

CHAIRMAN

Chang, Yun-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