



CHAIRMAN

Chang, Yun-peng

I > Letter to the Shareholders

I. The Group's Business Results for 2021

(I) Domestic and International Finance Environment in 2021

In 2021, although the COVID-19 pandemic was prolonged globally, as the vaccination regimen was rolled out in each country and the infusions from monetary and fiscal policies, the economy started to recover. With the unbalanced recoveries among various countries and the restructuring and interruptions of global supply chains, the commodity prices were pushed higher. The key international institutions (IMF, World Bank, OCED, among others) released the 2021 global economic growth rate to be between 5.5%~5.9%, emerging from the negative growth seen in 2020 and indicating that the global economy has been stabilized gradually. However, it will take time for the supply chains to recover and thus the inflation expectations were pushed up and the major stock markets and yields of bonds likewise went up. Consequently, the Federal Reserve (Fed) stopped purchasing debt papers and prepared to enter the cycle of rising rates.

Based on the statistics of the Directorate General of Budget, Accounting and Statistics, Executive Yuan on February 24, 2022, it expected that the full-year economic growth rate of Taiwan in 2021 would be 6.45% or 3.09 percentage points higher than 3.36% in 2020. The main reasons include that Taiwan has been successful in the pandemic containment and the demands of emerging technologies extended, driving the continuously active exports from Taiwan and investments. While the Level 3 alert in May affected the domestic demands, with the government revival stimulus and five-time coupons, the full-year consumption was stable and resulted in the new highs of GDP growth in recent years.

For the finance industry, the 2021 profit of the finance industry as a whole was NT\$936.6 billion (the unit is identical hereafter), up by 38.7% from 2020 and reached a new historic high in the finance industry. Of these, the banking sector was mainly benefitted from the continuously increasing lending volume that drove the increased net interest incomes and decreased provision for NPL, resulting in a 4% increase of net profit from 2020. In terms of securities brokers and insurers, they were benefitted from the ample liquidity as both price and volume of Taiwan equities went higher and the average daily trading volume in the market was NT\$471.6 billion, up by 88% from 2020; the 23.66% surge of the TWSE also increased the income from brokerage service fees and net gains of investment and the overall profit grew by 80.3% and 88.5% from 2020, respectively.



VICE CHAIRMAN

(II) Changes to the Company Organizational

Since its inception on December 19, 2001, Hua Nan Financial Holdings Co., Ltd. (hereinafter “the Company” or “HNFHC”) has operated financial services across various professional fields of banking, securities, insurance, investment trusts, asset management, and venture capital. As of the end of 2021, the Company had 100% ownership control over all its six subsidiaries.

(III) Business Plan and Results of Business Strategies

In 2021, the Group was impacted by the aforesaid evolutions of the domestic and international financial situations and the following measures were taken as responses: (I) the pandemic countermeasures were taken in a rolling method depending on the development of pandemic; the digital financial services were enhanced, the pandemic containment policies were launched, to protect the health of clients and employees. (II) The lending to SMEs was enhanced to cope with the government relief packages and five-time coupons. (III) Stabilized the securities order placing system and information security as the trading volume of the TAIEX went higher. (IV) Recruiting talents from the private sectors, to enhance the business development of the subsidiaries. (V) Caught the bull market timing, to increase income from service fees and operations. (VI) Emphasized environment, social and corporate management (ESG) and the green energy development, as the fulfillment of CSR.

In 2021, the Company's net profit after tax was NT\$17.206 billion, EPS was NT\$ 1.30 and ROE was 8.82%, respectively. The profit reached new record highs. The net profit after tax of the subsidiary Hua Nan Commercial Bank was NT\$ 14.594 billion, the annual increase rate of the deposit and loan balance was 12.6% and 11.3%, respectively, and the scale of NT\$ current deposit ranked 3rd in the industry. The balance of loans for small and medium-sized enterprises increased by NT\$9.39 billion year on year, with double digit growth two years in row with vigorous business momentum. The overdue loan rate was 0.15%. The coverage rate of bad debts was 826.9% and the asset quality was still excellent. The net profit after tax of Hua Nan Securities was NT\$2.524 billion; the growth and business volume of the brokerage service fee income grew nearly 70% year on year, the income of proprietary business grew 13.9% and the market share of the brokerage was 3.26%, ranked 9th among the peers. The net profit after tax of South China Insurance was NT\$900 million, up by 86.7% mainly because the fund utilization outperformed as much as NT\$676 million; the income of the insurance policy premium was NT\$11.065 billion with an annual growth of 9.3% and market share was 5.35%, ranking 7th among the peers.

