Stock Code: 2820

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Chain Bills Finance Corp. Annual Report is available at: http://www.cbf.com.tw/

CHINA BILLS FINANCE CORPORATION

2017 ANNUAL REPORT

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Printed on March 23 ,2018

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I. Message to Shareholders

One. Performance Report

I. 2017 Global and Taiwan Economy

The global economic momentum extended to 2017, the advanced, emerging and developing economies recovered concurrently. There is a recovery of trade because of the expansion in global demand and investment. The manufacturing, consumption, private investment and labor markets in the U.S. performed adequately; the economy grew rapidly. The consumption, investment, and exports in the Eurozone also grew steadily. The economy was recovering; the external demand of Japan was powerful and there was an economic recovery because of manufacturing expansion, however, price increases remained weak. Mainland China benefited from the growth in consumption and exports, and the economic growth remained strong. Based on the most updated estimation of IHS Markit in December of 2017, the global economic growth rate in 2017 was 3.2%, which was better than the 2.5% in 2016.

With the recovery of international economic circumstances, the world trade volume estimated by the International Monetary Fund (IMF) will increase by 4.2% in 2017, which will promote our export volume. Also, because of the forward-looking infrastructure development implemented by the government, and advanced process investment by the semiconductors, the related supply chain supplier is going to continue. These will help to sustain the growth of investment momentum. According to the estimation made by the Directorate General of Budget, Accounting and Statistics (DGBAS) of the Executive Yuan on January 13, 2018, the economic growth rate for the year 2017 was 2.84% which is better than the 1.41% in 2016.

II. Change of the Organizational Structure

Nil

III. Performance Report

(I) Primary Market Transactions

1. Commercial Paper Certification and Underwriting

The Company had 9,040 commercial papers certified and underwritten in 2017, an increase of 322 commercial papers (or 3.69%) over the year 2016. The total transaction amount was NT$1,663,116 million, an increase of NT$72,933 million (or 4.59%) over the year 2016. The outstanding balance of commercial paper certified and underwritten by the Company amounted to NT$209,188 million as of the end of 2017.

2. Outstanding Balance of Guarantee

As of December 31, 2017, the guaranteed balance of the Company's commercial paper amounted to NT$99,472 million, an increase of NT$2,945 million (or 3.04%) over the year 2016.

3. The initial Purchase of NTD Bills

In addition to the certifications and underwritings of commercial papers, the Company had the initial purchase of NTD bills, other than CP2, of NT$313,477 million in 2017, an increase of NT$50,168 million (or 19.05%) over the year 2016.

4. USD Commercial Papers

In the years 2017 and 2016, there was no trading volume of certification and underwriting of the USD commercial papers or the first time purchase of USD financing commercial paper.

The Company's trading volumes of commercial paper certification and underwriting went up in the primary market due to the steady economic recovery in 2017 and the Company's aggressive expansion of bills underwriting and syndicated loans.

(II) Secondary Market Transactions

The bills traded in the secondary market amounted to NT$4,165,451 million in 2017, representing a decrease of NT$247,985 million (or -5.62%) over the year 2016. The USD bills traded in the secondary market, amounted to USD$0 million, representing a decrease of USD $35 million (or -100.00%) over the year 2016.

(III) NTD Government Bonds

The Company's government bonds trading amounted to NT$1,068,041 million in 2017, a decrease of NT$279,988 million (or -20.77%) over the year 2016. Regarding trading types, the Repo trading amounted to NT$974,591 million, accounting for 91.25% of the total trades and representing a decrease of NT$171,207 million (or -14.94%) over the year 2016. The Outright purchases/sales amounted to NT$93,450 million, accounting for 8.75% of the total trades and representing a decrease of NT$108,781 million (or -53.79%) over the year 2016.

(IV) NTD Bank Debentures

The Company’s bank debentures trading totaled to NT$233,019 million in 2017, a decrease of NT$40,191 million (or -14.71%) over the year 2016. Regarding trading types, the Repo trading amounted to NT$230,279 million, accounting for 98.82% of the total trades and representing a decrease of NT$41,281 million (or -15.20%) over the year 2016. The Outright purchases/sales amounted to NT$2,740 million, accounting for 1.18% of the total trades and representing an increase of NT$1,090 million (or 66.06%) over the year 2016.

(V) NTD Corporate Bonds

The Company’s corporate bonds trading totaled NT$1,647,130 million in 2017, an increase of NT$188,517 million (or 12.92%) over the year 2016. In terms of trading types, the Repo trading amount was NT$1,605,414 million, accounting for 97.47% of the total trades and representing an increase of NT$182,451 million (or 12.82%) over the year 2016. The Outright purchases/sales amount was NT$41,716 million, accounting for 2.53% of the total trades and representing an increase of NT$6,066 million (or 17.02%) over the year 2016.

(VI) Foreign Bonds

The Company’s foreign bonds trading total was RMB$0 million and US$7,771 million in 2017, representing a decrease of RMB$6 million(or -100.00%) and an increase of US$2,756 million(or 54.96%) in each respective bond over the year 2016.

IV. Budget Implementation, Financial Income and Expenditures, and Profitability Analysis

The 2017 net revenue was NT$2,094,946 thousand. Net interest income was NT$1,158,918 thousand. Commissions and fee revenues total was NT$887,351 thousand. Gain on financial assets and liabilities due to fair value adjustment within the net revenue was NT$101,707 thousand. Realized loss on available-for-sale financial assets was $3,785 thousand. Other net non-interest loss was NT$49,245 thousand.

