625	100.00	Note 1	
	Hua Nan Investment Trust Corp.	Taipei	Securities issuance and investment	100.00	512,857	6,550	30,839,927	-	30,839,927	100.00	Note 1	
	Hua Nan Venture Capital Co., Ltd.	Taipei	Venture capital investments	100.00	1,566,274	23,781	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	809,530	19,878	100,000,000	-	100,000,000	100.00	Note 1	
	Taiwan Depository and Clearing Corp.	Taipei	Securities depository and clearing service	0.25	52,515	-	2,513,200	-	2,513,200	2.51		
	Non-financial industry											
	Taipei Financial Center Corp.	Taipei	Real estate development, sales and rental	2.90	692,028	-	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	16,911	-	10,000,000	-	10,000,000	20.00		

Note 1: Current recognition of investment gains or losses for the year ended December 31, 2019 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, 2019

(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, 2019				Note
				Shares (Units)	Carrying Value	Percentage of Ownership (%)	Market Value or Net Equity	
Hua Nan Investment Trust Corp.	Stocks							
	Taiwan Futures Exchange	-	FVTOCI - equity instruments	1,239,473	\$ 67,217	0.35	\$ 67,217	Note 2
	FundRich Securities Co., Ltd.	-	FVTOCI - equity instruments	171,428	1,433	0.29	1,433	Note 2
Hua Nan Venture Capital Co., Ltd.	Stocks							
	Formosa Advanced Technologies Co., Ltd.	-	Financial assets mandatorily classified as at FVTPL	455,000	16,972	0.10	16,972	Note 2
	Xu-Yuan Packaging Technology Co., Ltd.	-	Financial assets mandatorily classified as at FVTPL	180,799	2,287	0.33	2,287	Note 2
	Savior Lifetec Corp.	-	Financial assets mandatorily classified as at FVTPL	1,454,809	31,933	0.54	31,933	Note 2
	AGON-Tech Corp.	-	Financial assets mandatorily classified as at FVTPL	429,584	477	4.17	477	Note 2
	Dong-Wang Nano Industrial Co., Ltd.	-	Financial assets mandatorily classified as at FVTPL	107,556	-	1.08	-	Note 2
	Essence Technology Solution, Inc.	-	Financial assets mandatorily classified as at FVTPL	85,357	-	3.16	-	Note 2
	ProbeLeader Co., Ltd.	-	Financial assets mandatorily classified as at FVTPL	2,500,000	34,442	8.95	34,442	Note 2
	Feature Integration Technology Inc.	-	Financial assets mandatorily classified as at FVTPL	1,062,533	16,263	3.63	16,263	Note 2
	Ultra-PAK Industries Co., Ltd.	-	Financial assets mandatorily classified as at FVTPL	1,365,122	27,803	3.18	27,803	Note 2
	Quan-Ai Electronics Co., Ltd.	-	Financial assets mandatorily classified as at FVTPL	1,300,000	-	2.13	-	Note 2
	Apexcera Material Tech Corp.	-	Financial assets mandatorily classified as at FVTPL	700,000	-	3.53	-	Note 2
	Supertech Optoelectronics Co., Ltd.	-	Financial assets mandatorily classified as at FVTPL	1,640,000	-	7.45	-	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	48,621	8.87	48,621	Note 2
	Tera Xtal Technology Corp.	-	Financial assets mandatorily classified as at FVTPL	1,276,250	-	0.67	-	Note 2
	Earth Gen Materials Corp.	-	Financial assets mandatorily classified as at FVTPL	1,500,000	-	8.33	-	Note 2
	Fitilink Integrated Technology Inc.	-	Financial assets mandatorily classified as at FVTPL	1,596,500	-	5.47	-	Note 2
	OTO Photonics Inc.	-	Financial assets mandatorily classified as at FVTPL	999,600	8,307	3.33	8,307	Note 2
	Solid Pro Technology Co., Ltd.	-	Financial assets mandatorily classified as at FVTPL	58,815	-	1.08	-	Note 2
	OTO Photonics Inc.	-	Financial assets mandatorily classified as at FVTPL	1,578,000	9,625	6.17	9,625	Note 2
	Crystal Applied Technology Inc.	-	Financial assets mandatorily classified as at FVTPL	547,662	-	0.51	-	Note 2
	Wellhead Biological Technology Corp.	-	Financial assets mandatorily classified as at FVTPL	900,000	-	4.17	-	Note 2
	Global Bio Pharma, Inc.	-	Financial assets mandatorily classified as at FVTPL	2,200,000	27,444	3.19	27,444	Note 2
	FlexUp Technologies Corp.	-	Financial assets mandatorily classified as at FVTPL	2,590,000	14,790	15.34	14,790	Note 2
	FemCo Steel Technology Corp.	-	Financial assets mandatorily classified as at FVTPL	2,067,600	67,349	4.94	67,349	Note 2
	Hometom Corp. Ltd.	-	Financial assets mandatorily classified as at FVTPL	294,806	2,860	0.80	2,860	Note 2
	Twoway Communications Inc.	-	Financial assets mandatorily classified as at FVTPL	968,000	15,668	1.19	15,668	Note 2
	Minima technology Corp.	-	Financial assets mandatorily classified as at FVTPL	2,548,309	78,998	6.59	78,998	Note 2

Holding Company Name	Type and Name of Marketable Security	Relationship with Holding Company	Accounts Recorded	December 31, 2019				Note
				Shares (Units)	Carrying Value	Percentage of Ownership (%)	Market Value or Net Equity	
Hua Nan Venture Capital Co., Ltd.	Sunnypharmetech Inc.	-	Financial assets mandatorily classified as at FVTPL	3,778,864	75,577	2.92	75,577	Note 2
	SFI Electronics Technology Inc.	-	Financial assets mandatorily classified as at FVTPL	2,730,000	70,367	6.53	70,367	Note 2
	NaviFUS Corp.	-	Financial assets mandatorily classified as at FVTPL	3,165,000	53,094	9.50	53,094	Note 2
	Innopharmax Inc.	-	Financial assets mandatorily classified as at FVTPL	826,000	\$ 10,077	1.17	\$ 10,077	Note 2
	iSTART-Tek Inc. (Note: Former name: Hoy Technologies Corp.)	-	Financial assets mandatorily classified as at FVTPL	1,256,000	27,632	7.34	27,632	Note 2
	Advagene Biopharma Co., Ltd.	-	Financial assets mandatorily classified as at FVTPL	1,771,509	34,222	3.99	34,222	Note 2
	Lealea Co., Ltd.	-	Financial assets mandatorily classified as at FVTPL	833,000	10,906	1.39	10,906	Note 2
	SmartDisplayer Technology Co., Ltd.	-	Financial assets mandatorily classified as at FVTPL	600,000	9,008	2.41	9,008	Note 2
	Msscops Co., Ltd.	-	Financial assets mandatorily classified as at FVTPL	892,500	45,050	2.27	45,050	Note 2
	TMY Technology Inc.	-	Financial assets mandatorily classified as at FVTPL	606,060	10,000	2.40	10,000	Note 2
	Digital Economy Limited Partnership	-	Financial assets mandatorily classified as at FVTPL	-	36,850	11.95	36,850	Note 2
	Taiwania Capital Buffalo II Bioventures, LP	-	Financial assets mandatorily classified as at FVTPL	-	40,033	1.53	40,033	Note 2
	Xian-Guan Mobile Technologies Inc.	-	Financial assets mandatorily classified as at FVTPL	1,466,667	15	6.20	15	Note 2
	Fertasia International Development Corporation	-	Financial assets mandatorily classified as at FVTPL	9,714,800	98,340	-	98,340	Note 2
	Applied Wireless Identification Group Inc.	-	Financial assets mandatorily classified as at FVTPL	450,682	2,144	1.02	2,144	Note 2
	Groundhog Technologies Inc.	-	Financial assets mandatorily classified as at FVTPL	1,666,667	62,318	6.20	62,318	Note 2
	Altea Therapeutics Corporation	-	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	49,653	1.66	49,653	Note 2
	Voltafield Technology Corp.	-	Financial assets mandatorily classified as at FVTPL	1,445,111	28,079	4.01	28,079	Note 2
	Apexigen, Inc.	-	Financial assets mandatorily classified as at FVTPL	1,643,614	77,842	0.89	77,842	Note 2
	ACT Genomics Co., Ltd.	-	Financial assets mandatorily classified as at FVTPL	3,500,000	58,822	3.89	58,822	Note 2
	United Biopharma Holdings Co., Ltd.	-	Financial assets mandatorily classified as at FVTPL	867,251	36,257	0.49	36,257	Note 2
	Apollo Medical Optics Inc.	-	Financial assets mandatorily classified as at FVTPL	1,666,667	18,701	5.05	18,701	Note 2
	Clearmind Biomedical Inc.	-	Financial assets mandatorily classified as at FVTPL	714,285	31,405	6.10	31,405	Note 2
Hua Nan Futures Co., Ltd.	<u>Stocks</u>							
	Taiwan Futures Exchange	-	FVTOCI - equity instruments	2,185,017	118,493	1.44	118,493	Note 2
Hua Nan Asset Management Corp.	<u>Stocks</u>							
	Taiwan Urban Regeneration & Financial Services Co., Ltd.	-	FVTOCI - equity instruments	2,500,000	16,911	0.05	16,911	Note 2
Hua Nan Holdings Corp.	<u>Stocks</u>							
	Hua Nan Securities (HK) Limited	Held indirect	Investments accounted for using equity method	79,975,000	US\$ 21,917	100.00	US\$ 21,917	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, 2019. Market value of the listed stocks was based on the closing price as of December 31, 2019. 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, 2019

(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

No.	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	Financing Company's Financing Amount Limit
													Item	Value		
1	Hua Nan International Leasing Corporation Ltd.	Hsin Chuan Construction Co., Ltd.	Other receivable	No	\$ 24,585	\$ -	\$ -	1-10	Short-term financing	\$ -	Operating use	\$ -	-	\$ -	\$ 210,176	\$ 1,401,175
		Teamcham Estate Corporation	Other receivable	No	63,200	-	-	1-10	Short-term financing	-	Operating use	-	-	-	210,176	1,401,175
		Yuan Mao Construction Co., Ltd.	Other receivable	No	94,551	-	-	1-10	Short-term financing	-	Operating use	-	-	-	210,176	1,401,175
		Yi Tai Construction Co., Ltd.	Other receivable	No	102,650	-	-	1-10	Short-term financing	-	Operating use	-	-	-	210,176	1,401,175
		Kuang Ming Shipping Corp.	Other receivable	No	50,000	50,000	-	1-10	Short-term financing	-	Operating use	-	-	-	210,176	1,401,175
		Teamlead Property Management	Other receivable	No	120,000	81,112	81,112	1-10	Short-term financing	-	Operating use	-	Real estate	133,893	210,176	1,401,175
		Xi Quan Co., Ltd.	Other receivable	No	17,500	17,500	17,500	1-10	Short-term financing	-	Operating use	-	Real estate	29,087	210,176	1,401,175
		The Rock Real Estate Development Co., Ltd.	Other receivable	No	43,526	3,886	3,886	1-10	Short-term financing	-	Operating use	-	Real estate	88,548	210,176	1,401,175
		Quijian Square Corporation Ltd.	Other receivable	No	17,500	16,783	16,783	1-10	Short-term financing	-	Operating use	-	Real estate	33,868	210,176	1,401,175
		Y.B. Leasing Corporation Ltd.	Other receivable	No	34,200	34,200	34,200	1-10	Short-term financing	-	Operating use	-	Real estate	52,800	210,176	1,401,175
		Megaful Co., Ltd.	Other receivable	No	50,000	-	29,439	1-10	Short-term financing	-	Operating use	-	Real estate	61,895	210,176	1,401,175

Note: 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.

