

# **Hua Nan Financial Holdings Co., Ltd.**

## **Dodd-Frank Act Section 165(d)**

### **Resolution Plan**

#### **Part I: Public Section**

## Glossary

### *Banking Act*

The Banking Act of the Republic of China

### *CBC*

Central Bank of the Republic of China (Taiwan)

### *FDIC*

Federal Deposit Insurance Corporation

### *FRB*

Board of Governors of the Federal Reserve System or Federal Reserve Bank

### *FSC*

Financial Supervisory Commission R.O.C (Taiwan)

### *HNCB*

Hua Nan Commercial Bank, Ltd.

### *HNCB LA Branch*

Hua Nan Commercial Bank, Ltd., Los Angeles Branch

### *HNCB NY Agency*

Hua Nan Commercial Bank, Ltd., New York Agency

### *HNFHC*

Hua Nan Financial Holdings Co., Ltd.

### *Plan*

Resolution Plan

### *R.O.C.*

Republic of China (Taiwan)

### *Rule*

Rules for resolution plans under Parts 243 and 381, Title 12 of the Code of Federal Regulations

*U.S.*

The United States of America

*U.S. Authorities*

FRB, Department of Business Oversight of the State of California, and Department of Financial Services of the State of New York

*U.S. Entities*

HNCB LA Branch and HNCB NY Agency

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## **Introduction and Summary of Resolution Strategy**

### **1. Introduction**

In this Plan, Hua Nan Financial Holdings Co., Ltd. (hereon referred as “HNFHC”), as a foreign-based covered company, describes a strategy for the rapid and orderly resolution of its entities that are domiciled in the U.S. in the unlikely event of material financial distress or failure of HNFHC and all of its subsidiaries and branches (including agency).

HNFHC’s U.S. operations comprise solely the U.S. banking business of HNFHC’s banking subsidiary, Hua Nan Commercial Bank Ltd. (hereon referred as “HNCB”). HNCB holds a bank branch and a bank agency in the U.S. HNCB LA Branch and HNCB NY Agency are the non-FDIC insured branch and agency of HNCB in the U.S., licensed by the state of California and the state of New York respectively.

As the Plan will describe, the U.S. Entities conduct very limited banking operations in their respective U.S. locales, focusing solely on traditional commercial banking business predominantly with their institutional clients. The U.S. Entities generally have no material operational interconnections with each other, with HNCB, or with the non-banking operations of HNFHC outside the U.S. Further, as defined by the Rule, neither of these U.S. Entities is a Material Entity, as neither conducts a Core Business Line for HNFHC or a Critical Operation. Therefore, the relevant U.S. Authorities can resolve each of these U.S. Entities locally in a rapid and orderly manner, without the need to take into consideration on mitigating the adverse effects of resolution on the other U.S. Entities, HNCB, other HNFHC entities, or on the stability of the U.S.

### **2. Key Elements of the Plan for the Rapid and Orderly Resolution of the U.S. Entities in the Event of Material Financial Distress at or the Failure of HNFHC**

The U.S. Entities, as state-licensed branch and agency, would be resolved under the supervision of their respective state banking authorities and the FRB, pursuant to the applicable state branch/agency insolvency regimes.

Considering their limited banking operation and the straightforward makeup of their assets and liabilities, the most likely and feasible resolution strategy for the U.S. Entities under the severely adverse scenarios is a sale or liquidation of each U.S. Entity under the relevant state branch/agency insolvency regimes. The commercial lending portfolio, the predominant asset of the U.S. Entities, can be marketed singly or in different pools of similar characteristics and/or packaged with their short-term liabilities and/or non-insured wholesale deposits. As there are no secured liabilities or other long-term liabilities currently, after the receivership administrative expenses are paid, the wholesale deposits (unsecured) and other unsecured liabilities of the U.S. Entities can be satisfied to the extent of the proceeds of asset liquidation.

HNFHC expects that the U.S. Entities will have minimal funding needs during the resolution process and that these can be met by the sale of the assets of each U.S. Entity.