In 2017, the main business which includes certification and underwriting of commercial papers and guarantees for the commercial paper all increased attributed to the exploit of new customers. However, the net income for the whole year is still below the budget. This is mainly because the Central Bank stopped decreasing the interest rate from the fourth quarter of 2016, the funds' cost in monetary market increased and the fierce competition in bank credits cause difficulty in raising the spread of commercial papers and lead to narrowing profitability. In bond business, due to low yields in bond and the reduction in the issuance of convertible bonds, it was difficult to find the source of the bonds, resulting in the revenues being less than expected.

In deposits and withdrawals, the total reversal for the year 2017 was TWD 7,283 thousand, mainly because of the collection of bad debts. Operating expenses were TWD 476, 026 thousand, which was lower than the budgeted expenditure due to the strict expense control.

In terms of income, the net income before tax amounted to NT$1,626,203 thousand in 2017. The net income after tax was NT$1,351,064 thousand, or the equivalent of $1.01 earnings per share, which had a budget realization rate of 83%.

V. Research and Development

Since the Fintech technology swept through the financial industry, various financial innovations have been launched in the market in recent years. Financial innovations that meet the characteristics of the bills industry are also planned by the Company. By studying the feasibility of electronic bond transactions, and investigating client's intention concurrently, the Company aspires to launch innovative services that fulfill customers' requirements.

Regarding on-job training, the Company invited not only scholars and specialists but also professionals from the industry to provide in-house and business related trainings on a regular basis.

The Company also has encouraged employees to obtain certified financial qualifications and to sharpen their technical skills and job efficiencies by attending courses from Taiwan Academy of Banking and Finance (TABF) and other professional organizations. At the end of 2017 the Company has a total of 149 employees and has sent 2,316 headcounts for training (6,235 hours), or an average of 16 training (41.85 hours) per employee, annually.

Two. 2018 Business Plan Outline

I. Business Policy

- Increase the portion of third-party guarantee and non-guarantee underwriting.
- Enhance daily average outstanding balance on the self-guarantee.
- Expand the scale of available-for-sale bond portfolio.
- Select quality stocks and establish positions by bargain hunting.
- Nourish clients' relationship of secondary market through advertising.

II. Business Target

Operating targets of the main businesses in 2018 are based on domestic and foreign economic situation and industrial environment estimates:

- Daily average outstanding of guaranteed commercial papers issuance amounted to NT$101.2 billion.
- Annual average short-term bills underwriting and initial purchase amounted to NT$269.4 billion.
- Annual average repo trading amounted to NT$176.6 billion.
- Capital adequacy ratio will be not less than 12.5%.

III. Significant Operating Policy and Future Development Strategies

Please refer to Page 18~19 of this annual report for the long-term and short-term business development plan.

Three. The Impact from Competition, Regulation, and Macro- economics Environments

With the robust global economic recovery and growing external demand, Taiwan's economy is demonstrating a smooth recovery. Looking forward to 2018, international agencies prophesy that the global economy is expected to continue its expansion. However, attention should be paid to the geopolitical conflicts in the Korean peninsula, the Middle East, the tax system reform of the U.S., the normalization of monetary policies as well as impact of trade protection policies amid trade and financial markets. The domestic economy is going to recover steadily, but keen observation is necessary to the impact of the uncertainties such as the intensification of global financial market fluctuations, the range and time at which the United States raises interest rates. Because of the effect of excess savings, financial institution was flooded with money and it is expected that the domestic financial market will keep competing fiercely.

The Company will further its effort in its core business and will work even harder in earnest to bolster risk management and efficiency of capital use so as to upgrade its competitive power and operation performance and mitigate the impact from the external environment. For information on the assessment of influence in various forms, refer to Page 16~17 of this report.

Four. The Updated Rating

Fitch Ratings, Ltd., Taiwan Branch affirmed on July 26, 2017 the Company's ratings as follow: National long-term rating "A+(twn)", National short-term rating "F1(twn)" and the long-term outlook "Stable" .

Last but not least, we look forward to your continued support and encouragement for CBF and its employees.

Sincerely yours,

Wu, Cheng-Ching Chih-Ming Chien

Cheng-Ching Wu
Chairman

Chih-Ming Chien
President

II. Company and Business Profile

One. Company Profile

By the Corporation Law and the Regulations Governing Short Term Bills Dealers as promulgated by the Ministry of Finance (MOF), the Company was duly incorporated in October 1978 to assist the government in establishing a monetary market, helping businesses with short-term financing needs and facilitating the transactions of bills and bonds in the economy. The Company has operated since December 1, 1978, and listed on Taiwan Stock Exchange (TSE) since October 1994.

For more than 30 years, we have focused on corporate financing and fixed income commodities trading and have been the loyal partner for the developments of industrial and commercial enterprises. We will continue devoting ourselves to provide professional services to our client and creating the maximum value for our shareholders and employees.

The management of China Bills Finance Corporation is committed to "Appreciate, Cherish, and Excel." Our goal is to actively create more values for our customers, shareholders and employees, cherish what we already have and enhance operating effectiveness and perpetual growth.

CBF's management beliefs and core values are as follows:

Appreciate customers and business with gratitude
Cherish what we have
Excel through initiating innovation

We will strengthen knowledge management, increase business efficiency, create profitable value for customers, shareholders, and staff with the aims to create long-term leadership and market niche.