TABLE 4

HUA NAN FINANCIAL HOLDINGS CO., LTD.
ENDORSEMENT/GUARANTEE PROVIDED
FOR THE YEAR ENDED DECEMBER 31, 2019

(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 Statement	Maximum Endorsement/ Guarantee Amounts Allowable (Note 2)
		Name	Nature of Relationship							
1	Hua Nan International Leasing Cor- poration Ltd.	Hua Nan International Leasing Cor- poration Ltd.	Subsidiary	\$ 7,005,875	\$ 847,100	\$ 664,600	\$ -	\$ -	47.43%	\$12,610,575

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.
CONSOLIDATED ENTITIES
DECEMBER 31, 2019 AND 2018

(In Thousands of New Taiwan Dollars)

Investor Company	Investee Company	Main Business and Products	Percentage of Ownership (%)		Note
			December 31, 2019	December 31, 2018	
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	

TABLE 6

HUA NAN FINANCIAL HOLDINGS CO., LTD.
Sale of nonperforming loans by subsidiaries
DECEMBER 31, 2019 AND 2018

(In Thousands of New Taiwan Dollars)

Date	Name	Composition of Claims	Carrying Amount	Amounts	Disposals	Agreed Conditions	Relationships
July 8, 2019	SC Lowey Primary Investments, Ltd.	Loan Syndication	\$ -	\$ 95,176	\$ 95,176	None	Non-Related Party Transactions

TABLE 7

HUA NAN FINANCIAL HOLDINGS CO., LTD.
Allowance for service fee to related parties over NT\$5 million
DECEMBER 31, 2019 AND 2018

(In Thousands of New Taiwan Dollars)

Securities Firms	Name	Relationships	Amounts	Situations and reasons	Note
Hua Nan Securities Co., Ltd.	Hua Nan Commercial Bank, Ltd.	Both are subsidiaries	\$ 5,371	-	

TABLE 8

HUA NAN FINANCIAL HOLDINGS CO., LTD.
BUSINESSES OPERATED IN THE FOREIGN COUNTRIES OR REGIONS WITHOUT COMPETENT AUTHORITIES GOVERNING
SECURITIES BUSINESSES
DECEMBER 31, 2019

(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 9	-	Hua Nan Securities Co., Ltd.	\$ -	Holding company business	-	Tables 11 and 12

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, 2019

(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\$ 21,917	100	US\$ 21,917	Eliminated upon consolidation

TABLE 10

HUA NAN FINANCIAL HOLDINGS CO., LTD.
INFORMATION ON INVESTMENT IN MAINLAND CHINA
DECEMBER 31, 2019

(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, 2019	Investment Flows		Accumulated Outflow of Investment from Taiwan as of December 31, 2019	Investee's Net Income	% Ownership of Direct or Indirect Investment	Investment Gain	Carrying Amount as of December 31, 2019	Accumulated Inward Remittance of Earnings as of December 31, 2019
					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)	\$ 113,025 CNY 25,824	100	\$ 113,025 CNY 25,824	\$ 5,648,517 CNY 1,315,138	\$ -
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)	37,496 CNY 8,512	100	37,496 CNY 8,512	2,508,601 CNY 584,075	-
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)	47,252 CNY 10,789	100	47,252 CNY 10,789	2,501,177 CNY 582,346	-
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)	29,040	100	29,040	916,200	-

Accumulated Investment in Mainland China as of December 31, 2019		Investment Amounts Authorized by Investment Commission, MOEA		Upper Limit on Investment
\$	10,683,672	\$	10,683,672	
(US\$	268,190)	(US\$	268,190)	
(CNY	500,000)	(CNY	500,000)	\$118,592,463

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, 2019 AND 2018

(In U.S. Dollars)

ASSETS	2019		2018	
	Amount	%	Amount	%
CURRENT ASSETS				
Cash	\$ 3,095,782	12	\$ 3,008,173	12
Other receivables	24,424	-	27,339	-
Total current assets	3,120,206	12	3,035,512	12
INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD	21,916,954	88	21,364,897	88
TOTAL	\$ 25,037,160	100	\$ 24,400,409	100
LIABILITIES AND EQUITY				
LIABILITIES				
Other payables	\$ 973	-	\$ 975	-
Total liabilities	973	-	975	-
EQUITY				
Share capital	11,150,000	45	11,150,000	46
Unappropriated earnings	8,394,365	33	9,165,505	35
Net (loss) profit for the year	(159,808)	(1)	(697,459)	-
Exchange differences on translating the financial statements of foreign operations	(117,353)	-	(208,970)	(1)
Unrealized gain on financial assets at fair value through other comprehensive income	5,768,983	23	4,990,358	20
Total equity	25,036,187	100	24,399,434	100
TOTAL	\$ 25,037,160	100	\$ 24,400,409	100

TABLE 12

HUA NAN HOLDINGS CORPORATION
STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

(In U.S. Dollars)

	2019		2018	
	Amount	%	Amount	%
REVENUES				
Interest revenue	\$ 88,232	56	\$ 77,202	11
Share of profit of subsidiaries and associates	(244,503)	(156)	(770,615)	(111)
Total revenues	(156,271)	(100)	(693,413)	(100)
EXPENSES				
Operating expenses	3,537	2	4,047	1
NET PROFIT FOR THE YEAR	(159,808)	(102)	(697,460)	(101)
OTHER COMPREHENSIVE INCOME				
Exchange differences on translating the financial statements of foreign operations	91,617	59	(36,265)	(5)
Unrealized loss on financial assets at fair value through other comprehensive income	778,625	498	(1,919,715)	(285)
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE YEAR	\$ 710,434	455	\$ (2,653,440)	(391)

TABLE 13

HUA NAN FINANCIAL HOLDINGS CO., LTD.
BUSINESS RELATIONSHIPS AND SIGNIFICANT TRANSACTIONS BETWEEN THE COMPANY AND ITS SUBSIDIARIES
FOR THE YEAR ENDED DECEMBER 31, 2019

(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, 2019						
0	Hua Nan Financial Holdings Co., Ltd.	Hua Nan Commercial Bank, Ltd. and subsidiaries	a	Cash and cash equivalents	\$ 300,085	Note 4	0.01%
		Hua Nan Commercial Bank, Ltd. and subsidiaries	a	Receivables	268,432	Note 4	0.01%
1	Hua Nan Commercial Bank, Ltd. and subsidiaries	Hua Nan Financial Holdings Co., Ltd.	b	Payables	268,432	Note 4	0.01%
		Hua Nan Financial Holdings Co., Ltd.	b	Deposits and remittances	300,085	Note 4	0.01%
		Hua Nan Securities Co., Ltd. and subsidiaries	c	Deposits and remittances	452,519	Note 4	0.02%
		Hua Nan Securities Co., Ltd. and subsidiaries	c	Deposits and remittances	301,453	Note 4	0.01%
		South China Insurance Co., Ltd.	c	Deposits and remittances	907,984	Note 4	0.03%
		Hua Nan Asset Management Corp.	c	Deposits and remittances	114,118	Note 4	-
2	Hua Nan Securities Co., Ltd. and subsidiaries	Hua Nan Commercial Bank, Ltd. and subsidiaries	c	Other assets	348,938	Note 4	0.01%
		Hua Nan Commercial Bank, Ltd. and subsidiaries	c	Cash and cash equivalents	103,581	Note 4	-
		Hua Nan Commercial Bank, Ltd. and subsidiaries	c	Other financial assets	301,453	Note 4	0.01%
3	South China Insurance Co., Ltd.	Hua Nan Commercial Bank, Ltd. and subsidiaries	c	Cash and cash equivalents	817,256	Note 4	0.03%
		Hua Nan Commercial Bank, Ltd. and subsidiaries	c	Other financial assets	90,728	Note 4	-
5	Hua Nan Asset Management Corp.	Hua Nan Commercial Bank, Ltd. and subsidiaries	c	Cash and cash equivalents	114,118	Note 4	-

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: Three types of transactions with related parties are classified as follows:

- a. Parent company to subsidiaries.
- b. Subsidiaries to parent company.
- c. 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 14

HUA NAN FINANCIAL HOLDINGS CO., LTD.
DISCLOSURE REQUIRED UNDER ARTICLE 46 OF THE FINANCIAL HOLDING COMPANY ACT
DECEMBER 31, 2019

(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)	\$ 339,534,381	202.27
National Treasury Agency	59,241,024	35.29
Taiwan Power Company	57,311,824	34.14
Taiwan High Speed Rail Corp.	21,220,480	12.64
Federal Government of the United States	21,015,253	12.52
CPC Corporation, Taiwan	14,452,037	8.61
Grand industrial Limited Company of Baofeng	14,285,000	8.51
EVA Airways Corporation	10,471,888	6.24
New Taipei City Government	10,000,000	5.96
Taiwan Semiconductor Manufacturing Co., Ltd.	8,844,951	5.27
Far Eastern Department Stores Co., Ltd.	8,399,918	5.00
First Financial Holdings Co., Ltd.	8,355,119	4.98
Taiwan Railways Administration, MOTC	7,785,122	4.64
Formosa Ha Tinh (Cayman) Limited	7,497,500	4.47
China Airlines Corp.	6,550,763	3.90
Evergreen Marine Corp. (Taiwan) Ltd.	6,311,032	3.76
HSBC Bank (Taiwan) Co., Ltd.	6,039,520	3.60
Fubon Financial Holding Co., Ltd.	5,968,066	3.56
Cathy Real Estate Development Co., Ltd.	5,900,000	3.51
Quanta Computer Inc.	5,093,265	3.03
CTBC Bank Co., Ltd.	4,898,436	2.92
Cathy Financial Holding Co., Ltd.	4,815,524	2.87
Yunlin County Government	4,662,404	2.78
Walsin Lihwa Corporation	4,576,942	2.73
Formosa Chemicals & Fibre Corp.	4,557,668	2.72
Formosa Plastics Corporation	4,542,604	2.71
Nanzong Construction Developments, Co., Ltd.	4,387,467	2.61
Bao'e Construction Co., Ltd.	4,380,000	2.61
Yang Ming Marine Transport Corporation	4,315,299	2.57
Cheng Shin Rubber Industry Co.	4,254,523	2.53
Taiwan Stock Exchange Corporation	4,191,903	2.50
Asia Cement Corp.	4,074,150	2.43
Taiwan Cement Corp.	4,007,605	2.39
Mayfull Corp.	4,001,000	2.38
Hon Hai Precision Industry Co., Ltd.	3,997,492	2.38
Taiwan Cooperative Financial Holding Co., Ltd.	\$ 3,994,865	2.38
Wan Pao Development Co., Ltd.	3,951,850	2.35
AU Optronics Corp.	3,910,050	2.33
China Steel Corporation	3,894,875	2.32
Inventec Corp.	3,662,769	2.18
Capital Securities Corporation	3,621,856	2.16
Nankang Rubber Tire Corp., Ltd.	3,588,825	2.14