### **3. Integration of the U.S. Resolution Planning Process into HNFHC’s Non-U.S. Resolution Planning Process**

Resolution planning for the U.S. Entities is a part of the risk management and business crisis contingency planning framework for HNCB and HNFHC.

HNFFHC and HNCB has organized an internal task force consisting of the heads of all the relevant departments to prepare, update, and implement the Plan on an annual basis, under the supervision and guidance of the Board of Directors of HNCB and HNFFHC. HNFFHC's Board of Directors ultimately oversees overall operations and risk management process for all global HNFFHC entities.

Starting from 2015, in accordance with Section 243.3(e)(2) of the Rule, the Board of Directors of HNFFHC has expressly delegated the final approval of this Plan to the authorized signature of HNCB -- the President of HNCB.

This Plan has been duly approved by the President of HNCB on December 19, 2016.

#### **4. Material Changes that Require Modifications to HNFFHC's filed Plan in 2015**

HNCB NY Agency's recent financial examination report issued by its competent authority included improvement items for compliance practices (herein referred to as the "Financial Examination Incident"). In order to strengthen the compliance practices of U.S. Entities, HNCB has appointed a consulting company to assist in improving the related deficiencies of the branches; strengthen professional training for legal compliance personnel and strengthen courses for employee training and education; strengthen related operation manuals and operation procedures; strengthen risk assessment procedures and suspicious activity monitoring procedures; and provide regulations updates.

According to the regulations prescribed within 165(d), the above-mentioned Financial Examination Incident does not constitute a material event under §243.3(b)(2). As of 2016's Resolution Plan submission date, the Financial Examination Incident had no significant impact on the business activities, operating activities, capital sources, liquidity, and relationships with third parties etc. of HNCB NY Agency. After reevaluating the strategic analysis, corporate governance, organization structure and related operation and financial information, management information systems, interconnections and interdependencies, supervisory and regulatory information and contact information of HNFFHC's filed Plan in 2015, HNFFHC has determined that, since December 14, 2015, the date of filing the 2015 Plan, there have no events, occurrences, or material changes in the conditions or circumstances of HNFFHC, including the U.S. Entities, that necessitate material changes to the Plan, except for the appointment of Mr. Wu, Tang-Chieh, who currently serves as the Chairman of the Board of HNFFHC since September 12, 2016; Mr. Chang, Yun-Peng, the General Manager of HNFFHC, who also currently serves as the General Manager of HNCB since November 4, 2016.

##### **I. Names of Material Entities**

As mentioned above, HNFFHC's Plan has no Material Entities, as it has no Core Business Lines or Critical Operations. However, for informational purposes, the Plan discusses the U.S. Entities, including the interconnections and interdependencies among the U.S. Entities and affiliates of HNFFHC around the world, and the integration of the resolution planning of the U.S. Entities into the contingency process of HNFFHC. HNFFHC streamlined the contents of this Plan with an intention to promote an accurate and comprehensive understanding on the part of the FRB and the FDIC about HNFFHC and, in particular, the operations of HNFFHC in the U.S. and to enhance the ability of the authorities and HNFFHC itself in facilitating a rapid and orderly resolution of HNFFHC in response to a material financial distress of HNFFHC.

Organizational Information of the U.S. Operations of HNFFHC as of June 30, 2015

Name	Address	RSSD ID
<b>Branches of Hua Nan Commercial Bank, Ltd.</b>		
Los Angeles	707 Wilshire Boulevard Suite 3100, Los Angeles, CA 90017	1437014
<b>Agency of Hua Nan Commercial Bank, Ltd.</b>		
New York	330 Madison Avenue, 38 <sup>th</sup> Floor, New York, NY 10017	1492059

## II. Description of Core Business Lines

As HNFHC does not conduct any business line in whole or material part in the U.S., HNFHC has determined that, under Rule, HNFHC has no Core Business Lines in the U.S.

A minor part of the banking business of HNFHC is conducted in the U.S. HNFHC conducts its banking business in the U.S. through HNCB LA Branch and HNCB NY Agency. The business of the branch and agency is largely confined to corporate banking. The business volume of the branch and agency is very small compared against the business volume of the entire banking business of HNFHC with reference to either the net revenue, income before income tax, or assets and liabilities, and even less significant compared to the business volume of the entire HNFHC.