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 main achievements in 2021 are explained below:



PRESIDENT

Lo, Pao-chu

1. Strengthened the Management

- (1) Capital adequacy ratio: The Group's capital adequacy ratio at the end of 2021 was 122.18%. HNCB's capital adequacy ratio was 14.16%, with a Tier 1 capital adequacy ratio of 12.00%, which conforms to the legal capital standard.
- (2) Corporate governance: The Company was included in 6%~20% bracket in the (8th) Corporate Governance Evaluation formed by the Taiwan Stock Exchange in 2021. The Company was also selected for inclusion in the "FTSE4Good Emerging Index", "Taiwan Sustainability Index", "Corporate Governance 100 Index Constituent Stocks", "Taiwan HC100 Index", and "Taiwan RAFI EMP 99 Index" respectively
- (3) The international investment rating institutions rated the Company's promotion of ESG and the outcomes are as follows: From the evolutions of the rating in the past two years, it is seen that the Company has a robust growth for promotion of ESG.

Assessed Institution	Evaluation Period		Changes
	December 2021	October 2021	
Sustainalytics ESG Risk Score (100-0, 0 is the best)	22.23	25.65	↑
MSCI ESG Rating (AAA-CCC, AAA is the best)	A	A	-
FTSE Russell ESG Rating (0-5, 5 is the best)	3.5	3.3	↑
ISS ESG Rating (1-10, 1 is the best)	2	2	-
ISS CSR Rating (1-10, 1 is the best)	3	3	-

- (4) Risk management:
The regular meetings of the Group's Risk Management Committee and Asset and Liability Management Committee are convened to implement the management mechanism of risk limits, optimize the Group's (substantial) stakeholder system and enhance the market VaR system of the Group.
- (5) Legal compliance:

- A. The Group convened meetings and forums for Legal Compliance Committee at regular intervals:
To effectively advance the Group's compliance operations, the Group's Legal Compliance Committee effectively supervises all companies to pay attention to changes in the domestic and foreign regulatory environment and give a timely response.
 - B. Implementing key compliance matters of the Group: To ensure and implement the Group's key regulations and the applicable universal regulations, the Company has prepared the provisions concerning standard compliance and the group-level files in order to control legal compliance risks effectively. For instance, the Group's measures for assessing the moneylaundry risk are used to control the Group's money laundry and terrorism financing risks effectively. The Company is also committed to protecting personal data. In addition to the establishment of group policies, the Company also uses personal data protection meetings and international certifications to ensure the effectiveness of personal data protection management.
 - C. Establishment of the Legal Compliance System Optimization of the Group: The Group intensified real-time and regular online reporting and manages the legal compliance and effectiveness of the Group's business activities by optimizing the data submission system. In addition, the anti-money laundering information sharing platform of the Group is used for comparison, review, confirmation, transmission, and usage of the Group's AML information to effectively offset the Group's money laundering and terrorism financing risks effectively.
 - D. Ensure the integrity of the Group's compliance:
For the key laws and regulations applicable to the overall Group, the companies in the Group are supervised to analyze and report on the effects of each amendment drafts from the competent authority and the companies in the Group are urged to schedule the regulation inventory, to ensure the operations and management regulations of them to cope with the related laws and regulations and be updated timely and thus it is ensured that the companies in the Group to respond the changes in laws and regulations timely and comply with such effectively.
2. Strengthened Cross-Selling
 - (1) Group cross-selling benefits: The achievement rate of the Group's cross-selling business operations as the amount of contribution to income was 199% in 2021.
 - (2) Build financial ecological circle by cyber-physical integration: The financial eco-system is built by the integration of online and offline: to respond to the trend of digital finance, by linking the online and offline channel services, the business connection among the intra-group clients is completed and by the continuous promotion of joint-marketing business, the synergies of cross-sector marketing of the Group are exerted.
 - (3) Strengthen the Group's Cross-Selling Businesses: The three emphases, including "one-stop shopping service to clients by integrating the Group's resources," "sharing the promotion experience, explaining and analyzing target clients by the product companies" and "establishing the rapid supporting windows and service process of the product companies," integrate the channel resources, to enhance the joint marketing volume, to develop positively.
 3. Promoted Digital Finance
 - (1) Develop FinTech Patents: As of the end of 2021, the Group obtained 197 FinTech patents in mobile platforms, big data, artificial intelligence, security and control mechanisms, and biometrics.
 - (2) Create Smart Financial Products: Each subsidiary of Hua Nan Group actively offers the smart financial products meeting clients' demands. Of which, HNCB has launched the App specifically for the SnY digital account and allowed the minorities to open accounts online, AI smart customer service, AI smart wealth management, the first conversational AI mobile banking, financial blockchain information system, withdrawal, transfer and mobile payment with face-recognition; Hua Nan Securities has launched the AI smart equity selection; South China Insurance has built the AI group insurance quotation system. The financial services become more efficient via the technological approaches.
 - (3) Boost the application of big data business: The Group established a level digital financial promotion team and cultivated more than ten data analysts. It established models via machine learning algorithms and applied them to the business. In 2020, it launched a total of 15 themed analysis outputs and 17 files concerning scenario marketing activities which were increased double times compared with that in 2021.
 4. Corporate Social Responsibility
 - (1) Promote charitable activities:
 - A. The first priority of the Company in terms of the public welfare are the engagement in public welfare, promotion of knowledge, sports development and art and cultural creations. In 2021, the public welfare event sponsored included "Excellent Hua Nan Care for the Elderly," "President Ing-Wen Tsai and High School Students Face-to-Face Forum," "2021 Hua Nan Financial Holdings Cup Junior Baseball Championship Games," "Hua Nan Financial Holdings Cup Youth Baseball Championship Games," "Grassroots Baseball Cultivation Fund," "Dreams-Come-True Baseball Camp," "2021 Uniform Tax Receipt Cup Road Race of the Ministry of Finance," funding for the national team training and league matches organized by the Chinese Taipei Football Association and training expenses and incentives for gymnasts, Chih-Kai Lee and the coach, Yu-Hsin Lin.
 - B. The Company has always supported sports activities and received the "Sports Activists Awards" of the Sports Administration of the Ministry of Education in 2021. It was the Company's ninth such award and the third consecutive award for Gold Sponsorship, Long Term Sponsorship, and Promotional Bronze Awards.
 - (2) Promotion of responsible finance:
 - A. The subsidiary, HNCB, has established the customized offerings like the "Preferential Mortgage for Buying (Building) Green Buildings," "Financing for Account Receivables from Power Sales of Solar Energy," "Financing for Account Receivables for Suppliers of EV Industry Supply Chain," "Preferential Loans for Upgrading

Industrial Boilers,” “Green Energy Project Loans in the Partner Cities/Counties,” “Project Loans for the Working Funds for Construction of Solar Energy Power Generating Equipment” and “Preferential Loans for Urban Renewal Business.” As of the end of December, 2021, the proceed inclusive finance cases with social or environment benefits were 67, totaled NT\$1.712 billion.