Two. Principal Activities

1.Certifying and underwriting Short-Term Bills;

2.Certifying and underwriting Bank Debentures;

3.Brokering and trading Short-Term Bills;

4.Brokering and trading Bank Debentures;

5.Brokering and trading Government Bonds;

6.Guaranteeing and endorsing Short-Term bills;

7.Providing financial consulting services to enterprises;

8.Dealing Inter-bank call loan;

9.Proprietary trading of Corporate Bonds;

10.Equity Investment;

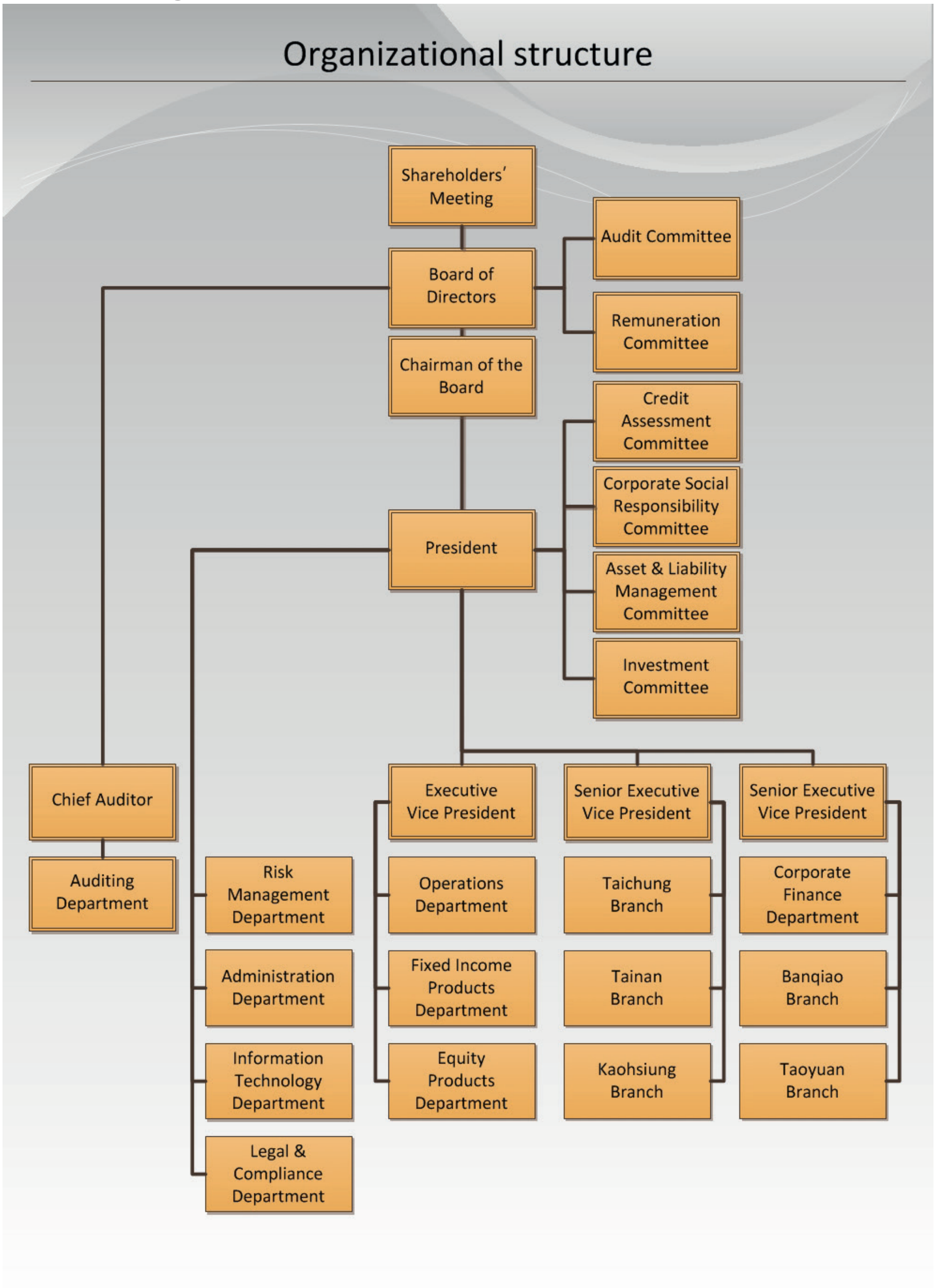
11.Fixed income securities trading;

12.Proprietary trading service of Foreign Bonds;

13.Investment of Foreign Currency Bonds;

14.Other business as authorized by the Competent Authority.

Three. Organizational Structure



Four. Board of Directors

Title	Name	Job Responsibilities
Chairman	Cheng-Ching Wu	Chairman of the Board , China Bills Finance Co., Ltd.
Directors	Chih-Ming Chien	President,China Bills Finance Co., Ltd.
	David C.C. Chang	Deputy President & Chief Operating Officer, O-Bank
	Jonathan C.H. Wei	Senior Executive Vice President & Chief Strategy Officer , O-Bank
	Tessie Y.H. Chen	Senior Executive Vice President & Chief Financial Markets Officer , O-Bank
	Roger Y.F. Lin	Deputy President & Chief Corporate Banking Officer , O-Bank
	Mona I-Ru Lo	Director, Ming Shan Investment Co., Ltd.
	Sekin Chen	Nil
Independent Directors	Herbert Chung	Supervisor,San Fu Chemical Co.,Ltd
	Hung-Mao Tien	Chairman,Straits Exchange Foundation President and Chairman of the Board, Institute for National Policy Research
	Wayne W. Wu	Nil