Name	Total Amounts of Credits, Endorsement or Other Transactions	Percentage of HNFH's Equity (%)
Huaku Development Co., Ltd.	3,503,780	2.09
Synnex Technology International Corporation	3,469,275	2.07
Federal Corporation	3,407,369	2.03
Wistron Corp.	3,342,337	1.99
Kindom Development Co., Ltd.	3,323,331	1.98
WESTPAC Banking Corporation	3,310,973	1.97
Far Eastern New Century Corp.	3,305,150	1.97
Digtimes Inc.	3,276,940	1.95
Lin Yuan Investment Co., Ltd.	3,271,050	1.95
Changhua County Government	3,250,000	1.94
Chailease Finance	3,230,970	1.92
JPMorgan Chase Bank N.A.	3,077,031	1.83
Royal Bank of Canada	3,067,574	1.83
Powertech Technology Inc.	3,065,968	1.83
Chang Hwa Commercial Bank, Ltd.	3,060,012	1.82
Chinese Television System Corporation	3,055,586	1.82
Commonwealth Bank of Australia	3,036,388	1.81
Formosa Ha Tinh Steel Corporation	3,031,619	1.81
2. With the same related person		
Mr. Tsai with same related parties	11,267,285	6.71
Mr. Lin with same related parties	8,174,292	4.87
Mr. Miao with same related parties	7,950,577	4.74
Mr. Lin with same related parties	7,535,900	4.49
Mr. Lee with same related parties	7,494,071	4.46
Mr. Ke with same related parties	7,040,301	4.19
Mr. Tsai with same related parties	6,175,000	3.68
Mr. Tang with same related parties	5,977,707	3.56
Mr. Pan with same related parties	5,907,039	3.52
Mr. Wang with same related parties	5,445,089	3.24
Mr. Tsai with same related parties	5,090,524	3.03
Mr. Chang with same related parties	4,460,341	2.66
Mr. Zhuo with same related parties	3,668,737	2.19
Mr. Zhan with same related parties	3,650,825	2.17
Mr. Wu with same related parties	3,540,471	2.11
Mr. Huang with same related parties	3,472,488	2.07
Mr. Zhuo with same related parties	3,439,303	2.05
Mr. Lan with same related parties	3,255,989	1.94
Mr. Chiu with same related parties	3,117,064	1.86
3. With the same affiliate		
Eva Airways Corp. with same affiliate	\$ 13,844,116	8.25
Far Eastern New Century Corp. with same affiliate	12,098,688	7.21
Yulon General Motors Ltd. with same affiliate	12,046,917	7.18
China Steel Corp. with same affiliate	11,294,213	6.73
Nankang Rubber Tire Corp., Ltd. with same affiliate	11,276,187	6.72
Formosa Ha Tinh (Cayman) Limited with same affiliate	10,529,119	6.27

Name	Total Amounts of Credits, Endorsement or Other Transactions	Percentage of HNFH's Equity (%)
Evergreen Marine Corp. (Taiwan) Ltd.	10,063,363	5.99
Far Eastern Department Stores Co., Ltd. with same affiliate	9,199,918	5.48
Aiwan Semiconductor Manufacturing Company Limited with same affiliate	9,006,014	5.37
Asia Cement Corp. with same affiliate	8,684,319	5.17
HSBC Holdings	8,533,679	5.08
First Financial Holding Co., Ltd. with same affiliate	8,509,088	5.07
Walsin Lihwa Corporation with same affiliate	7,953,804	4.74
Taiwan Cement Corp. with same affiliate	7,696,832	4.59
Lin Yuan Investment Co., Ltd. with same affiliate	7,653,100	4.56
Formosa Chemicals & Fibre Corp. with same affiliate	7,326,818	4.36
Zhong Shing Development Co., Ltd. with same affiliate	7,176,397	4.28
Chailease Holding Company Limited with same affiliate	7,125,326	4.24
Fubon Financial Holding Co., Ltd. with same affiliate	6,571,412	3.91
Yuanta Financial Holding Co., Limited with same affiliate	6,523,398	3.89
YFY Inc. with same affiliate	6,230,635	3.71
Quanta Computer Inc. with same affiliate	5,719,538	3.41
CTBC Financial Holding Co., Ltd. with same affiliate	5,464,599	3.26
Cathay Financial Holding Co., Ltd. with same affiliate	5,420,399	3.23
MiTAC Information Technology Corp.	5,135,769	3.06
Taiwan Cooperative Financial Holding Co., Ltd. with same affiliate	4,909,292	2.92
Hui Hang Investment with same affiliate	4,868,937	2.90
ASE Technology Holding Co., Ltd. with same affiliate	4,825,795	2.87
Ruentex Development Co., Ltd. with same affiliate	4,825,188	2.87
YangMing Marine Transport Corp. with same affiliate	4,723,572	2.81
Formosa Plastics Corp. with same affiliate	4,586,033	2.73
Cheng Shin Rubber Company with same affiliate	4,548,425	2.71
Bao'e Construction Co., Ltd. with same affiliate	4,380,000	2.61
AU Options Corp.	4,376,642	2.61
Taiwan Glass Ind. Corp. with same affiliate	4,368,781	2.60
Continental Engineering Corporation with same affiliate	4,336,952	2.58
Inventec Corp.	4,240,804	2.53
Synnex Technology International Corp.	4,119,125	2.45
China Development Financial Holding Co., Ltd. with same affiliate	4,049,836	2.41
Reliance Industries Limited with same affiliate	4,047,002	2.41
Highaim Technology Inc. with same affiliate	4,017,235	2.39
Lien Hwa Industrial Holdings Corp.	3,802,685	2.27
Hotai Finance Corporation	3,695,314	2.20
Mega Financial Holding Co., Ltd. with same affiliate	\$ 3,687,861	2.20
Everwiner Enterprise Co., Ltd. with same affiliate	3,648,450	2.17
Farglory Construction Corp. with same affiliate	3,599,199	2.14
Blue Agave Dutch Aviation Bv with same affiliate	3,592,621	2.14
China Times Inc. with same affiliate	3,560,501	2.12
Huaku Development with same affiliate	3,512,794	2.09
Wells Fargo & Co with same affiliate	3,423,001	2.04
Federal Corp. with same affiliate	3,416,720	2.04
Powertech Technology Inc. with same affiliate	3,375,921	2.01
Ta-Yuan Cogeneration Company Ltd. with same affiliate	3,107,873	1.85
JP Morgan Chase & Co with same affiliate	3,095,257	1.84

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

Item	Year	2019	2018	Difference	
				Amount	Percentage
CASH AND CASH EQUIVALENTS		39,320,763	48,510,679	(9,189,916)	-19%
DUE FROM THE CENTRAL BANK AND OTHER BANKS		142,073,952	156,720,416	(14,646,464)	-9%
PROVISION FOR FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS		79,832,198	86,705,474	(6,873,276)	-8%
FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME		221,684,061	191,447,673	30,236,388	16%
INVESTMENTS IN DEBT INSTRUMENTS MEASURED AT AMORTIZED COST, NET		448,789,348	450,489,822	(1,700,474)	0%
SECURITIES PURCHASED UNDER AGREEMENTS TO RESELL		799,551	489,059	310,492	63%
RECEIVABLES, NET		46,116,677	41,214,028	4,902,649	12%
CURRENT TAX ASSETS		356,269	418,349	(62,080)	-15%
DISCOUNTS AND LOANS, NET		1,670,450,065	1,623,317,849	47,132,216	3%
REINSURANCE CONTRACTS ASSETS, NET		4,288,211	4,030,604	257,607	6%
INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD, NET		164,524	110,724	53,800	49%
OTHER FINANCIAL ASSETS, NET		25,170,232	30,407,131	(5,236,899)	-17%
INVESTMENT PROPERTIES, NET		10,999,439	10,922,997	76,442	1%
PROPERTY AND EQUIPMENT, NET		31,915,460	32,264,055	(348,595)	-1%
RIGHT-OF-USE ASSETS-NET		2,096,128	-	2,096,128	NA
INTANGIBLE ASSETS, NET		914,006	762,044	151,962	20%
DEFERRED TAX ASSETS		3,353,551	3,496,800	(143,249)	-4%
OTHER ASSETS, NET		3,503,792	2,899,159	604,633	21%
TOTAL ASSETS		2,731,828,227	2,684,206,863	47,621,364	2%
DEPOSITS FROM THE CENTRAL BANK AND BANKS		117,698,753	132,267,041	(14,568,288)	-11%
FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS		3,050,189	4,803,071	(1,752,882)	-36%
SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE		36,570,660	46,323,247	(9,752,587)	-21%
COMMERCIAL PAPER PAYABLE, NET		18,530,988	15,950,469	2,580,519	16%
PAYABLES		37,298,835	43,481,315	(6,182,480)	-14%
CURRENT TAX LIABILITIES		1,252,443	1,677,066	(424,623)	-25%
DEPOSITS AND REMITTANCES		2,224,016,962	2,155,650,451	68,366,511	3%
BONDS PAYABLE		60,291,611	58,589,023	1,702,588	3%
OTHER BORROWINGS		1,458,000	2,121,000	(663,000)	-31%
PROVISIONS		20,632,462	19,967,657	664,805	3%
OTHER FINANCIAL LIABILITIES		10,792,205	13,631,338	(2,839,133)	-21%
LEASE LIABILITY		2,046,274	-	2,046,274	NA
DEFERRED TAX LIABILITIES		6,157,412	6,119,745	37,667	1%
OTHER LIABILITIES		3,330,776	9,467,857	(6,137,081)	-65%
TOTAL LIABILITIES		2,543,127,570	2,510,049,280	33,078,290	1%
SHARE CAPITAL		121,727,402	115,436,133	6,291,269	5%
CAPITAL SURPLUS		17,758,986	17,758,986	-	0%
RETAINED EARNINGS		39,734,810	37,181,499	2,553,311	7%
OTHER EQUITY		9,477,311	3,778,863	5,698,448	151%

Item	Year	2019	2018	Difference	
				Amount	Percentage
TOTAL EQUITY ATTRIBUTABLE TO OWNER OF THE PARENT		188,698,509	174,155,481	14,543,028	8%
NON-CONTROLLING INTERESTS		2,148	2,102	46	2%
TOTAL EQUITY		188,700,657	174,157,583	14,543,074	8%
TOTAL LIABILITIES AND EQUITY		2,731,828,227	2,684,206,863	47,621,364	2%

Analysis and explanation of the increases or decreases:

1. The increase in reverse repurchase bills and bonds and bond investments this year from the previous year is mainly attributed to the increase in matured investments in bills and bonds in January 2020 from January 2019 in accordance with agreements.
2. The increase in investment using equity method - net from the previous year is mainly attributed to Hua Nan Venture Capital's cash capital increase of Fertasia International Development Corporation totaling NT\$165,000 thousand in March 2019. The new investment totaled NT\$49,170 thousand and the shareholding percentage is still 29.80%.
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 intangible assets - net from the previous year is mainly attributed to the increase of guaranteed deposits paid from the previous year.
5. 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.
6. The increase in repurchase bills and bonds and bond liabilities this year from the previous year is mainly attributed to the increase in repurchase bills and liabilities in bills and bonds in November 2020 from November 2019 in accordance with agreements.
7. The decrease in income tax liabilities of this year is mainly attributed to the decrease in payable income tax liabilities from the previous year.
8. The decrease in other loans from the previous year is mainly attributed to the decrease in short-term secured loans from the previous year.
9. The increase in other financial liabilities from the previous year is mainly attributed to the decrease in the amount of principal collected for structural products from the previous year.
10. The decrease in other liabilities from the previous year is mainly attributed to the decrease in the guarantee deposits received for securities borrowing and guarantee deposits received from the previous year.
11. The increase in other equity from the previous year is mainly attributed to the increase in 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	2019	2018	Difference	
				Amount	Percentage
NET INTEREST		25,413,577	26,560,219	(1,146,642)	-4%
NET REVENUES OTHER THAN INTEREST		21,290,756	19,442,265	1,848,491	10%
TOTAL NET REVENUES		46,704,333	46,002,484	701,849	2%
ALLOWANCE FOR DOUBTFUL ACCOUNTS, COMMITMENT, AND GUARANTEES		(1,409,146)	(3,533,260)	2,124,114	NA
CHANGE IN PROVISIONS FOR INSURANCE LIABILITIES, NET		(396,178)	(23,475)	(372,703)	NA
OPERATING EXPENSES		(26,202,751)	(25,774,540)	(428,211)	NA
NET PROFIT BEFORE INCOME TAX		18,696,258	16,671,209	(2,025,049)	12%
INCOME TAX EXPENSE		(2,740,890)	(2,049,774)	(691,116)	NA
NET PROFIT FOR THE YEAR		15,955,368	14,621,435	1,333,933	9%
OTHER COMPREHENSIVE INCOME		4,879,056	(1,398,581)	6,277,637	NA
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		20,834,424	13,222,854	7,611,570	58%

Analysis of the proportion of change:

1. The increase in net change in provisions for insurance from the previous year is mainly attributed to the increase in the subsidiary South China Insurance's net variation in claim reserve from the previous year.
2. The increase in comprehensive income for the year from the previous year is mainly attributed to the increase in net profit after tax from the previous year and the increase in the valuation of the equity instruments at fair value through other comprehensive income and interest from debt instruments from the previous year.