- B. The subsidiary, HNCB issued the PGO credit card on July 1, 2020, to offer incentives to the cardholders to ride the electronic scooters. As of end of December 2021, 10,784 cards were issued.
- C. The subsidiary, HNCB issued the green bonds for NT\$1 billion on July 28, 2021 again. Total balance of the investment in the green bonds was NT\$12.6 billion, NT\$800 million for the SR bonds and NT\$500 million for the sustainable development bonds.
- D. The subsidiary, Hua Nan Venture Capital joined the investment in solar energy power station for total capacity of 30 MW by Chiada International Development. Upon the completion of the project, it is expected to generate 39 million kWh of green power every year and to reduce 30,000 tons of CO2 emission.

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

In 2021, the Company and its subsidiaries generated consolidated net income after tax of NT\$ 17.206 billion with an after-tax EPS of NT\$1.30. The consolidated return on assets (ROA) was 0.52% and the consolidated ROE was 8.82%. Profitability of subsidiaries was as follows:

1. Hua Nan Commercial Bank
In 2021, the net income after tax was NT\$14.594 billion with an after-tax EPS of NT\$1.61. The ROA was 0.46% and the ROE 7.08%.
2. Hua Nan Securities
In 2021, the net income after tax was NT\$2.524 billion, with an after-tax EPS of NT\$ 3.86. The ROA was 4.47% and the ROE 25.58%.
3. South China Insurance
In 2021, net profit after tax was NT\$ 900 million with an after-tax EPS of NT\$ 4.50, the return on assets was 3.92%, and the return on equity was 13.95%.
4. Hua Nan Investment Trust
In 2021, the net income after tax was NT\$ -7 million with an after-tax EPS of NT\$ -0.23. The ROA was -0.82% and the ROE -1.86 %.
5. Hua Nan Venture Capital
In 2021, the net income after tax was NT\$ 26 million with an after-tax EPS of NT\$ 0.13. The ROA was 1.49% and the ROE 1.50%.
6. Hua Nan Assets Management Company
In 2021, net profit was NT\$ 316 million providing the net profit of NT\$ 3.16 per share, the return on assets was 6.79%, and the return on equity was 25.62%.

(V) Research and Development

1. Hua Nan Financial Holdings
Providing the “zero distance” customized financial services centered on the clients. Establish the “digitized finance promotion team” and “big data analysis team” at the Group level, to interchange the big data and AI technologies among the subsidiaries at the Group level and apply such at the core of each subsidiary. It is sought to understand and expect the potential client needs and enhance the risk control, assist the development of existing and potential clients and provide the well-rounded digital financial services via big data and AI.
2. Hua Nan Commercial Bank
 - (1) The Bank actively develops and optimizes the new financial products and digital finance applications to promote the business development and cope with the trend of digitized financial development, such as: the “E-centralized custody” App that provides the one-stop service include payment, securities, and assets; the newly launched “Rich+ card” that links automatically via the system, to create the up/downgrade of membership, and the proprietary saving point mechanism; to help the laborers affected by the COVID-19 pandemic to overcome the trough, the “brand new one-time online application” service is provided for the labor relief loans. The online service system functions are continuously optimized, e.g., “Online business loan platform,” “internet insurance purchase platform,” “mobile insurance purchase platform,” “E-wealth management,” “robot client service,” “mobile banking,” and “personal internet banking.”
 - (2) For the positioning of fintech patents, as of the end of 2021, the Bank has proposed and obtained 254 patent applications (141 invention patents, 112 new type patents, and one design patent); there were also 186 patents approved (77 invention patents, 108 new type patents, and one design patent).
 - (3) The Bank always encouraged the employees to actively engage in R&D. In 2021, there were 261 individual R&D proposals by the employees and 32 of them were accepted.
3. Hua Nan Securities
 - (1) Cultivating the mobilization of services: the mobile trading platform is continuously optimized, to provide the best service experience, including the “e-counter so easy,” “two-way loan,” “periodical fund purchase with fixed amount” and “Hua Nan easy loan” services, for the well-rounded online mobile wealth management services.
 - (2) Creating the smart wealth management services: deepening the smart trading platform (cloud order placing/thunder order placing), smart equity selection (Hua Nan So Precise App) and smart client services. More smart trading and services are developed and launched.