Five. The Management Team

Title	Name	Full-time or Part-time
President	Chih-Ming Chien	Full-time
Senior Executive Vice President & Chief, Corporate Finance Department	Alex Tu	Full-time
Senior Executive Vice President & Chief, Kaohsiung Branch	Li-Fei Chiu	Full-time
Chief Auditor (transferred on July 1, 2017)	Hsing-Pang Wang	Full-time
Chief Auditor (assumed office on July 1, 2017)	Chao-Ku Wang	Full-time
Executive Vice President, Fixed Income Products Department	Yi-Tien Chen	Full-time
Vice President,Equity Products Department	I-Chih Chou	Full-time
Vice President,Risk Management Department (resigned on February 1, 2017)	Hsiung-Jung Chen	Full-time
Vice President,Risk Management Department (assumed office on February 1, 2017)	Yi-Chang Kan	Full-time
Manager,Operation Department (assumed office on July 1, 2017)	Min-Mei Huang	Full-time
Vice President, Administration Department	Hou-Sheng Yu	Full-time
Vice President, Information Technology Department (transferred on January 18, 2017)	Su-Tzu Hsu	Full-time
Vice President, Information Technology Department (assumed office on January 18, 2017)	Hung-Ta Chou	Full-time
Vice President, Legal & Compliance Department	Chen-Cheng Hsieh	Full-time
Executive Vice President, Tainan Branch	Joe Chen	Full-time
Vice President, Taichung Branch	Wei-Min Cho	Full-time
Vice President, Taoyuan Branch	Jen-Chien Chen	Full-time
Vice President, Banqiao Branch	Chuan-Kuei Lin	Full-time

III. Operations Overview

One. 2017 Operation Overiew

I. Each business assets and income as a proportion of total assets and income, and development and changes

1. Assets

Unit: NT$ Thousand	12/31/2017		12/31/2016		Comparison with 12/31/2016	
	Amount	As a proportion of total assets(%)	Amount	As a proportion of total assets(%)	Increase (Decrease)	%
Commerical papers	104,307,126	47.33	96,702,580	47.56	7,604,546	7.86
Bonds	110,457,010	50.11	102,738,428	50.53	7,718,582	7.51
Equity investment	1,274,004	0.58	273,504	0.13	1,000,500	365.81
Derivative financial products	156,151	0.07	211,644	0.10	(55,493)	(26.22)
Others	4,218,113	1.91	3,412,935	1.68	805,178	23.59
Total Assets	220,412,404	100.00	203,339,091	100.00	17,073,313	8.40

2. Revenue

Unit: NT$ Thousand	2017		2016		Comparison with 2016	
	Amount	As a proportion of total revenue(%)	Amount	As a proportion of total revenue(%)	Increase (Decrease)	%
Commercial papers	1,295,030	61.82	1,372,071	59.33	(77,041)	(5.61)
Bonds	948,254	45.26	1,030,596	44.57	(82,342)	(7.99)
Equity investment	13,881	0.66	21,309	0.92	(7,428)	(34.86)
Derivative financial products	(4,707)	(0.22)	(50,257)	(2.17)	45,550	90.63
Others	(157,512)	(7.52)	(61,224)	(2.65)	(96,288)	(157.27)
Total Revenue	2,094,946	100.00	2,312,495	100.00	(217,549)	(9.41)

II. Business Performance

1. Commercial Papers

(1) NTD Primary Market-- Commercial Paper Certification and Underwriting

Unit: NT$ million	2017		2016		Comparison with 2016	
	Amount	%	Amount	%	Increase (decrease)	%
Commercial papers (CP2)	1,663,116	84.14	1,590,183	85.79	72,933	4.59
Commercial papers (CP1)	177	0.01	208	0.01	(31)	(14.90)
Bank's acceptance bill	0	-	1	0.00	(1)	(100.00)
Bank negotiable certificates of deposit	313,300	15.85	262,600	14.17	50,700	19.31
Municipal Treasury Bills	0	-	500	0.03	(500)	(100.00)
Total	1,976,593	100.00	1,853,492	100.00	123,101	6.64

(2) NTD Secondary Market Transactions

Unit: NT$ million	2017		2016		Comparison with 2016	
	Amount	%	Amount	%	Increase (decrease)	%
Commercial papers	3,924,477	94.22	4,101,024	92.92	(176,547)	(4.30)
Bank negotiable certificates of deposit	233,564	5.61	298,297	6.76	(64,733)	(21.70)
Municipal Treasury Bills	7,410	0.17	14,115	0.32	(6,705)	(47.50)
Total	4,165,451	100.00	4,413,436	100.00	(247,985)	(5.62)

(3) Foreign Bills- Primary and Secondary Market

Unit: USD million	2017		2016		Comparison with 2016	
	Amount	%	Amount	%	Increase (decrease)	%
Primary market underwriting and the first purchases	0	-	0	-	0	-
Secondary market transactions	0	-	35	100.00	(35)	(100.00)
Total	0	-	35	100.00	(35)	(100.00)

2.Bonds

(1) NTD Government Bonds

Unit: NT$ million	2017		2016		Comparison with 2016	
	Amount	%	Amount	%	Increase (decrease)	%
Repo trading	974,591	91.25	1,145,798	85.00	(171,207)	(14.94)
Outright purchases/sales	93,450	8.75	202,231	15.00	(108,781)	(53.79)
Total	1,068,041	100.00	1,348,029	100.00	(279,988)	(20.77)