III. Cash flow

(I) Cashflow analysis for past two years

Unit: Percentage

	2019	2018	Percentage for Increase or Decrease
Cashflow ratio	NOTE 1	NOTE 1	NOTE 1
Cashflow adequacy ratio	NOTE 2	85.79%	NOTE 2
Cashflow Reinvestment Ratio	NOTE 1	NOTE 1	NOTE 1

Note:

- As the cash outflows in business activities were net cash outflows, the cash flow ratio and cash flow adequacy ratio in 2019 and 2018 are not disclosed.
- 2019 cash flow allowance ratio will not be disclosed because of the net outflow of cash flow from operating activities in the last 5 years.

(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
39,320,763	19,541,493	(19,655,987)	39,206,269	-	-

IV. Major Capital Expenditure for the Most Recent Year and Its Effect on Financial Position and Operation of the Company: None.

V. Company Reinvestment Policy for the Most Recent Fiscal Year, Main Reasons for Profits/Losses Generated Thereby, Plan for Improving Re-investment Profitability, and Investment Plans for Coming Year

(I) Investment policy for the most recent year:

According to the equity investment management guidelines established by the Company, the purpose of the guidelines is to expand the economies of scale and the scope of economic activities and optimize overall synergy to increase investment efficiency.

(II) Main causes for profits or losses and improvement plans for the most recent year

In 2019, the Company generated net income after tax of NT\$15.955 billion with an EPS of NT\$1.31. Profits increased by NT\$1.3 billion compared to 2018, mainly due to

profit increase of the subsidiaries HNCB and HNSC. In terms of the operations of subsidiary companies, Hua Nan Commercial Bank remains the main source of profits of the Group. The bullish stock market in 2019,

increase in profits from changes in financial assets and liabilities, lack of major non-performing loans, and recovery of bad debts in the year resulted in an increase of NT\$862 million

million in profits compared to 2018. The increased profits of Hua Nan Securities from proprietary trading and dividends income and the organization of the underwriting for Shanghai Commercial and Savings Bank increased profits by NT\$475 million from 2018. The profitability of other subsidiaries was similar to levels in 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

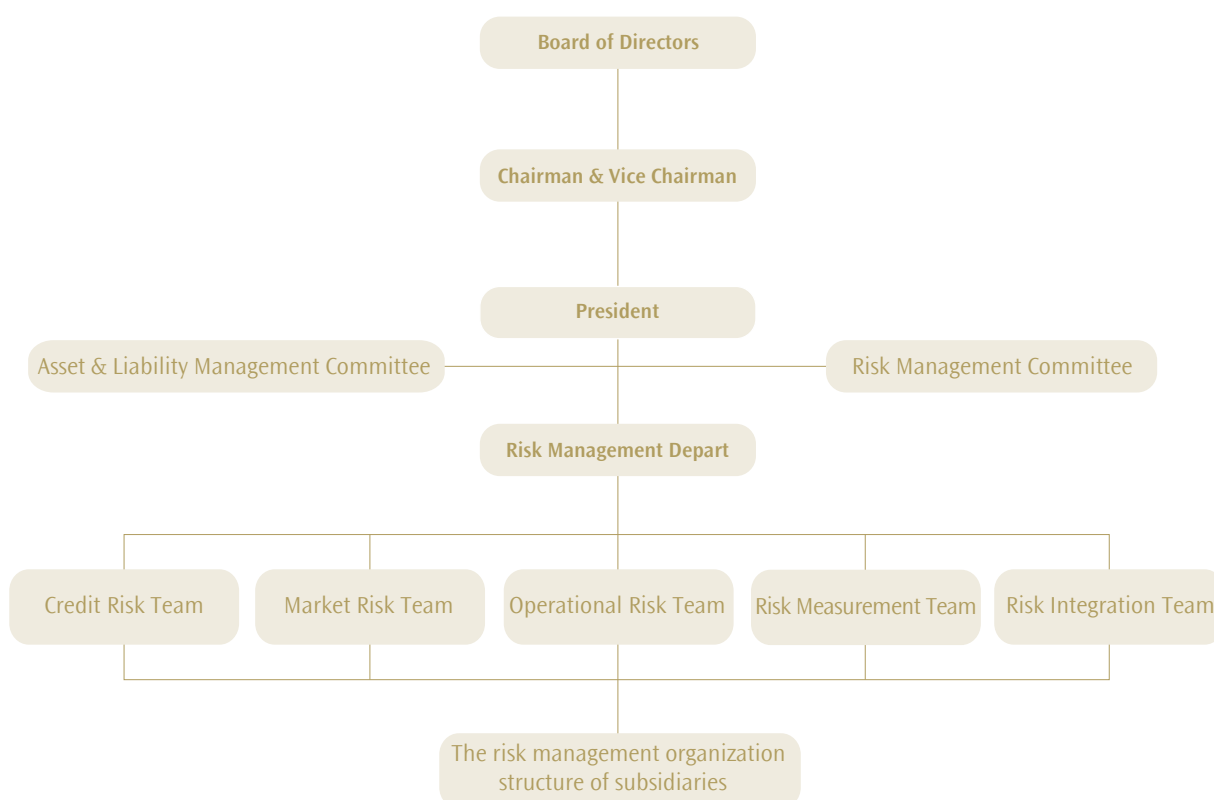
The important committees that have risk management function include Board of Directors' meeting, Asset & Liability Management Committee, and Risk Management Committee. The Board of Directors are responsible to approve the Group's risk management guidelines and Group risk policy for all kinds. The Board 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. The 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 department responsible 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:

1. Group risk integration
2. Formulate, approve and control Group risk-related policies
3. Set, approve and control Group risk limits
4. Coordinate and manage 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.



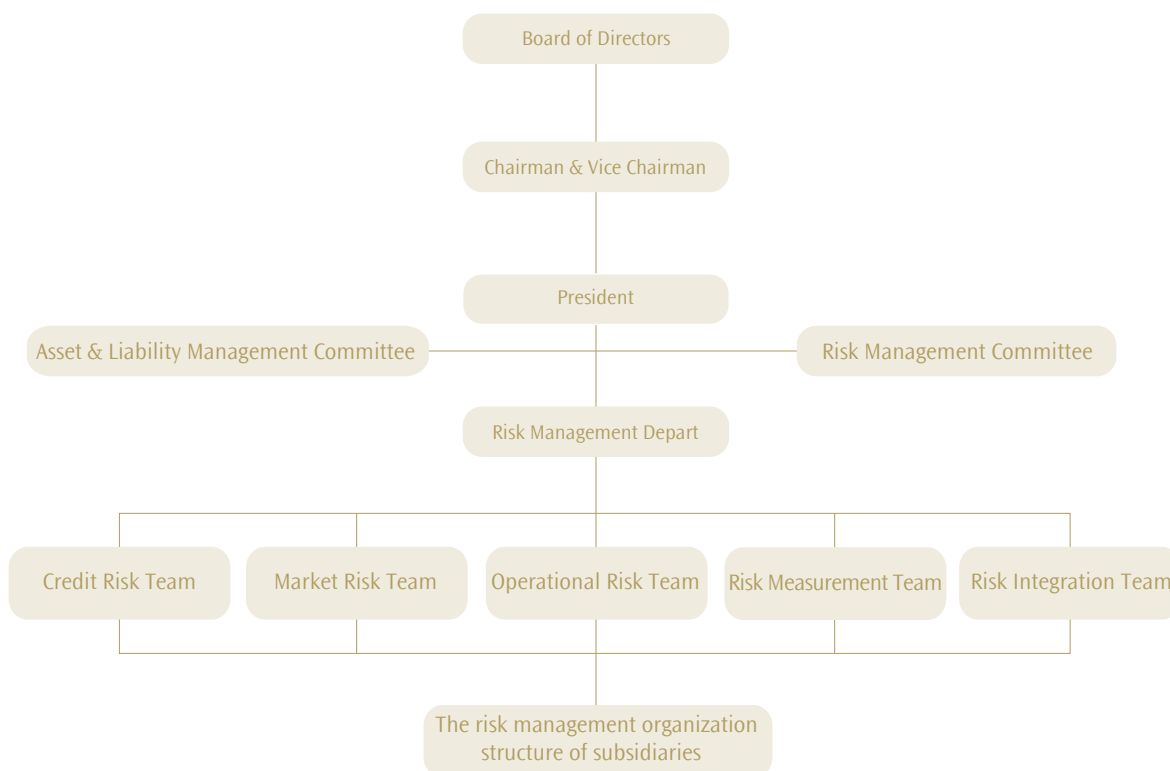
2. Hua Nan Commercial Bank

(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

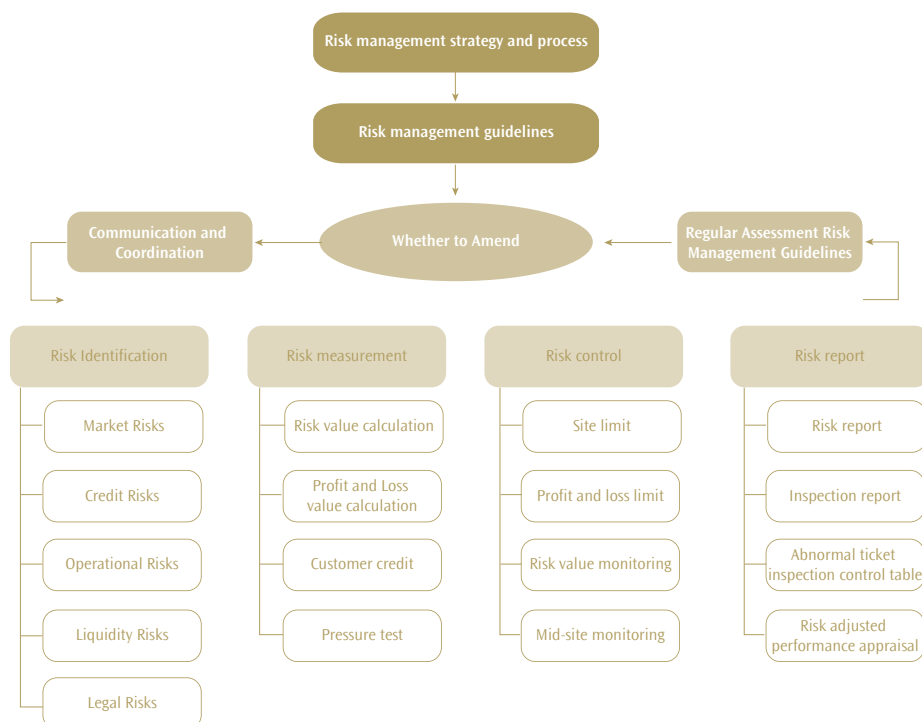
(1) Risk Management Strategy and Process

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 guidelines.

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 the Board of Directors, Risk Management Committee, and Risk Management Department. To ensure the effectiveness and efficiency of risk management, the Board of Directors authorized the President to lead Risk Management Department and established the Risk Management Committee under the jurisdiction of 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.

The Risk Management Department took the following risk management mechanisms for Hua Nan Securities:

A. Market risks

- a. Establishment and modification of related market risk policies.
- b. Trading strategies for all operating units and determination and management of transaction limit for dealers.
- c. Development and maintenance of market risk evaluation model.
- d. Review of product plans for the new financial products developed by all operating units.
- e. Back testing and stress testing.

B. Credit risks

- a. Establishment and modification of credit risk policies.
- b. Determination and management of transaction limit for dealers.
- c. Credit risk evaluation and monitoring.
- d. Inspect the table of stocks placed on alert and table of stocks under risk control.
- e. Inspect the credit evaluation status of the position.
- f. Inspect the pre-settlement risks of trading counterparties.

C. Operational risks

- a. Establishment and modification of operational risk policies.
- b. Development and maintenance of various operational risk management tools, methodology, and framework.
- c. Assist all departments to execute various management tools.
- d. Risk culture awareness training.

D. Liquidity risks

- a. Control over position limit and liquidity risk of positions held.
- 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 alerts during trading hours and fund liquidity gap analyses.