The share in the business volume of the banking business line of HNFHC (the business volume of HNCB) contributed by the operations in the U.S. is no more than 3% in a usual year in terms of either net revenue or income before income tax. With respect to assets and liabilities, the share of U.S. operations in the banking business line of HNFHC is less than 2%. Therefore, the banking business in the U.S. is not a Core Business Line of HNFHC.

## III. Summary Financial Information Regarding Assets, Liabilities, Capital and Major Funding Sources

- The following table is the financial information summary of HNFHC, HNCB and U.S. entities:

	<b>HNFHC</b>		<b>HNCB(consolidated)</b>	
	2015.12.31	2014.12.31	2015.12.31	2014.12.31
Total Assets	\$ 2,350,289	\$ 2,259,952	\$ 2,300,626	\$ 2,211,066
Total Liabilities	2,197,219	2,116,012	2,146,491	2,071,146

  

	<b>HNFHC</b>		<b>HNCB(consolidated)</b>	
	2015	2014	2015	2014
Net Revenues	\$ 39,584	\$ 38,817	\$ 34,851	\$ 33,996
Income before income tax	16,194	15,549	15,620	14,646

Source: The financial figures are audited by certified public accountants.

	Unit: USD in thousand		
	<b>HNCB LA Branch</b>	<b>HNCB NY Agency</b>	<b>Total</b>
2015.12.31			
Total Assets	\$ 467,923	\$ 491,863	\$ 959,786
Total Liabilities	439,452	446,499	885,951
2014.12.31			
Total Assets	\$ 421,540	\$ 412,996	\$ 834,536
Total Liabilities	397,357	370,274	767,631

2. HNCB and its U.S. Entities' total equity is as follows:

	Unit: USD in thousand		
	<b>HNCB</b>	<b>HNCB LA Branch</b>	<b>HNCB NY Agency</b>
2015.12.31	\$ 4,687,823	\$ 28,471	\$ 45,364
2014.12.31	4,664,013	24,183	42,772

Source: The financial figures are audited by certified public accountants.

The U.S. Entities comply with the U.S. laws - Bank Holding Company Act (12 U.S.C. 1844(c)) Section 5(c) and *International Banking Act* (12 U.S.C. 3106(c) and 3108) by regularly filing FR Y-7Q (The Capital and Asset Report for Foreign Banking Organizations) to the FRB. The reporting entity of FR Y-7Q is HNCB with no single U.S. entities' information. The summary of capital information is as follows:

<b>2015.12.31</b>	<b>Unit: USD in million</b>
Tier 1 Capital	\$ 4,351
Total risk-based capital	5,844
Risk-weighted assets	44,022
Total consolidated assets at end of reporting period	69,958
Total combined assets of U.S. operations, net of intercompany balances and transactions between U.S. domiciled affiliates, branches, and agencies.	962

3. Major funding sources

HNCB's primary funding sources are deposits, interbank borrowings, long-term financial bonds and shareholders' equity. The majority of the balance sheet items are funds for the purposes of term structure matching and funding source diversification. The matching includes the matching of durations and amounts. Funding arrangements shall be made if the maturities of assets cannot match the maturity of core deposits.

HNCB LA Branch and HNCB NY Agency are 100% owned by HNCB. In principle, the U.S. entities are responsible for their own funding and liquidity management. However, if an emergency should arise, HNCB is fully committed to supporting the funding and liquidity needs of the U.S. entities, although the Plan does not rely upon such support in insolvency regimes. The funding sources of HNCB LA Branch and

HNCB NY Agency are time deposits, and borrowings from the CBC, HNCB and other banks. The U.S. entities also keeps close relationships with large financial institutions in order to seek access funds of longer terms in order to prevent any need for short-term liquidity from arising.