(2) NTD Bank Debentures

Unit: NT$ million	2017 Amount	2017 %	2016 Amount	2016 %	Comparison with 2016 Increase (decrease)	Comparison with 2016 %
Repo trading	230,279	98.82	271,560	99.40	(41,281)	(15.20)
Outright purchases/sales	2,740	1.18	1,650	0.60	1,090	66.06
Total	233,019	100.00	273,210	100.00	(40,191)	(14.71)

(3) NTD Corporate Bonds

Unit: NT$ million	2017 Amount	2017 %	2016 Amount	2016 %	Comparison with 2016 Increase (decrease)	Comparison with 2016 %
Repo trading	1,605,414	97.47	1,422,963	97.56	182,451	12.82
Outright purchases/sales	41,716	2.53	35,650	2.44	6,066	17.02
Total	1,647,130	100.00	1,458,613	100.00	188,517	12.92

(4) Foreign Bonds

A. RMB Bonds

Unit: RMB million	2017 Amount	2017 %	2016 Amount	2016 %	Comparison with 2016 Increase (decrease)	Comparison with 2016 %
Repo trading	0	-	6	100.00	(6)	(100.00)
Outright purchases/sales	0	-	0	-	0	-
Total	0	-	6	100.00	(6)	(100.00)

B. USD Bonds

Unit: USD million	2017 Amount	2017 %	2016 Amount	2016 %	Comparison with 2016 Increase (decrease)	Comparison with 2016 %
Repo trading	2	11.11	0	-	2	100.00
Outright purchases/sales	16	88.89	0	-	16	100.00
Total	18	100.00	0	-	18	100.00

C. USD Foreign Bonds (including US Government Bonds)

Unit: USD million	2017 Amount	2017 %	2016 Amount	2016 %	Comparison with 2016 Increase (decrease)	Comparison with 2016 %
Repo trading	7,465	96.29	4,677	93.26	2,788	59.61
Outright purchases/sales	288	3.71	338	6.74	(50)	(14.79)
Total	7,753	100.00	5,015	100.00	2,738	54.60

3. Equity Investment

Unit: NT$ thousand	2017 market value	2017 %	2016 market value	2016 %	Comparison with 2016 Increase (decrease)	Comparison with 2016 %
stock	1,183,452	92.89	240,022	87.76	943,430	393.06
Beneficiary certificate	75,183	5.90	22,554	8.24	52,629	233.35
Convertible Bond	15,369	1.21	10,928	4.00	4,441	40.64
Total	1,274,004	100.00	273,504	100.00	1,000,500	365.81

4. Guarantee Business

Unit: NT$ million	2017 Amount	2017 %	2016 Amount	2016 %	Comparison with 2016 Increase (decrease)	Comparison with 2016 %
Balance of guarantees						
secured	48,812	48.94	46,105	47.63	2,707	5.87
unsecured	50,930	51.06	50,692	52.37	238	0.47
Total	99,742	100.00	96,797	47.63	2,945	3.04
Endorsement securities	0	-	0	-	0	-

Two. 2017 Operating Plan

I. Commercial Papers

1. Actively seek underwriting businesses of bills from reputable private and public sectors. Purchase bank issued NCDs to expand the source of bills and maintain the market leader position.
2. Enhance the operation in FRCP and UCCP and seek the opportunity for joint underwriting to stabilize the sources of bills and improve the interest spread. Engage in UCCP business in due time to reduce interest risks.
3. Fortify the channels for the circulation of non-guaranted bills and intensify the operation of bills by trade volume to upgrade the performance of capital use.
4. Expand trade channels so as to diversify risk and access to stable and low cost capital.

II. Bonds

1. Advance the breadth and depth of fundamental analysis so as to improve operation performance with technical analysis.
2. Keep concentrating on the monetary policy status of the central banks of major countries and study the trend in interest rates.
3. Pay much attention to variations in global politics and economics, invest in bonds denominated in foreign currency promptly and diversify the

sources of profits.

4. Enhance the education and training for the employee to improve their judgment ability of market trends.
5. Expand the trading counterparty and extend the transaction breadth.

III. Equity Investment

1. Keep abreast of the trend of international political and economic development for judgment of market trend and selection of industries and individual stocks.
2. Discussion on industrial trends and basic analysis of individual stocks as a reference for pricing in selling and buying.
3. Build up the cooperation relationship with the underwriting channels and endeavor for the case of the convertible bonds in the primary market.
4. Actively interact with major domestic security brokerage firms and seek the resources of asset swap target.
5. Effectively control credit risk and carefully select asset swap targets.

IV. Guarantee Business

1. Strictly control credit risk and ensure that claims are the top priority for guarantee business.
2. The market circumstances of the real estate is declining; the risks are rising. Cautiously select the construction companies and the collateral targets, control the credit granted to real estate industry.
3. Encourage quality customers to increase the utilization of the granted credit to secure the sources of income from guaranteed fees.
4. Explore new cases and syndicated loans to replace existing clientele with low profit margin.
5. Continue conducting information system integration and simplification to strengthen the efficiency of credit management.

Three. Market Analysis

I. Business Area

As of the end of 2017, the Company headquarters in Taipei and has five other branches located in Banqiao, Taoyuan, Taichung, Tainan, and Kaohsiung. Our business covers customers throughout the entire domestic market.

II. Future Market Supply and Demand

1. Commercial Papers

Looking forward to the year 2018, the global economy may recover steadily, the exports, private investment and consumption will keep stable. The growth of government expenditure will keep driving the demand for enterprises' operating funds. It is estimated that the issuance volume and market scale will keep growing slowly.