E. Legal risks

- a. All contracts shall be reviewed by Internal Audit Office. The 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. The Legal Compliance Department assists all departments in reviewing the account opening and contracts that require company seal.
- d. The 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:

To ensure all risk management activities meet the operation objectives and strategy of the Board of Directors, the Board of Directors takes final responsibility for the effectiveness of risk management. South China Insurance established the Risk Management Committee that reports to the Board of Directors. An Independent Director serves as the chairman. No committee members are directors responsible for business operations.

B. Risk Management and Asset & Liability Management Meeting:

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 the Risk Management and Asset & Liability Management Meeting that reports to the President. The President is responsible for calling and chairing the meeting. Vice Presidents, Risk Management Department manager, actuary, and headquarter legal compliance head serve as members of the meeting.

C. Risk Management Department

To effectively manage and handle all risk management related affairs, South China Insurance established Risk Management Department that reports to the President. It also established the Insurance Risk Section, Operation Risk Section, and Integrated Risk Section.

- The related responsibility and status of risk management execution by all levels of organization in South China Insurance are described as below:

Organization Level	Main Responsibilities
Board of Directors	<ol style="list-style-type: none"> (1) Approval of all risk management and asset & liability management policy. (2) Approval of risk appetite and risk limit. (3) Review of all material risk management reports. (4) Learn about the risks in operations, establish the effective risk management, and bear ultimate responsibilities 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 through regular management reports. (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) Formulation of stress tests. (7) Studies 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 mechanisms.
Risk Management and Asset & Liability Management 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 mechanisms. (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 (HNIT)

- (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 (HNVC)

(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 functions independent of operating units shall be established by the nature of operation and practical needs.

(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 archive the objective of maximizing shareholder value.

7. Hua Nan Assets Management Company (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) HNAMEC's Risk Management Policy:

HNAMEC shall effectively identify, evaluate, control, and manage various risks in order to control potential risks within acceptable range when conducting various businesses to archive 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

(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. Each subsidiary must simultaneously establish risk indicators and a pre-warning mechanism. They must also strengthen the mobile management mechanism. When the total exposure amount within these mechanisms reaches a certain ratio of respective quantitative limits, management shall be warned and the ensuing countermeasures shall be determined.

To further improve the existing risk control mechanism, the Company helps its subsidiary, Hua Nan 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 early-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.

B. Risk Management Reports

The Group Credit Risk Management Report shall be submitted regularly. It shall be reported to the Chairman each month and reported to the Group Risk Management Committee and the Board of Directors each quarter.

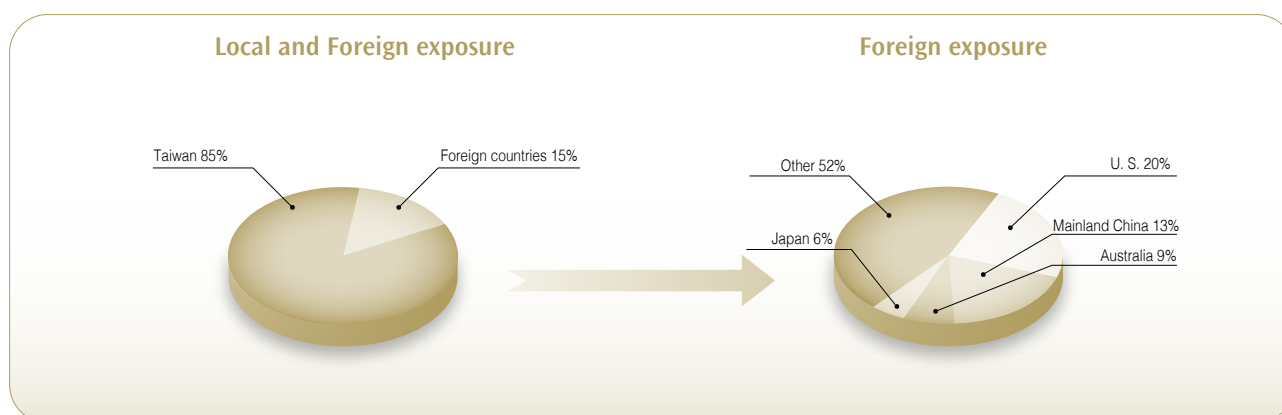
a. Credit exposure limit

The total credit exposure of the Group at the end of 2019 was NT\$2.6 trillion. Credit extensions accounted for 67%, bond and notes business accounted for 27%, and other businesses accounted for 6%.

Total credit exposure increased by approximately NT\$45.3 billion comparing to the end of 2018 mainly due to the increase of approximately NT\$45.6 billion in credit extensions.

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 Japan are the top four nations, accounting for 48% of the total foreign exposure amount. The other countries take up less than 5% each.

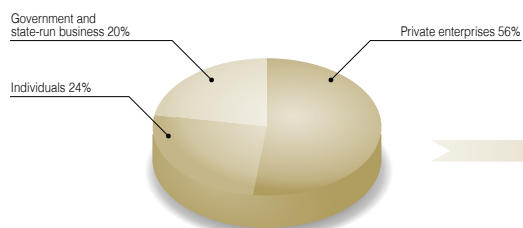


If divided by sector, 56% of the Company's credit exposure amount comes from private sector, 24% from individuals, and 20% from government and state-run businesses.

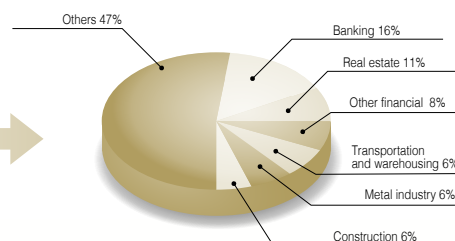
Among the private enterprises, the top six industries are the banking industry, the real estate industry, other financial industries, the transportation and warehousing industry, the metal industry, and the construction industry, which account for 53% of the total credit exposure for the private enterprises. Other individual industries take up less than 5% each.

On the consumer front, mortgage loans make up the majority at 81%. They are distantly followed by personal revolving funds at 9%, 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%.

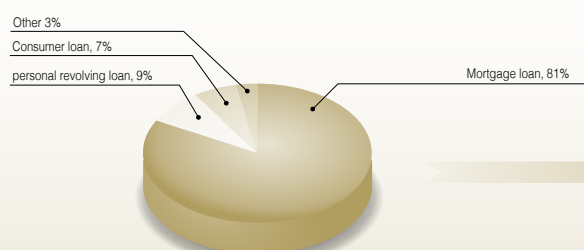
Exposure by segments



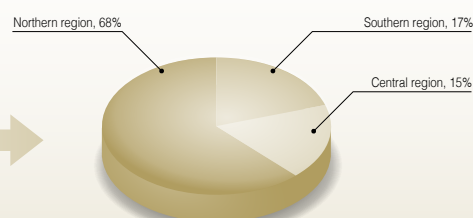
Exposure by industry under corporate finance



Exposure by consumer banking products



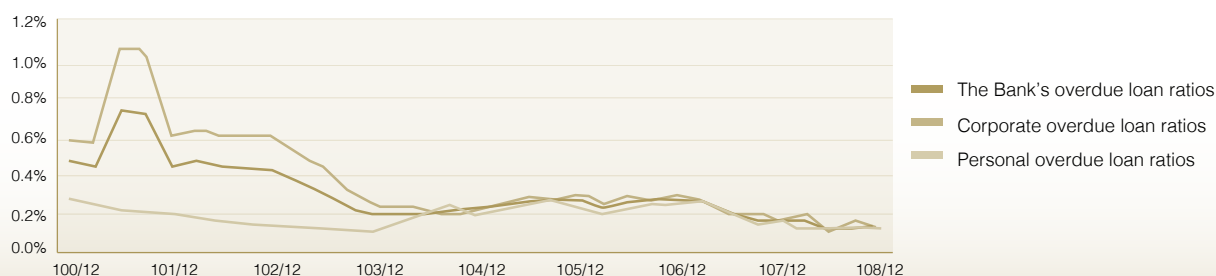
Exposure of consumer banking mortgage loans by region



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

Trends of HNCB Overdue Loan Ratio



of the end of 2019, its overdue loan ratio was 0.12%.

(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

Important control mechanisms for market risks 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

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 a 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 a daily basis. In case of any irregularity, it shall immediately take required measures. The Group Market Risk Management Report shall be submitted regularly. It shall be reported to the Chairman each month and reported to the Group Risk Management Committee and the Board of Directors each quarter.

a. Outline of the Group's 2019 trading book position risks

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.

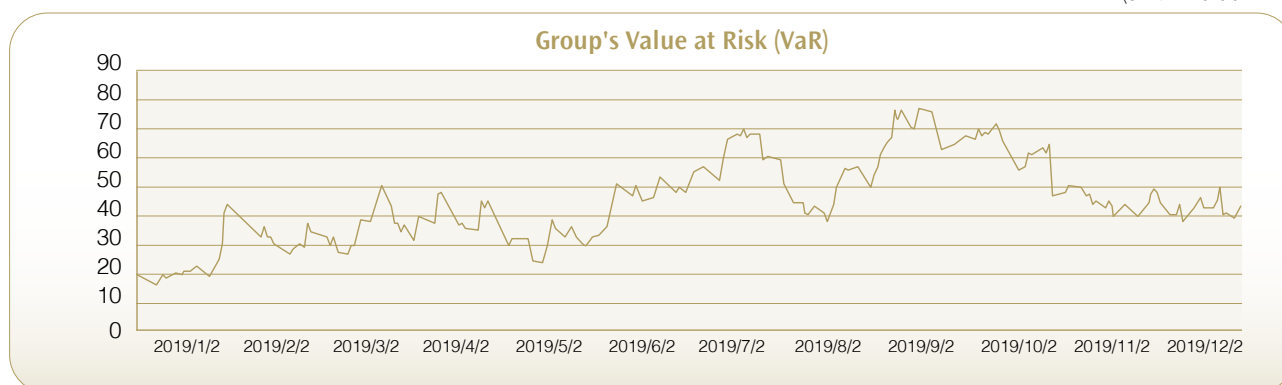
c.3 "Length of the holding period": Estimation of the maximum loss that may occur in the coming day.

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 2019 trading book positions

The lowest, highest, and average VaR in 2019 for the Group's trading book position were NT\$16.49 million, NT\$76.97 million, and NT\$44.87 million, respectively. The VaR of the Group's trading book position at the end of 2019 was NT\$42.20 million, which is an increase of NT\$21.25 million from

(Unit: Millions of NTD)

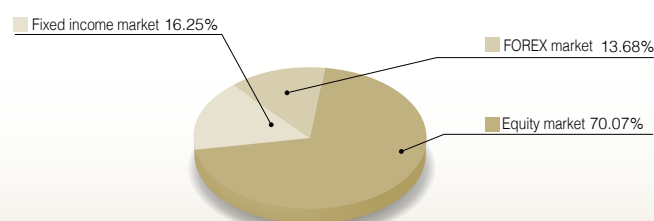


NT\$20.95 million at the end of 2018.

e. Summary of the VaR of the Group's trading book position at the end of 2019

The VaR of the Group's trading book positions at the end of 2019 (NT\$44.20 million) took up 0.02% of the Group's net value at the end of 2019, which was within the Group's tolerable range. If classified by risk factors, the equity products accounted for the largest share (70.07%), followed by fixed-income products

Trading Portfolio VaR by Risk Type



(16.25%), and foreign exchange products (13.68%).

f. Back testing

Back testing is an instrument used to verify the VaR model to strengthen the accuracy and reliability of the VaR and 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. The Group Asset & Liability Management Report is submitted regularly to the Chairman each month and reported to the Group Risk Management Committee and the Board of Directors each quarter. 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, 2019, 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 9.5% 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 11.6%.

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	+9.5%
Gradually decline by 100 basis points	-11.6%

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 5.7% 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 4.5%.