- (3) Coping with the new systems of the competent authorities: to cope with the relaxed policies by the competent authorities and investment trends, the digitized services are continuously optimized, to meet the investors' demands and lower the operating costs.
 - (4) Scenario marketing: via the big data system environment and analytical tools built by the financial holding group, the precise profiles of clients are established, to help the sales to understand the clients, and enhance the service quality, for precise marketing.
 - (5) Integration of online and offline: enhancing the integrated marketing power of the business units and virtual channels, and cultivating the internet advertisement at the same time, with the proper products and services to promote the Company's products or services, for expanding the visibility of Company's products or services.
 - (6) Implementing the relaxed policies by the competent authorities: coping with the policies including loans without usage restrictions, periodical trading of negotiable securities with fixed amount commissioned to brokers and the periodical investment with fixed amount via the sub-brokerage, financing for the commissioned trading of foreign negotiable securities and digitization of transfer for the centralized depository and book-entry, for more diversified services to clients.
 - (7) By integrating the overseas product department, financial product department, futures proprietary business department, the Company is committed to the arbitrage research and trading of financial products, while working with the R&D of software by the information department, to develop the computer trading programs for spreads, arbitrages and hedging for various new types of derivatives. Along with the assistance of the AI line graphs, the long/short operating directions and the best timing of trading are grasped, for maximum profits.
 - (8) Continuing to improve and enhance the building of the information security safeguard, for the purpose of lowering the operating risks and upgrading the business continuity ability of the Company.
 - (9) Make the following relevant information system planning:
 - A. In conjunction with the planning of the blueprint of Financial Holdings and the Company on Bank 3.0 digital financial environment, build a complete digital financial environment and 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.
 - 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 re-commissioned web trading platform design and planning: Build multiple-country trading platform and increase overseas tradable market. The goal is to provide 18 overseas stock markets and broaden product and service provided to legal persons.
 - (10) The subsidiary Hua Nan Securities Investment Management conducts in-depth research on the fundamental, 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
4. South China Insurance

While the vaccination has been penetrating, the uncertainty of the pandemic and the diversified demands from the sales channels and consumers, urge South China Insurance to keep on focusing on the R&D of new products and innovation mix of marketing projects. In 2021, total 176 new products were developed and 150 project products are being sold currently. Not only grasping the market demands, the Company also provides the complete professional services to the insured. Facing the era of digitized internet services, South China Insurance embraces the digital technologies with the "forward-looking mindset and active actions," to bring innovative products and services, always improving them for the better. In the "9th Taiwan Insurance Excellent Performance," the Company won four silver awards for the "Excellence in Project Planning for the Insured Services," "Excellence in Project Planning for the Talent Training," "Excellence in Project Planning for Product Innovation," and "Excellence in Public Welfare and Care, respectively, as well as the two major awards in the "Insurance Quality Award," namely "Best Recommendation" and "Best After-Service." In addition, for the 22 + 1st "The Best Honor of the Insurance Industry," the Company won the major award of "Best Contact Office - 2nd Sales Department" and other five awards including "The Best Insurance Professionalism," "The Best Social Responsibility," "The Best Product Creativity - Pet Comprehensive Insurance," "The Best Channel Strategy" and "The Best Professional Adviser - Si-Yuan Tan, VP."

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 to enhance corporate governance and risk management.

Solid operation is South China Insurance's highest guiding 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" with respect to the long-term issuing system credit rating, reflecting South China Insurance's strong capital adequacy, profitability, and excellence in business performance.

The outperformance and the excellence awards were widely recognized by the public. In the post-pandemic era 2021, the balance between the economy and the pandemic have been approaching; however, the problems like the inflation pressure, the disrupted supply chains and the tight global energies still lingered. Plus the emerging awareness of carbon-reduction and zero-emission, South China Insurance, when faced with these multiple

dimensional issues, will continue to develop the green financial products to respond to the social expectations to the enterprises; the personal information security will be enhanced, to provide the more complete safeguard as a response to the trends of digital transformation.