The global political and economic situation has been unpredictable for some time, which has caused increasing uncertainty to the financial market. The liquidity of money market instruments is good and has attracted enterprises in the private sector to park their idle capital. In addition, this also satisfied the needs of banks, life insurance companies and investment trust firms in asset allocation and liquidity reserve. It is expected that the trade volume and market size will pick up momentum gradually.

2. Bond business

Regarding the supply of bonds, the issuance volume of government bonds in 2018 will be at the same level as of last year. Corporate bonds, because of the demand for re-financing and investment, will keep a certain amount of issuance. Regarding the demand for bonds, the ultimate holders of bonds such as life insurance companies, Chunghwa Post Co., Ltd. and banks will invest on bonds mainly based on assets allocation. The demand for purchasing the bonds by the security industry and bills industry will earn the interest and transactions. The overall financial system is full of funds, and the financial institutions will keep a primary demand for supplementary bonds.

The competent authorities keep promoting the international bonds business in recent years, allowing the securities firms to trade foreign securities and the life insurance companies to invest in international bonds and not be included in the limitation of foreign investments, which will assist in diversifying the development of the bonds business.

3. Equity Investment

Looking at the stock market of 2018, the U.S. will keep raising the interest rate; China will also expand its economic influence. The trend of the short-term market is still positive but should concentrate on the pattern of tightening the money supply and the economic growth slowing down in the second half of this year. It's better to control the investment amount carefully.

4. Guarantee Business

The Central Bank has cut the interest rate 4 times from 2015 to the end of 2016 that made the interest rate second lowest on record. Free capital is still flowing in the market in 2018 while the price competition among financial institutions is still acute. There is no sign of recovery, so the Company adopts the conservative policy with sustainability as the core strategy in guarantee business. Customers with low return will be replaced by new business and syndicated loans for stable sources of profit. At the same time, the quality and quantity of loans could be improved with better spread.

Four. Long-term and Short-term Business Development Plan

I. Short-term Business Development Plan

1. Commercial Papers

(1) Adjust bills portfolio and duration based on the capital market status to reduce liquidity risk and increase the profits of bills.
(2) Increase the trade ratio of non-financial institution clients in the secondary market and expand sources of funds.
(3) Actively improve connections with reputable private and public sectors and seek underwriting business of non- guaranteed bills.
(4) Continue to establish the FRCP and UCCP positions and seek business opportunities of syndicated opportunities of syndicated underwriting.

2. Bonds

(1) Control the portfolio of bond yielding and DV01 and take into account the benefits and risks.
(2) Establish positions of FRNs, diversify the source of revenue and strictly control risk.

3. Equity Investment

(1) Keep abreast of the trend of the industry from upstream to downstream, take cautious selection of individual stocks, and exercise teamwork.
(2) Study individual stocks in-depth and keep abreast of the trends of profiting to the companies.

4. Guarantee Business

(1) Improve self-guaranteed credit renewal ratio and stabilize the sources of income from handling fees.
(2) Simultaneously develop new clients and grant additional quota to existing quality clients.
(3) Carefully select the liquidity of collaterals and take into account income and guarantee.
(4) Direct the arrangement of syndicated loans through the advantage of interest rate.

II. Long-term Business Development Plan

1. Commercial Papers and Bonds

(1) Strictly control risk and flexibly adjust financial assets and liabilities

operational direction and hedging strategies in response to the significant changes in the economy.

(2) Study new products of interest rate businesses and actively seek opportunities to participate in the market in response to the open policy of the competent authorities.

(3) Strengthen employees' multi-trading technical skills and cultivate professional traders in the fixed-income products market.

2. Equity Investment

(1) Help researchers to accumulate their capabilities to select stocks and enhance their abilities to master the trend of individual stock so they can select ideal stocks among various choices.

(2) Integrate the aspects of research, market as well as operation and enhance the operations based on fair value measured through other comprehensive profit and loss so that the investment team can maintain stable investment profits.

3. Guarantee Business

(1) Segment target customers and develop potential clients to broaden the depth and width of the Company's clientele.

(2) Reduce non-productive management costs and improve ROA through customer restructuring.

(3) Continue to improve the quality of credit assets and obtain excess escrow reserve to provide the foundation of future business promotion.

(4) Train a vast amount of new employees in credit business to strengthen the marketing force.

IV. Financial Statements

Deloitte.

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INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders
China Bills Finance Corporation

Opinion

We have audited the accompanying financial statements of China Bills Finance Corporation (the Company), which comprise the balance sheets as of December 31, 2017 and 2016, and the statements of comprehensive income, changes in equity and cash flows for the years then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and its financial performance and its cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Public Bills Finance Firms, Regulations Governing the Preparation of Financial Reports by Securities Firms 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 standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company 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 financial statements for the year ended December 31, 2017. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Assessment of Reserve for Guarantee Liabilities

Description:

Please refer to Notes 4, 5 and 19 for relevant information on the assessment of reserve for guarantee liabilities. When deciding whether to assess the adequacy for reserve of guarantee liabilities, the Management focuses on if the reserve of guarantee liabilities was likely to occur and the possible cash inflow that may arise after the resulting guaranty obligation. The management also performs evaluation and classification of credit assets and reserve for guarantee liabilities set aside by a bills finance company in accordance with the "Regulations Governing the Procedures for Bills Finance Companies to Evaluate Assets, Set Aside Loss Reserves, and Handle Non-Performing Credit, Non-Accrual Loans, and Bad Debt". The evaluation process is inherently judgmental, and the evaluation and classification of credit assets will affect the amount of the reserve for guarantee liabilities; therefore, we consider reserve for guarantee liabilities as a key audit matter.