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	-5.7%
Gradually decline by 100 basis points	+4.5%

B. Liquidity risks

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

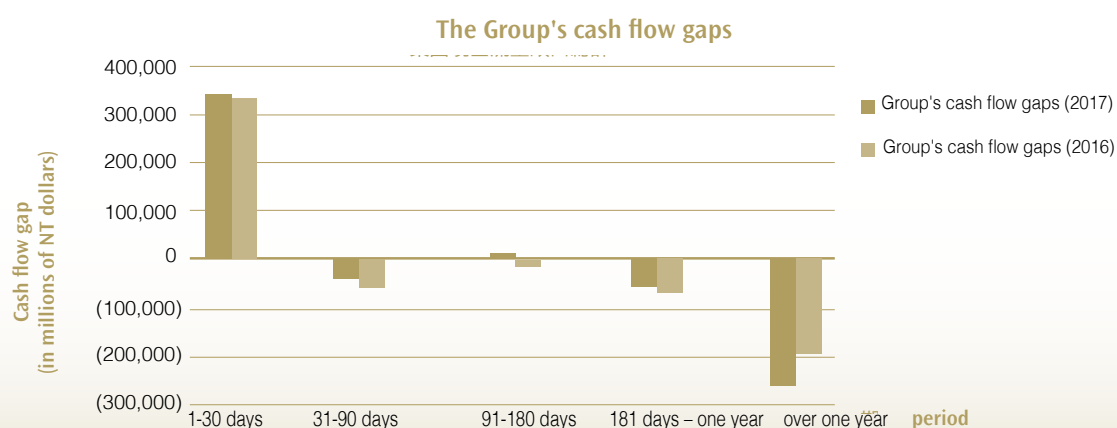
After considering the nature of businesses of the Company and each subsidiary, the liquidity risk management framework is currently applicable to Hua Nan Financial Holdings, Hua Nan Commercial Bank, Hua Nan Securities, South China Insurance, Hua Nan Investment Trust, and Hua Nan AMC.

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\$341,931 million on December 31, 2019, which is an increase of NT\$8,432 million from the NT\$333,499 million on December 31, 2018.



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, 2019 as the baseline, 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 0.40%, 0.005%, and 1.35%, respectively. The impact of exchange rate risks on non-trading book was limited.

(4) Insurance risk management

The Group has helped the subsidiary South China Insurance in instituting its insurance risk management policies, defining the intact management procedures and monitoring as well as early-warning mechanisms 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 the features of insurance products 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 to manage both profit and risks.

Limit management: To maintain the insurance risk within the tolerable range and avoid excess impact on the Group's capital, the Company has set up early-warning values for insurance risk management indicators for reviewing the gross loss ratio and net loss ratio. When the indicator reaches the early-warning value

standard, the units involved shall submit the response plans.

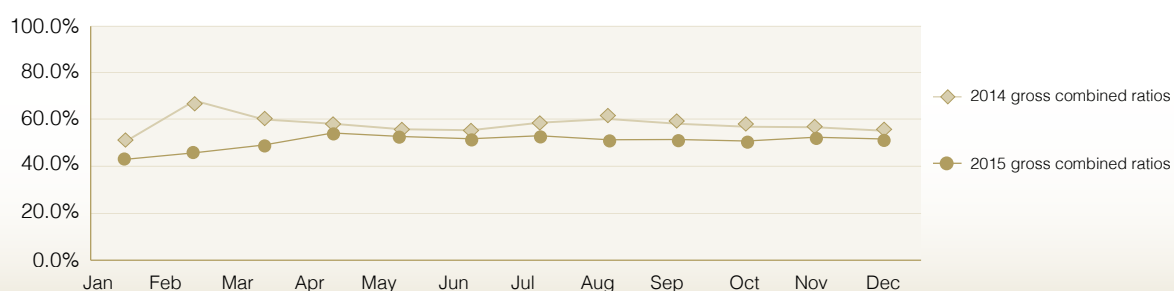
B. Insurance risk reports

The Group Insurance Risk Management Report shall be submitted regularly. It shall be reported to the Chairman each month and reported to the Group Risk Management Committee and the Board of Directors each quarter.

a. Gross loss ratio

The gross loss ratio is the ratio of written operating expense to written premium which is mainly used to review the quality of underwriting businesses. As there were more major claims in 2019, the gross loss

Trend of Gross Combined Ratios



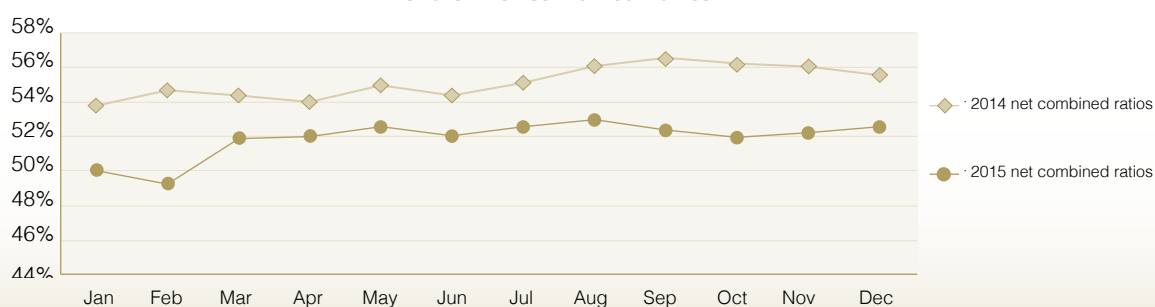
Note: The calculation of the indicators in the above chart does not cover compulsory auto insurance, nuclear insurance and policy-oriented earthquake insurance.

ratio increased from levels in 2018.

b. Net loss ratio

The net loss ratio is the ratio of the net claim amount to net premium earned and it is mainly used to review the reinsurance strategy. As there were more major claims in 2019, the net loss ratio increased

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.

from levels in 2018.

(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 customized for execution.

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 HNCB had already collected 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 provides 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.

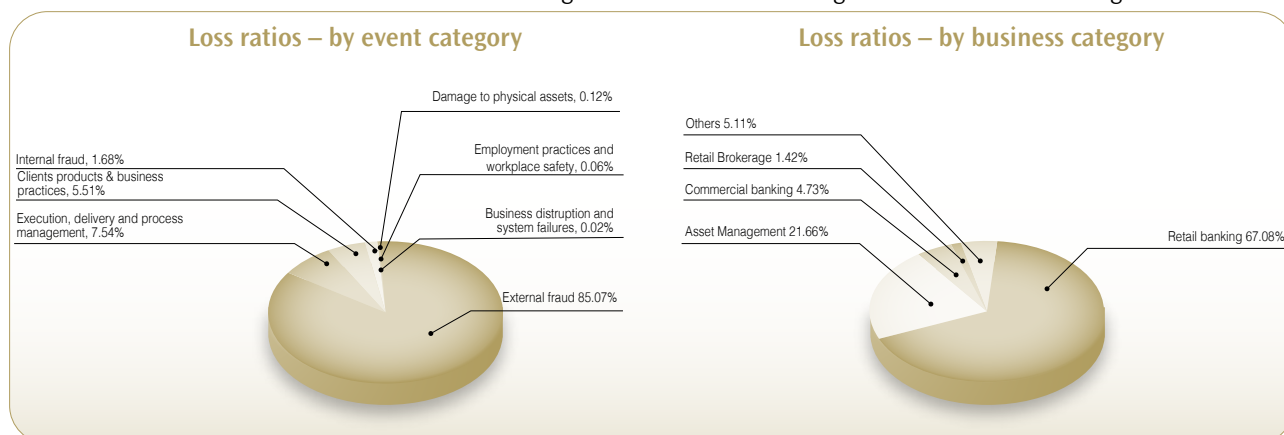
B. Risk Management Reports

The Group Operational Risk Management Report shall be submitted regularly. It shall be reported to the Chairman each month and reported to the Group Risk Management Committee and the Board of Directors each quarter.

- a. By executing the operational risk management tools or mechanisms, if any defect is found, the business unit in question shall promptly review and improve the defect and periodically submit the improvement

status.

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, the Group has incurred lower losses from improper business conduct. In the future, the Group will continue to pay attention to business conduct risk related laws and regulations, persistently reinforce its product review mechanisms, 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) Risk management objectives, policies, and management methods

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. The Bank has established a consistent credit risk management culture and established the "Hua Nan Commercial Bank Corporate Finance Credit Risk Management Policy" and "Hua Nan Commercial Bank Personal Finance Credit Risk Management Policy" as guidance for 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 creditor rights. 3. Overdue Loan Review Committee: Review significant and complex case action plan and bad debt write off cases to enhance the collection and clean-up 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 early-warning and secondary review management of 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. Scope and characteristics 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) 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) The Bank established the "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 sustaining losses due to default of borrower or trading counterparty, the Bank requires collateral 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 the following rules:</p> <ol style="list-style-type: none"> 1. The Bank sets rules governing the management of collateral and guidelines for the appraisal and re-appraisal of collateral it has obtained. Should the collateral depreciate in value or if there are concerns of a possible depreciation in value, the Bank will immediately seek an increase in collateral or recover a portion of the disbursed loan. 2. The Bank's credit risk management regulations include qualifications for a guarantor and monitoring of the credit status of that guarantor. Should the economic or credit status of the guarantor deteriorate, making that person unsuited to act as a guarantor, the Bank will seek to have the guarantor replaced with a more appropriate person. 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 risks

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. Organization and structure of 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. Scope and characteristics 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, rules 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-making.</p>
4. Liquidity risk hedge and risk offset policy. Strategy and process for monitoring the continuous effectiveness of hedge and offset tools.	To maintain adequate control over risk exposure and respond immediately, the Bank has established liquidity risk limit control mechanisms to set the limit for all management indicators and monitor periodically. If there is a case of over-limit, responsible units shall study ensuing countermeasures, report to the Asset & Liability Management Committee, and execute the countermeasures after approval.

C. Market risks

Item	Description
1. Market risk management strategy and process	<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 advisory 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.</p> <ol style="list-style-type: none"> 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.
3. Scope and characteristics 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. 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 mechanisms.</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. Managers of all units supervise employee evaluations and manage operational risks within their scope of duty to ensure that operational risks can be reduced to acceptable levels.</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. Scope and characteristics 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 of the FSC, the Advanced Measurement Approach (AMA) shall be used to 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 of occurrence, 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, 2019

Unit: in Thousand NT\$

Type of Exposure	After Risk offset Exposure Amount	Percentage	Weighted Credit Risk Asset	Percentage
Sovereign country (A)	563,451,221	21.87%	1,531,104	0.10%
Non-central government public department (B)	92,346,100	3.58%	37,536,790	2.52%
Bank (including multiple development bank) (C)	235,872,628	9.16%	90,738,421	6.10%
Corporation (including securities and insurance company) (D)	905,193,815	35.14%	860,987,857	57.86%
Retail debentures (E)	195,928,871	7.61%	145,475,956	9.78%
Real estate in housing (F)	517,334,459	20.08%	281,146,330	18.89%
Equity securities investment (G)	12,017,096	0.47%	12,017,096	0.81%
Other assets (H)	53,937,808	2.09%	58,610,844	3.94%
Total (I)	2,576,081,998	100.00%	1,488,044,398	100.00%

B. Liquidity risk

a. Structure Analysis on Maturity Date in NTD

December 31, 2019

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	2,213,525,475	239,082,343	275,780,014	208,195,471	185,958,178	200,644,347	1,100,907,361
Major fund outflow upon maturity	2,873,148,425	93,359,094	140,264,593	306,857,358	354,010,699	517,793,724	1,461,419,263
Maturity gap	-659,622,950	145,723,249	135,515,421	-98,661,887	-168,052,521	-317,149,377	-360,511,902

b. Structure Analysis on Maturity Date in USD

December 31, 2019

Unit: in Thousand USD

	Total	Amount in each Maturity				
		0 to 10 days	31 to 90 days	91 to 180 days	181 days to 1 year	Over one year
Major fund inflow upon maturity	22,120,524	5,379,718	7,204,169	2,784,825	1,233,289	7,337,153
Major fund outflow upon maturity	24,928,397	6,457,658	8,460,033	2,557,948	2,794,093	6,401,659
Maturity gap	-2,807,873	-1,077,940	-1,255,864	226,877	-1,560,804	935,494