5. Hua Nan Investment Trust (HNIT)

As of the end of 2021, the overall public placed funds in the investment trust sector was about NT\$4.96 trillion, up by NT\$432 billion year on year or 9.6%. The Company's publicly placed funds as of the end of 2021 was NT\$40.39 billion or down by NT\$8.145 billion year on year and ranked 26th in the market.

The fund performance in 2021, however, was outstanding. Among the ten funds, seven of them ranked in the first half among the same type of funds in terms of the performance of the year; two of them were in the top one-fourth.

6. Hua Nan Venture Capital

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

7. Hua Nan Assets Management Company

To respond to the government urban updating policy and accelerate owned assets activation, the self-sponsored urban renewal project for the area at Pei-Po Section, Tucheng District, New Taipei City, owned by Hua Nan Assets Management Company (HNAMC), was approved in June 2017 by the Urban Renewal Department, New Taipei City Government, and the use license was obtained in December 12, 2021. This is the first nationwide case that an industrial park obtained urban updating application under the jurisdiction of the Industrial Development Bureau, MOEA, as well as a successful case for promoting industrial environment upgrading and the three-dimensional construction and prosperity of the industrial park area.

In addition, due to the public interest and home safety of the people, the Hua Nan Assets Management Company (HNAMC) also actively participated in the urban renewal projects or the project of renovating dangerous and old buildings, as the implementer of urban renewal projects, or initiator for reconstructing dangerous and old buildings, while infusing funds. Other than that, the self-developed project for reconstructing dangerous and old buildings at the Huajian Section, Wanhua District, Taipei City was granted approval for the reconstruction in November, 2020 from Taipei City Government with the construction permit obtained in October 2021, the Company also has formed the "Hua Nan Team for Urban Renewal, Dangerous and Old Buildings" with HNCB to develop the project for reconstructing dangerous and old buildings at Zhongyang Section, Xindian District, New Taipei City. The partnership agreement for reconstructing dangerous and old buildings was entered with the land owners in May, 2021. In two years, HNAMC secured two projects for the reconstructing dangerous and old buildings in a row, becoming one of the public banks responding to the government policies most actively since the government promotes the policy of urban renewal and reconstruction of dangerous and old buildings.

HNAMC has formed the "Hua Nan Team for Urban Renewal, Dangerous and Old Buildings" with HNCB, to integrate the financing and trust expertise of the bank and the practical experience of the assets management company in the urban renewal and reconstruction of dangerous and old buildings, in order to promote the business of urban renewal and reconstruction of dangerous and old buildings, assist the residents with the real one-stop service including opinion integration, planning and design, trust and financing, investment in construction, unit delivery and mortgage by units. It not only implemented the governmental urban renewal policy, but also makes the reconstruction of old buildings accessible to people via the well-rounded services.

II. 2022 Group Business Plan, Future Development Strategies, and Impact of the External Competitive Environment and Overall Business Environment

Looking into 2022, although the disturbance from the pandemic is expected, the unbalanced supply chains will become moderate gradually as the economy recovers. The key international institutions (IMF, World Bank, OCED, among others) expect the global economic growth rate will be between 4.1%~4.5%. The potential risks including the variability of COVID-19 virus, if the inflation is in check, the pace of Fed raising the interest and tapering, geopolitical conflicts, weakening economy in China, climate changes and trend of carbon reduction, as well as the concern of financial asset bubble.

In Taiwan, thanks to the proper control over the pandemic, and catching of the opportunities of the restructure of global supply chains, investments from the returned Taiwanese companies, expected pipelines for new emerging technologies and the advantages of the advanced process in the domestic semiconductor industry leading the active expansion of plants and accelerated investments, the active export is expected to be helped. With the penetrated vaccination measures and salary hikes, the private consumption is likely to be stronger. The Directorate General of Budget, Accounting and Statistics, Executive Yuan forecasts that the economic growth rate in 2022 will be 4.42%, still strong.