Our response to this key audit matter:

- We documented and assessed the design and implementation of controls in place for the Company's assessment of adequacy of reserve for guarantee liabilities.

- We evaluated the completeness of the balance of commercial paper exposed to guarantee liabilities to the provision for loss on guarantee as shown on the loss reserves evaluation report.

- We reviewed the management's calculation of the value of collateral of specific impairment of credit assets and we also checked the collateral was categorized properly on the loss reserves evaluation report.

- We recalculated the amount of reserve for guarantee liabilities shown on the provision for loss reserves evaluation report to confirm the mathematical accuracy of provision for loss reserves.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Public Bills Finance Firms, Regulations Governing the Preparation of Financial Reports by Securities Firms 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 financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's 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 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's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 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 financial statements.

As part of an audit in accordance with 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 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's 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's 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 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 to cease to continue as a going concern.

5. Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

The engagement partners on the audit resulting in this independent auditors' report are Jui-Chan Huang and Chen-Hsiu Yang.

Deloitte & Touche
Taipei, Taiwan
Republic of China

February 26, 2018

Notice to Readers

The accompanying financial statements are intended only to present the 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 financial statements are those generally applied in the Republic of China.

For the convenience of readers, the independent auditors' report and the accompanying 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 financial statements shall prevail.

CHINA BILLS FINANCE CORPORATION

BALANCE SHEETS
DECEMBER 31, 2017 AND 2016
(In Thousands of New Taiwan Dollars)

	2017		2016	
ASSETS	**Amount**	**%**	**Amount**	**%**
CASH AND CASH EQUIVALENTS (Notes 4 and 6)	$ 307,501	-	$ 334,499	-
DUE FROM THE CENTRAL BANK AND CALL LOANS TO BANKS (Note 7)	-	-	1,023,091	-
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (Notes 4, 8 and 32)	111,377,286	51	107,982,899	53
SECURITIES PURCHASED UNDER RESELL AGREEMENTS (Notes 4, 9 and 31)	5,682,864	3	200,092	-
RECEIVABLES, NET (Notes 4 and 10)	1,249,639	1	1,276,545	1
CURRENT TAX ASSETS (Notes 4 and 29)	246,136	-	119,050	-
AVAILABLE-FOR-SALE FINANCIAL ASSETS (Notes 4 and 11)	98,011,594	44	90,637,886	45
OTHER FINANCIAL ASSETS, NET (Notes 4, 5 and 12)	173,478	-	177,924	-
PROPERTY AND EQUIPMENT, NET (Notes 4 and 13)	155,116	-	157,643	-
DEFERRED TAX ASSETS (Notes 4 and 29)	109,557	-	105,326	-
OTHER ASSETS, NET (Notes 4, 14 and 32)	3,099,233	1	1,324,136	1
TOTAL	$ 220,412,404	100	$ 203,339,091	100
LIABILITIES AND EQUITY				
CALL LOANS FROM BANKS AND OVERDRAFTS ON BANKS (Note 15)	$ 18,137,720	8	$ 14,822,790	7
FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS (Notes 4 and 8)	8,624	-	27,883	-
SECURITIES SOLD UNDER REPURCHASE AGREEMENTS (Notes 4, 16 and 31)	173,976,038	79	161,213,032	79
ACCOUNTS PAYABLE (Notes 4 and 17)	475,561	-	689,356	1
COMMERCIAL PAPER ISSUED, NET (Note 18)	2,999,557	2	2,499,824	1
PROVISIONS (Notes 4, 5 and 19)	1,524,181	1	1,530,697	1
DEFERRED TAX LIABILITIES (Notes 4 and 29)	93	-	5,645	-
OTHER LIABILITIES	265,698	-	112,806	-
Total liabilities	197,387,472	90	180,902,033	89
EQUITY (Notes 4 and 21)				
Ordinary share capital	13,429,600	6	13,429,600	7
Capital surplus	2,474	-	2,474	-
Retained earnings				
Legal reserve	6,875,543	3	6,388,388	3
Special reserve	769,120	-	769,120	-
Unappropriated earnings	1,365,082	1	1,623,851	1
Total retained earnings	9,009,745	4	8,781,359	4
Other equity	583,113	-	223,625	-
Total equity	23,024,932	10	22,437,058	11
TOTAL	$ 220,412,404	100	$ 203,339,091	100