#### **IV. Description of Derivative and Hedging Activities**

##### Descriptions of derivative

Derivative transactions of HNCB LA Branch and HNCB NY Agency are subject to related policies and rules approved by HNCB and U.S. entities. Derivatives should be classified into derivatives for trading and derivatives for hedging. Derivatives for trading refer to the positions intended to be sold in a short time period or to profit from actual or expected short-term price fluctuations or to lock in profits. The positions held for any other purposes are classified as positions for hedging. It is necessary to take into consideration the qualifications and credit limits of counterparties when engaging in derivatives transactions. Derivative transactions of HNCB’s overseas branches (including agencies) are primary for fair value hedge of current positions. As of 31 December, 2015, HNCB LA Branch and HNCB NY Agency didn’t engage in any derivative transactions.

##### Descriptions of hedging activities

For the purpose of risk management, HNCB LA Branch focuses its hedging activities on the transfer and management of the risks associated with net interest incomes and market value changes. Meanwhile, the hedging strategies concerning the fair value and interest rates are established for HNCB LA Branch according to the principle of funding allocations and transfers. All the strategies and policies are subject to the governance of HNCB’s guidelines on derivatives. The majority of the operations in HNCB LA Branch are the assets or the liabilities associated with floating interest rates, subject to market interest changes (i.e. price changes). The position of fixed interest rate products, including fixed rate loans and fixed coupon bonds, are hedged with interest rate swaps against the risks associated with fair value fluctuations. As of 31 December, 2015, HNCB LA Branch and HNCB NY Agency didn’t engage in any hedging activities.

#### **V. Memberships in Material Payment, Clearing and Settlement Systems**

Material payment, clearing and settlement systems of HNCB LA Branch and HNCB NY Agency are as follows:

Material payment, clearing and settlement systems	Services
1. Fedwire Fund Service	Payment Processing & Cash Settlement
2. Society for Worldwide Interbank Financial Telecommunication (SWIFT)	Interbank Financial Telecommunication

#### **VI. Descriptions of Foreign Operations**

HNFHC has many subsidiaries out of the U.S., mostly in the R.O.C. The businesses of these subsidiaries span banking, securities, property insurance, investment trust, venture capital, management consulting, and asset management. However, as noted above, under HNFHC, the scale of banking business is significantly larger than any other business line.

Subsidiaries directly and/or indirectly held by HNFHC, including their major business activities, are listed below (as of November 8, 2016):

Name of Entity note 1	Principal Place of Business	Jurisdiction of Incorporation note 2	Percentage of Equity Directly Held		Chairperson of the Board	Major Business Activities
			voting	non-voting		
<b>Subsidiaries Held Directly by Hua Nan Financial Holdings Co., Ltd.</b>						
Hua Nan Commercial Bank, Ltd.	Taipei R.O.C.	R.O.C.	100%	note 3	Wu, Tang-Chieh	Operations within regulations of Banking Law
Hua Nan Securities Co., Ltd.	Taipei R.O.C.	R.O.C.	100%	note 3	Mao-Xian Liu	Securities brokerage, proprietary trading, underwriting and futures self-service
South China Insurance Co., Ltd.	Taipei R.O.C.	R.O.C.	100%	note 3	Bo-Xi Liao (Acting Chairperson)	Insurance
Hua Nan Investment Trust Co., Ltd.	Taipei R.O.C.	R.O.C.	100%	note 3	Yi-Jun Lin	Investment trust
Hua Nan Venture Capital Co., Ltd.	Taipei R.O.C.	R.O.C.	100%	note 3	Wu-Huang Hsu (Acting Chairman)	Venture capital
Hua Nan Assets Management Co., Ltd.	Taipei R.O.C.	R.O.C.	100%	note 3	Meng-Xiong Zhong	Debts buy and manage services
<b>Subsidiaries Held Directly by Hua Nan Commercial Bank, Ltd.</b>						
HNCB Insurance Agency Co., Ltd.	Taipei R.O.C.	R.O.C.	100%	note 3	Tsung- Hsien Li note4	Insurance agent
Hua Nan International Leasing Co., Ltd.	Taipei R.O.C.	R.O.C.	100%	note 3	Ming-Yow Lai note4	Leasing
<b>Subsidiaries Held Directly by Hua Nan Securities Co., Ltd.</b>						
Hua Nan Securities Investment Management Co., Ltd.	Taipei R.O.C.	R.O.C.	99.95%	note 3	Xiang-Sheng Chu (Chairperson and Managing Director)	Investment consulting