C. Market Risks

Market Risk Asset
December 31, 2019

Unit: in Thousand NT\$

Type of Risk	Risk Asset
Interest risk	25,498,425
Equity securities risk	3,102,610
Foreign exchange risk	7,266,597
Commodities risk	0
Option applied by simple method	130,497
Total	35,998,130

3. Hua Nan Securities

(1) Scope and characteristics 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. The Risk Management Department reviews VaR system each day 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 risks from margin-trading and short-selling customers shall be controlled with credit lines granted according to the customer's financial status. The customer's credit status shall be periodically reviewed for continuous

monitoring of the Company's default risks derived from customers 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 risks

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) Risk management mechanism, approach, and quantifying exposure information

A. Risk management mechanisms

The matrix risk management mechanisms of Hua Nan Securities are illustrated as below: The risk management mechanisms help the Company obtain maximum profit, expand business under tolerable risk levels, and continue to strengthen Hua Nan Securities' risk management mechanisms for 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	<ol style="list-style-type: none"> (1) The estimation of held investment VaR (2) The estimation of overall position VaR (3) Set up VaR limit (4) Real-time early-warning mechanisms during trading hours (5) The execution of stop loss mechanisms (6) The control of department loss limit (7) Review of product proposals
Credit risks	Avoid the risk of loss caused by default of trading counterparty	<ol style="list-style-type: none"> (1) Client credit check (2) Conduct credit evaluations based on the result of client credit check (3) Grant credit lines according to credit evaluation results (4) Real-time early-warning 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	<ol style="list-style-type: none"> (1) Establish standard operating procedure and internal control for all operations (2) Periodically conduct audit on all operations. Implement five major management tools for operational risk (3) Implement five major management tools for operational risks <ol style="list-style-type: none"> 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 procedures
Liquidity risks	Prevent stop trading due to insufficient market liquidity on held positions	<ol style="list-style-type: none"> (1) Held position limit for the investment (2) Liquidity of the investment (3) Overall position limit (4) Real-time early-warning of limit during trading hours (5) Fund liquidity gap analysis (6) Maturity management on held positions
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 2019 were NT\$86,150 thousand, NT\$29,144 thousand, and NT\$52,890 thousand, respectively, and accounted for 0.40% of the Company's net value, which complied with existing Company rules.

Unit: in Thousand NT\$

	2019			2018		
	Average	Highest	Lowest	Average	Highest	Lowest
VaR for the entire Company	\$52,890	\$86,150	\$29,144	\$41,706	\$74,078	\$21,730

b. Credit risks

The securities credit risk related information for Hua Nan Securities at the end of 2019 were: Overall exposure for margin trading was

NT\$8,434,859 thousand. Average TCRI level is 4.979. Possibility for default was 0.161%. For unrestricted-use capital loan, outstanding loan balance was NT\$1,118,390 thousand. The average TCRI level for collaterals was 4.567. Expected default rate was 0.146%. Risks in bond and notes positions, derivative instrument positions, overall risk exposure, and risk before settlement with trading counterparty were managed in accordance with regulations and met the Company's limit regulations.

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 2019 is as below.

Unit: in Thousand NT\$

Risk Items	Equivalent Risk Amount
Market Risks	1,348,944
Credit Risks	857,636
Operational Risks	429,846
Operating risks	2,636,425

e. 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 of Hua Nan Securities in 2019 were 448%, 348%, and 398%, respectively, which all met legal requirements.

Unit: Percentage

	2019			2018		
	Average	Highest	Lowest	Average	Highest	Lowest
Overall Company Capital Adequacy Ratio	398%	448%	348%	370%	453%	301%

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 risks

a. Strategies:

- Implement the limit control and market risk evaluation according to market risk management policy to achieve the objective of controlling market risk.
- Establish market risk control mechanism to ensure market risk exposure is controlled within tolerable range and achieve target profit.
- Establish internal management system on risk adjusted return on capital (RAROC)

b. Process flow:

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 mechanisms.

B. Credit risks:

a. Strategies:

- Implement the limit management and credit risk evaluation defined by credit risk management policy to achieve the objective of controlling credit risks.

- (b) Establish credit risk control mechanism to ensure credit risk exposure is maintained within a tolerable range to achieve target profit.
- b. Process flow:

The management of process flow is mainly conducted through the credit evaluation before engaging in businesses and credit risk monitoring after business is engaged and establishing appropriate control mechanisms.
- C. Operational risks:
 - a. Strategies:
 - (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:

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 risks:
 - a. Strategies:
 - (a) Implement the pre-warning indicator management and insurance risk evaluation defined by insurance risk management policy to achieve the objective of controlling insurance risks.
 - (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:

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. Strategies:
 - (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:

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 has adopted the "Risk Metrics system" to evaluate market risk exposure, daily monitor whether risk exposure exceeds VaR limit or the early-warning amount, and conduct periodic back testing to verify the correctness and reliability of risk exposure measurement.

The Company also collects internal operational risk loss data through the "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) Scope and characteristics of risk report and evaluation system

South China Insurance reviews all risk characteristics, defines frequency of risk management report, and reports to the Risk Management and Asset & Liability Management meeting (e.g., market risk management report, insurance risk management report, and asset & liability management reports are submitted on a monthly basis; credit risk management reports and operational risk management reports are submitted on a quarterly basis). The overall risk management report is submitted to Risk Management Committee and Board of Directors on quarterly basis.

It also conducts 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 quantitative (and qualitative) limit management mechanisms and management action initiation mechanisms according to the characteristics of various risks as various risk hedge and offset strategies, which are continuously monitored. If the management action initiation point is reached or if the limit is exceeded, related operation units shall study responsive actions or action plan, report to the appropriate level, and obtain approval for execution.

(5) Risk management approach and quantifying exposure information

A. Market risks

a. Management method:

Monitoring Procedure	Method
Identify risks	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, related coefficients, volatility, etc.).
Evaluate risks	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 risks	(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 to South China Insurance Risk Management and Asset & Liability Management Meeting (including back testing report). (e) Quarterly market risk management report to 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, 2019 was within the tolerable range.

Unit: in Million NT\$

Risk Exposure Amount	2019.12.31
Highest daily VaR	0.08
Lowest daily VaR	0.01
Average daily VaR	0.05

B. Operational risks:

a. Management method:

Monitoring Procedure	Method
Identify risks	<p>(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 procedures.</p> <p>(b) Operational risk evaluation procedures: 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 at the appropriate approval level.</p>
Evaluate risks	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 risks	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	<p>(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.</p> <p>(b) Utilize operational risk loss database management report as a reference to review existing control and analysis for future loss.</p> <p>(c) Effectively control operational risk related action plan and the execution through action plan tracking report to reduce related operational risk.</p> <p>(d) Quarterly operational risk management report in South China Insurance Board of Directors meeting/ Risk Management Committee/Risk Management and Asset & Liability Management Meeting.</p>

b. Risk exposure:

The key risk indicators of South China Insurance as of December 31, 2019 did not exceed limit. All units periodically conduct review and improvement through operational risk management tools or mechanisms. Improvements are followed up. Therefore, operational risk exposures are all within the tolerable limit.

C. Credit risks:

a. Management method:

Monitoring Procedure	Method
Identify risks	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 risks	<p>(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 and assess risk ratings.</p> <p>(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.</p> <p>(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".</p>
Control risk	<p>(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.</p> <p>(b) Post-trading risk tracking: Limit management and abnormality follow up mechanism. To control various credit risks within the 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.</p>
Monitor and report	<p>(a) Quarterly abnormal bond tracking report.</p> <p>(b) Quarterly credit risk management report in South China Insurance Board of Directors meeting/Risk Management Committee/Risk Management and Asset & Liability Management Meeting.</p>

b. Risk exposure:

The credit risk exposure for South China Insurance as of December 31, 2019 was within the tolerable range.

Unit: in Million NT\$

Risk Exposure Amount	2019.12.31
Loans	237
Issuer	6,756
Trading counterparty	486
Sales representative	286
Reinsurer	4,288
Total	12,053

D. Insurance risks:

a. Management method:

Monitoring Procedure	Method
Identify risks	Consider the characters of insurance operating procedure to classify them into underwriting risk/provision risk/reinsurance risk.
Evaluate risks	Evaluate risk through management indicators.
Control risks	(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. (b) Early-warning management To control all insurance risks within tolerable limit and avoid excess impact on capital of the Group and South China Insurance, various early-warning management indicators (and early-warning values) are in place.
Monitor and report	(a) Monthly insurance risk management report to South China Insurance Risk Management and Asset & Liability Management Meeting. (b) Quarterly insurance risk management report to South China Insurance Board of Directors/Risk Management Committee.

b. Risk exposure:

The insurance risk exposure of South China Insurance as of December 31, 2019 was within the tolerable range.

Risk Exposure Amount	2019.12.31
Gross combined ratio	87.9%
Net combined ratio	92.1%
Unearned premium reserve provision rate	49.3%
Indemnity reserve provision rate	39.8%
Indemnity reserve tracking rate	0.02%
Self retained business rate	128.3%

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 risks	Risks are categorized into liquidity risk/foreign exchange rate risk/non-trading book portfolio management/capital adequacy management by the characteristics of the risks
Evaluate risks	Evaluate risk through management indicators.
Control risks	(a) 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) 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 early-warning values) are in place.
Monitor and report	(a) Daily non-trading book position (coverage method and FVOCI position) limit management report. (b) Investment action report (c) Monthly foreign exchange rate risk management report (d) Monthly liquidity risk management report (e) Monthly asset & liability management report to South China Insurance Risk Management and Asset & Liability Management meeting. (f) Quarterly asset & liability management report to South China Insurance Board of Directors and Risk Management Committee (g) Semi-annual capital adequacy evaluation report to South China Insurance Risk Management & Asset and Liability Management Meeting.

b. Risk exposure:

The asset & liability risk exposure for South China Insurance as of December 31, 2019 was within the tolerable range.

Unit: in Million NT\$

Risk Exposure Amount	2019.12.31
Highest monthly VaR (Coverage method and FVOCI position)	196.26
Lowest monthly VaR (Coverage method and FVOCI position)	38.10
Average monthly VaR (Coverage method and FVOCI position)	121.65
Liquidity assets with highest liquidity risk to liabilities ratio	56.4%
Current assets to liabilities ratio	83.6%
Assets to liabilities ratio	142.7%
Financial assets liquidity ratio	75.33%
Cashflow gap within one month	+5,421
Unfavorable foreign exchange fluctuation to equity ratio	1.35%
Capital adequacy ratio	559.80%

5. Hua Nan Investment Trust (HNIT)

(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 funds

- i. 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 interests of the Company and customers.
- 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 the product category that the fund is allowed to invest. If the fund intends to invest in any product that is not included in the product list, the product must 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 investments can proceed.

II. The control over investment percentage: The control is done according to related regulations such as the "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 quantified risk monitoring.

- V. The Company regularly reviews 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. These risks refer to the default loss risks caused by the trading counterparty's failure to fulfill contract obligations due to deteriorated financial conditions 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, official letters, and internal management rules.
 - b. Credit risk management of trust fund
 - (A) The Company shall confirm that 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 transactions. 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 includes legal risks but excludes strategy risks and reputation risks.
 - 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 a real-time basis, daily, or periodically based on the duty or nature of the business as references for business decisions.
 - 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 a 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 a monthly basis.
 - ii. Report to the President and business group head on operational risk loss incidents on a 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 results.
 - IV. Annual report: Annually report to the President on risk map evaluation result, annual operational risk execution plan and the execution result.
 - V. Irregular reports:
 - i. Irregularly report to the President regarding stop loss management status and incidents that require management by exception.
 - 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 the appropriate range and use the risk rating as a reference for management decisions.
6. Hua Nan Venture Capital (HNVC)

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 and use the risk rating as a reference for management decisions.