In response to the aforementioned political and economic situation, the Group's business strategy for 2022 focuses on the following parts:

- (I) Diversifying income sources: The core business of lending will enhance the lending to SMEs and foreign currency loans, to secure the spreads and asset quality, while increasing the incomes from service fees and financial trading.
- (II) Increasing the profit proportion of other subsidiaries: to diversify and balance profits, the Group will strengthen the profit growth of Hua Nan Securities and South China Insurance. This year, the profit contribution of the two subsidiaries should be more than 15%.
- (III) Expanding marketing business: Increasing the Group's products held by the clients and intra group business by applying the point-accumulation mechanism; establishing the co-benefit and co-prosperity eco-system via the point redemption platform and cross-industry alliance, to exert the synergies of the Group's joint marketing and become the long-term partner of clients.

- (IV) Developing digital finance: The service philosophy of getting close to clients' hearts and creating zero-distance." Establishing the data-oriented culture with the core of big data, for the digital financial applications integrating AI and API and further to implement the cross-field collaboration, shared data, for clients to navigate in the AI smart financial life.
- (V) Strengthening risk management: Continuously deepening the applications of various risk quantification model tools, enhancing the evaluations of financial products and signing and introducing the Task Force on Climate-related Financial Disclosures (TCFD) architecture as the cooperation with the specific implementation program of MOF's ESG initiative platform, to review the impact of the climate changes on operations.
- (VI) Deepening the fintech: aligning with the Group's digital finance development, the convenience of trading is increased, the digitized service platforms are built actively, the data architecture is optimized and the digitized operating processes are promoted to improve the financial service model, through the internet and mobile devices.
- (VII) Carrying through ESG spirit: in addition to continuously strengthening corporate governance, fulfilling corporate social responsibility and striving for environmental sustainability, the Group has taken TCFD (Task Force on Climate-related Financial Disclosure) and SASB (Sustainable Accounting Standards Board) into consideration in operational decision-making in accordance with the Corporate Governance 3.0- Blueprint for Sustainable Development and Green Finance Action Plan 2.0 of the Financial supervision committee. It also has adhered to ESG spirit when undertaking business, gradually undertaken the responsibility of investment and financing, and continuously assisted industries of green energy technology and circular economy in sustainable operation.

The Group will follow the market conditions, to grasp the trend of the interest rate rising cycle, to adjust the operating strategies flexibly, enhancing the capital structure, to improve the three pillars of profit and the overseas business, while continuing the integration of the Group's resources and balancing the profit contributions of the Group. While the economic outlook for 2022 is optimistic, the aforesaid potential variables still risky. The Group will stay very prudentially and face the challenges without rush or fear and look into another outperformance that generates better feedback to all shareholders, employees and clients.

III. Impact of the Legal Environment:

Financial industry is an industry under the high supervision of competent authority. In 2021, competent authority kept promoting the Corporate Governance 3.0- Blueprint for Sustainable Development and Capital Market Blueprint and intensifying the legal compliance of risk assessment mechanism; released and modified various provisions about difficulty resolving and revitalization to respond to the epidemic situation. Besides abiding by laws and regulations and coordinating to handle and keeping making full use of the functions of three defense lines for internal control, the Group concerned and responded to the change of regulatory environment comprehensively and tried to exert 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 (2021/12)	twAA-	twA-1+	Stable
Hua Nan Commercial Bank	Taiwan Ratings (2021/12)	twAA+	twA-1+	Stable
	Moody's Ratings (2022/03)	A2	P-1	Stable
	Standard & Poor's Ratings (2021/12)	A-	A-2	Stable
Hua Nan Securities	Taiwan Ratings (2021/06)	twAA-	twA-1+	Stable
South China Insurance	Taiwan Ratings (2021/11)	twAA	-	Stable
	A.M. Best (2022/01)	A	a	Stable
Hua Nan Assets	Taiwan Ratings (2021/06)	twA+	twA-1	Stable

Chairman

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Vice Chairman

Ming Chao

President

Lo, Pao-chu