Name of Entity note 1	Principal Place of Business	Jurisdiction of Incorporation note 2	Percentage of Equity Directly Held		Chairperson of the Board	Major Business Activities
			voting	non-voting		
					note4	
Hua Nan (BVI) Holdings Corp.	BRITISH VIRGIN ISLANDS	BRITISH VIRGIN ISLANDS	100%	note 3	Wen-Chang Huang note4	Holdings company
Hua Nan Futures Co., Ltd.	Taipei R.O.C.	R.O.C.	99.80%	note 3	Yi-Zong Chen note4	Futures brokerage
<b>Subsidiaries Held Directly by Hua Nan International Leasing Co., Ltd.</b>						
Hua Nan International Leasing Corporation	Shenzhen P.R.C.	P.R.C.	100%	note 3	Ming-Yow Lai note4	Leasing
<b>Subsidiaries Held Directly by Hua Nan (BVI) Holdings Corp.</b>						
Hua Nan Securities (Hong Kong) Co. Ltd.	HONG KONG	HONG KONG	100%	note 3	Wen-Chang Huang note4	Securities
Hua Nan Assets Management (Cayman) Co. Ltd.	CAYMAN ISLANDS	CAYMAN ISLANDS	100%	note 3	Wen-Chang Huang note4	Consulting

Note 1: The names of the entities include information about their corporate forms.

Note 2: All entities in the table have obtained the licenses required to engage in their major business activities at their principal place of business.

Note 3: The company does not issue any non-voting share.

Note 4: The entity does not conduct business in the U.S. and is not material to HNFHC; we do not include the key management of the entity here.

## VII. Material Supervisory Authorities

### Supervisory Authorities for the U.S. Entities

The supervisory authorities for HNCB LA Branch are the FRB and California Department of Business Oversight.

The supervisory authorities for HNCB NY Agency are the FRB and New York State Department of Financial Services.

### Taiwan Supervisory Authorities for the Covered Company

Pursuant to the Financial Holding Company Act, the Organic Law of Banking Bureau, Financial Supervisory Commission, R.O.C, and the Organic Act Governing the Establishment of the Financial Examination Bureau, Financial Supervision Commission,

R.O.C, HNFHC is subject to the supervision of the FSC, the Banking Bureau of the FSC, and the Financial Examination Bureau of FSC.

Pursuant to the Banking Act, the Organic Law of Banking Bureau, Financial Supervisory Commission, R.O.C, the Organic Act Governing the Establishment of the Financial Examination Bureau, Financial Supervision Commission, R.O.C, the Central Bank of the Republic of China (Taiwan) Act, and the Deposit Insurance Act of the Republic of China, HNFHC is subject to the supervision of the FSC, the Banking Bureau of FSC, the Financial Examination Bureau of the FSC, the CBC, and the Central Deposit Insurance Corporation, Taiwan, R.O.C.

## **VIII. Principal Officers**

The Executive Vice President of HNCB convenes the Resolution Plan Supervisory Team, which is responsible for the review, supervision, and reports in connection with the resolution planning and for the coordination among the various departments. The Supervisory Team reviews and discusses the policies, procedures and internal controls relating to the Plan. The Action Team submits all major suggestions and advices concerning the Plan to the Supervisory Team for review. Modification, updates and improvements of the resolution strategy and the scope of the Plan are also decided by the Supervisory Team. The Supervisory Team periodically reports the implementation and the filing status of the Plan to the President of HNCB.