7. Hua Nan Assets Management Company (HNAME)

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". 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 form 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: Regular operating fund management activities are 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:

1. On April 12, 2019, the Financial Supervisory Commission published the interpretation of Article 45 of the Financial Holding Company Act in Jin-Guan-Fa-Yin-Fa No. 10802009320. The Company's response measures: The Company has responded accordingly by revising the Company's "Management Guidelines for Transactions with Related Parties".
2. On April 17, 2019, the amendment of the "Banking Act" was promulgated in Hua-Zong-1-Jing No. 10800037891. The amendment added prohibition on conflicts of interest for the responsible person of a bank in terms of the basis of authorization and legal effects. The amended article included the penalties that competent authority may impose if there is a possibility that a bank has violated laws and regulations, its Articles of Incorporation or disturbed the sound operation of the financial system. It also expanded the authorization of the competent authority and added the reasons for imposing penalties and the maximum amount of penalties. After inspections, no inconsistencies between the internal regulations of the Company and the amendment of the Banking Act were found. However, as the amount of fines has been increased, the Group shall strive to reduce the number of violations and avoid financial losses derived as a result of penalties imposed by the competent authority.
3. Taiwan Stock Exchange amended articles of the "Ethical Corporate Management Best Practice Principles for TWSE/TPEx-Listed Companies" in the Tai-Zheng-Zhi-Li No. 1080008378 announcement dated May 23, 2019. The amendment included requirements for the Board of Directors to pass the Company's ethical corporate management policy, establishment of evaluation mechanisms for the risks of unethical conduct, requiring employees to comply with the ethical corporate management policy in hiring criteria, documentation of the establishment and implementation process of the ethical corporate management policy, assignment of resources and personnel of the dedicated ethical corporate management unit, frequency of reports submitted by the dedicated ethical corporate management unit to the Board of Directors, establishment of related audit plans in accordance with the evaluation results of the risks of unethical conduct, actions to be taken after the conclusion of investigations on reported cases, and related provisions for allowing anonymous reports. After inspections, no inconsistencies between the internal regulations of the Company and the amendment of the Banking Act were found. To help employees understand these regulations, related regulations have been included in the Company's compliance education and training programs.
4. The Financial Supervisory Commission amended the "Principles for the Operations of Asset Management Companies Invested by Financial Holding Companies (Banks)" in Jin-Guan-Yin-He No. 10802075420 letter dated May 24, 2019. Regulations on the investments of financial holding company (banks) in asset management companies and their investments in urban renewal service companies as well as related business operation principles were amended. The Company has overseen the amendment of related internal regulations by the subsidiary Hua Nan Assets Management Co., Ltd. and the requirements in the regulations of the competent authority have been met.

(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 of the Group include:

1. Management measures for preventing information security risks

The 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 upgrade of the Bank's server hardware equipment, upgrade of the core securities trading system server, establishment of the Security Operation Center (SOC), and the replacement of the infiltration detection system.

2. Identify and assess information security risks

In response to the material cyberattacks in Taiwan in 2019, the Information Technology Department of HNHFC has requested subsidiary companies to initiate investigations, compile reports on processing procedures, and report to superior officers.

Related cases included the hacking incident in the ASUS software update server in March 2019 which caused ASUS computer users with ASUS Live Update to be hacked by a suspected update program containing a backdoor when executing system firmware or software upgrades. The supply chain attack was named "Shadow Hammer". According to records, three companies in the Group use ASUS computers. Two of the companies did not install the ASUS Live Update and only one installed the software. The Company used the inspection program provided by ASUS and found no signs of contamination. It confirmed results and proceeded with the update of the Live Update.

The companies of the Group have found no material cyberattacks or incidents in 2019 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 losses 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.

(2004-Chong-Fu-Min No. 67)

(2) Case for Feng 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.

(2017 Lao-Shang-Geng (1) No. 3)

(3) 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 requested 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. (2016 Jin-Shang No. 9)

(4) 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.

Kaohsiung District Court called a mediation at 3 p.m. October 30, 2018. The mediation was unsuccessful. Kaohsiung District Court ruled at 16:00 on July 26, 2019 that "the plaintiff's suit is dismissed" and Tung XX subsequently filed an appeal on August 30, 2019. Taiwan High Court Kaohsiung Branch transferred the case to mediation which began on September 19 of the same year.

The trial proceedings were completed on December 24, 2019 and February 25, 2020. The preparatory proceedings will be continued at Taiwan High Court Kaohsiung Branch on April 14, 2020, and the court informed that the trial continued on May 21, 2020.

(2019 Lao-Shang-Yi No. 60)

(5) 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 proceeded with oral arguments on April 11, 2019, December 12, 2019, and February 10, 2020. The next oral argument session is scheduled for April 13, 2020, and the next debate period will be May 18, 2020.

(2019 Jin No. 3)

(6) Case for Wang XX

The plaintiff Wang XX's mother was a shareholder of Hua Nan Financial Holdings Co., Ltd. She passed away on August 20, 2017 and the Company issued dividends belonging to the plaintiff's mother to the successor who was the plaintiff Wang XX. The Company also issued a dividends distribution certificate stating the dividends as the income of the plaintiff Wang XX. However, the plaintiff Wang XX believed that the mother's dividends should be calculated as the mother's estate instead of the plaintiff's income. The plaintiff therefore filed a suit to Kaohsiung District Court to request the Company to pay NT\$63,960 plus interest calculated at 5% annual rate from day the transcript of the suit statement is delivered until the settlement date.

The case was originally processed in the Summary Court of Taiwan Kaohsiung District Court. After the petition for the transfer of jurisdiction, it is now processed in Taiwan Taipei District Court. The Company has sent the statement of defense on January 31, 2020.

(Bei-Jin-Xiao No. 1)

(7) Case for Tsai XX

The plaintiff was a former Assistant Vice President of Sales of the Company's Fengshan Branch who reported for duty on July 7, 2017. The plaintiff resigned for personal reasons on October 31, 2018 and, based on claim that the Company's hiring notice specified "two months of guaranteed year-end bonus", filed a suit at the Fengshan Summary Court of Taiwan Kaohsiung District Court to request the Company to pay the year-end bonus of NT\$150,000 calculated based on the proportion of the plaintiff's employment period in 2018. A judgment was rendered on November 28, 2019 in the first instance court in favor of the Company and the plaintiff's claim was rejected. The plaintiff objected to the judgment of in the court of first instance and filed an appeal. The preparatory proceedings were held on March 4, 2020 and the court decreed that the case shall be reviewed on April 22, 2020, the next hearing time is planned to be notified by the court.

(2019 Feng-Lao-Jian No. 13)

(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, penalties or fines imposed by domestic or foreign competent authorities, 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, 2019
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	82,865,000	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

2020.4.30

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	8,286,500,000	100%
	Vice Chairman	T. Lin		
	Managing Director and President	Jang Jeng-Fang		
	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			
	Independent Director	Sung-Tung Chen		
	Independent Director	Min-Hsien Yang		
	Independent Director	Lo Ping-Kuan		
	Managing Supervisor	Wen-Ping Kung		
Hua Nan Securities Co., Ltd.	Supervisor	Xiao Shan-Yan	811,174,346	100%
	Supervisor	Hui-Chung Yen		
	Supervisor	Kuo-Ping Chen		
	Supervisor	Pao-Hsi Lin		
	Chairman	Hua Nan Financial Holdings Co., Ltd. Representative: David Y. C. Cheng		
	Vice Chairman	Michael, Yuan-Jen Hsu		
	Director	Fan Wang		
	Director	Sung-Nien Chang		
	Director	Wen-Feng Li		
	Director	Robert Li		
South China Insurance Co., Ltd.	Independent Director	Hui-Ya Shen	200,138,625	100%
	Independent Director	Tsang-Hsiang Lin		
	Supervisor	Teng-Cheng Chou		
	Supervisor	Ping-Hui Chang		
	Chairman	Hua Nan Financial Holdings Co., Ltd. Representative: Chih-Chi Tu		
	Director	Po-Hsi Liao		
	Director	Greta Lin		
	Director	Hui-Ling Hsu		
	Director	Su-Jung Hsu		
	Director	Huang-Chou Chen		
South China Insurance Co., Ltd.	Director	Yu-Ming Liang	200,138,625	100%
	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		
South China Insurance Co., Ltd.	Supervisor	Her Jiun Hsieh	0	0%
	Supervisor	Shu-Hui Ou		
South China Insurance Co., Ltd.	President	Wen Chin Chen	0	0%

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: King-Huo Lu Lisa Tsai Chao Chi Yeh Yuan-Ling Hsu Fan Wang Chien-Feng Lin Ching-Ping Chiang Jui-Chen Hsu Li-Peng Tsai	30,839,927	100%
	President	Huang Shr Yan	0	0%
Hua Nan Venture Capital Co., Ltd.	Chairman and President Director Director Director Supervisor	Hua Nan Financial Holdings Co., Ltd. Representative: Chun-Chih Huang Ching-Ping Chiang Cheng-Chih Tsai Chi-Tsun Lin 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	Liu Tian-Yan	0	0%
Hua Nan International Leasing Co., Ltd	Chairman Director Director Director Supervisor	Hua Nan Commercial Bank Representative: Robert Li 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 Supervisor	Hua Nan International Leasing Co., Ltd Representative: Robert Li 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 Chen Yu kun Chi-Tsun Lin	13,713,800	99.95%
	Supervisor	Chen Tien Yu	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.	82,865,000	2,658,965,605	2,461,311,500	197,654,105	40,707,181	17,694,012	15,169,050	1.83
Hua Nan Securities Co., Ltd.	8,111,743	44,882,194	31,787,985	13,094,209	3,246,326	751,919	931,106	1.15
South China Insurance Co., Ltd.	2,001,386	19,937,175	13,993,168	5,944,007	7,549,247	752,420	650,981	3.25
Hua Nan Investment Trust Corp.	308,399	910,609	397,752	512,857	148,990	2,480	6,550	0.21
Hua Nan Venture Capital Co., Ltd.	2,000,000	1,595,467	29,194	1,566,273	60,052	38,440	23,781	0.12
Hua Nan Assets Management Co., Ltd.	1,000,000	3,725,845	2,638,813	1,087,032	176,119	42,263	19,857	0.2
Hua Nan Securities Investment Management	137,200	150,441	7,114	143,327	27,294	(735)	561	0.04
Hua Nan Futures Co., Ltd.	535,000	3,864,940	2,823,409	1,041,531	353,987	14,176	48,638	0.91
Hua Nan Securities Holdings Corp.	352,126	750,614	29	750,585	(4,831)	(4,940)	(4,940)	(0.14)
Hua Nan Securities (Hong Kong) Limited	336,154	823,902	166,832	657,070	31,449	(7,558)	(7,558)	(0.22)
Hua Nan International Leasing Co., Ltd	1,500,000	1,631,696	230,521	1,401,175	42,035	8,535	35,858	0.24
Hua Nan International Leasing Co., Ltd	879,840	941,519	25,319	916,200	54,154	38,605	29,040	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:**

March, 2020, Hua Nan Securities' unrealized losses in derivatives trading reached 3% of the company's net worth. The major information announced on March 24, 2020 is as follows:

1. Date of Fact: 2020.03.24
2. Amount of unrealized losses (including trading and Hedging): As of March 23, the amount of loss estimated at market price was NTD3,413,710 thousand (the estimated loss at the theoretical price was NTD2,833,652 thousand).
3. The most recent financial report belongs to the equity of the parent company's owner: NTD13,094,209 thousand.
4. The ratio of unrealized losses to the equity of the owners of the parent company in the latest financial report: 26.07%
5. Response measures: The derivative commodity business has adopted corresponding hedging measures and will not affect the customer's rights and interests.
6. Other matters to be stated: 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

IX BASIC INFORMATION FOR DOMESTIC AND OVERSEAS OPERATING UNITS OF THE GROUP

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

IX BASIC INFORMATION FOR DOMESTIC AND OVERSEAS OPERATING UNITS OF THE GROUP

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, Xinsheng 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/>

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
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

Unit	Postal Code	Address	Tel	Fax
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



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