List of Current Members of the Resolution Plan Supervisory Team:

<b>Title</b>	<b>Name</b>
Hua Nan Commercial Bank Ltd. Executive Vice President	Shih, Chy-Her
Hua Nan Commercial Bank Ltd. Senior Vice President & General Manager of International Banking Department	Lin, Neng-Tung
Hua Nan Commercial Bank Ltd. Senior Vice President & General Manager of Treasury Marketing Department	Tsai, Pao-Chuan
Hua Nan Commercial Bank Ltd. Deputy General Manager of Risk Management Department	Hsieh, Her-Jiun
Hua Nan Commercial Bank Ltd. Deputy General Manager of International Banking Department	Huang, Yi-Hsin
Hua Nan Commercial Bank Ltd. Deputy General Manager of Legal & Compliance Department	Hsu, Kun-Su
Hua Nan Commercial Bank Ltd. Deputy General Manager of Credit Management Department	Chang, Jin-Lien
Hua Nan Commercial Bank Ltd. Deputy General Manager of IT Planning & Development Department	Cheng, Huey-Ling

## **IX. Resolution Planning Corporate Governance Structure and Processes Related to Resolution Planning**

### **Board of Directors**

The Board of HNFHC is at the top of the hierarchy of the management, approval and supervision processes concerning the Plan. The policies, procedures, internal controls and implementation of risk management relating to the Plan are under the supervision of the

Board of HNFHC. Starting from 2015, in accordance with Section 243.3(e)(2) of the Rule, the Board of Directors of HNFHC has expressly delegated the final approval of this Plan to the authorized signature of HNCB -- the President of HNCB, on condition that no changes are made to the main content and resolution strategies of the Plan.

### **Resolution Plan Supervisory Team**

The Supervisory Team is responsible for the review, supervision, and reports in connection with the resolution planning and for the coordination among the various departments. The Supervisory Team reviews and discusses the policies, procedures and internal controls relating to the Plan. The Action Team submits all major suggestions and advices concerning the Plan to the Supervisory Team for review. Modification, updates and improvements of the resolution strategy and the scope of the Plan are also decided by the Supervisory Team. The Supervisory Team periodically reports the implementation and the filing status of the Plan to the President of HNCB.

### **Resolution Plan Action Team**

The Resolution Plan Action Team, composed of related supervisors of responsible departments of HNCB and HNFHC, operates under the supervision of the Supervisory Team. The Action Team proposes the corporate governance structure and processes relating to the Plan, monitor the progress and quality of the Plan, and coordinates discussion on major issues. In principle, the Action Team annually reports the development, maintenance, and implementation of the Plan, along with all suggestions and advices concerning the Plan, to the Supervisory Team. However, upon the occurrence of any major change in matters pertinent to the Plan, the Action Team should report such change to the Supervisory Team within a short time.

## **X. Description of Material Management Information Systems**

The U.S. Entities' material information systems are designed and developed by IT planning & development department. The systems are embedded in risk limit monitoring functions, and are sufficient to provide risk management reports (credit risk, liquidity risk, operation risk and market risk etc.), operational performance and financial health reports to the management to monitoring risk exposures conditions. The management information system is widely used for daily procedures, evaluations, risk management, funding, operational performance management, regulatory reporting, and accounting/financial reports. This system is sufficient to provide financial and related information of the plan.

## **XI. High-level Description of Resolution Strategy**

As required by the FRB and FDIC, HNFHC has prepared the Plan under the assumption that HNFHC and all of its subsidiaries and branches had difficulty continuing as a going concern in the severely adverse scenario at the same time. Furthermore, as required by the FRB and FDIC, in this Plan HNFHC performed resolution strategy analysis solely for its U.S. operations.

HNCB LA Branch and HNCB NY Agency, as state-licensed branch and agency respectively, would be placed into the receivership of the California and New York state banking authorities, and be resolved under the applicable California and New York state branch/agency insolvency regimes.

Considering the limited wholesale banking operations of HNCB LA Branch and HNCB NY Agency, the preferred resolution strategy for both HNCB LA Branch and HNCB NY Agency is an orderly and deliberate wind-down of operations and sale of assets and liabilities under the applicable branch/agency insolvency regime. Under this approach, the key assets of HNCB LA Branch and HNCB NY Agency likely would be liquidated or would be transferred along with their deposits and other liabilities to an acquirer. The liabilities not thereby assumed in such transfers would be satisfied to the extent of the assets remaining in the respective receiverships.