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

CHINA BILLS FINANCE CORPORATION

STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2017		2016	
	Amount	%	Amount	%
NET INTEREST				
Interest revenues (Notes 4 and 22)	$ 1,980,066	94	$ 1,962,670	85
Deduct: Interest expenses (Notes 4, 22 and 31)	(821,148)	(39)	(683,459)	(30)
Net interest	1,158,918	55	1,279,211	55
NET REVENUES OTHER THAN INTEREST				
Commissions and fee revenues, net (Notes 4, 23 and 31)	887,351	42	923,114	40
Gain on financial assets and liabilities at fair value through profit or loss (Notes 4, 8, 24 and 31)	101,707	5	78,728	3
Realized gain or loss on available-for-sale financial assets (Notes 4, 21 and 25)	(3,785)	-	11,038	1
Foreign exchange gain, net (Note 4 and 26)	(59,955)	(3)	6,710	-
Impairment loss recognize on financial assets measured at cost, net (Notes 4 and 12)	(4,448)	-	(884)	-
Other non-interest gain, net (Note 4)	15,158	1	14,578	1
TOTAL NET REVENUES	2,094,946	100	2,312,495	100
PROVISIONS (Notes 4, 5 and 10)	7,283	1	184,790	8
OPERATING EXPENSES (Notes 20, 27, 28 and 31)				
Personnel expenses	(340,570)	(16)	(349,737)	(15)
Depreciation and amortization	(8,697)	(1)	(9,829)	(1)
Others	(126,759)	(6)	(137,718)	(6)
Total operating expenses	(476,026)	(23)	(497,284)	(22)
INCOME BEFORE INCOME TAX	1,626,203	78	2,000,001	86
INCOME TAX EXPENSE (Notes 4 and 29)	(275,139)	(13)	(366,483)	(16)
NET INCOME FOR THE YEAR	1,351,064	65	1,633,518	70

(Continued)

CHINA BILLS FINANCE CORPORATION

STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2017		2016	
	Amount	%	Amount	%
OTHER COMPREHENSIVE INCOME				
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit plans (Notes 4 and 20)	$ 6,516	-	$ (18,290)	(1)
Income tax relating to items that will not be reclassified subsequently to profit or loss (Notes 4, 20 and 29)	(1,108)	-	3,110	-
	5,408	-	(15,180)	(1)
Items that may be reclassified subsequently to profit or loss:				
Unrealized gain on available-for-sale financial assets (Notes 4 and 21)	349,899	17	(451,960)	(19)
Income tax relating to items that may be reclassified subsequently to profit or loss (Notes 4 and 29)	9,589	-	-	-
Other comprehensive income for the year, net of income tax	364,896	17	(467,140)	(20)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	$ 1,715,960	82	$ 1,166,378	50
EARNINGS PER SHARE (NEW TAIWAN DOLLARS; Note 30)				
Basic	$1.01		$1.22	
Diluted	$1.01		$1.21	

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

CHINA BILLS FINANCE CORPORATION

STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(In Thousands of New Taiwan Dollars)

	Ordinary Share Capital (Notes 4 and 21)	Capital Surplus (Notes 4 and 21)	Retained Earnings (Notes 4 and 21)			Unrealized Gain (Loss) on Available-for-sale Financial Assets (Notes 4 and 21)	Total Equity
			Legal Reserve	Special Reserve	Unappropriated Earnings		
BALANCE AT JANUARY 1, 2016	$ 13,429,600	$ 2,474	$ 5,908,315	$ 769,120	$ 1,600,243	$ 675,585	$ 22,385,337
Legal reserve	-	-	480,073	-	(480,073)	-	-
Cash dividends distributed	-	-	-	-	(1,114,657)	-	(1,114,657)
Net income for the year ended December 31, 2016	-	-	-	-	1,633,518	-	1,633,518
Other comprehensive income for the year ended December 31, 2016	-	-	-	-	(15,180)	(451,960)	(467,140)
Total comprehensive income for the year ended December 31, 2016	-	-	-	-	1,618,338	(451,960)	1,166,378
BALANCE AT DECEMBER 31, 2016	13,429,600	2,474	6,388,388	769,120	1,623,851	223,625	22,437,058
Legal reserve	-	-	487,155	-	(487,155)	-	-
Cash dividends distributed	-	-	-	-	(1,128,086)	-	(1,128,086)
Net income for the year ended December 31, 2017	-	-	-	-	1,351,064	-	1,351,064
Other comprehensive income for the year ended December 31, 2017	-	-	-	-	5,408	359,488	364,896
Total comprehensive income for the year ended December 31, 2017	-	-	-	-	1,356,472	359,488	1,715,960
BALANCE AT DECEMBER 31, 2017	$ 13,429,600	$ 2,474	$ 6,875,543	$ 769,120	$ 1,365,082	$ 583,113	$ 23,024,932

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

CHINA BILLS FINANCE CORPORATION

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(In Thousands of New Taiwan Dollars)

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	$ 1,626,203	$ 2,000,001
Adjustments for:		
Recognition of provisions and bad-debt expenses	-	42,500
Valuation of financial assets and liabilities at fair value through profit or loss	21,235	80,420
Depreciation expenses	6,768	7,341
Amortization expenses	1,929	2,488
Interest revenues	(1,980,066)	(1,962,670)
Interest expenses	821,148	683,459
Impairment loss recognize on financial assets measured at cost, net	4,448	884
Loss on disposal of property and equipment	(74)	71
Changes in operating assets and liabilities		
(Increase) decrease in financial assets at fair value through profit or loss	(3,434,881)	8,315,461
(Increase) decrease in securities purchased under resell agreements	(5,482,772)	3,899,908
Decrease in interest and bond receivables	42,984	32,387
Increase in available-for-sale financial assets	(7,013,434)	(7,280,270)
Increase in other financial assets	(2)	(3)
Decrease (increase) in other assets	(80)	16,478
Increase (decrease) in securities sold under repurchase agreements	12,763,006	(10,025,064)
Decrease in accounts payable	(223,896)	(696,306)
Increase in other liabilities	152,892	37,028
Interest received	1,963,988	1,875,688
Interest paid	(811,314)	(679,756)
Income tax paid	(413,116)	(327,805)
Net cash used in operating activities	(1,955,034)	(3,977,760)
CASH FLOWS FROM INVESTING ACTIVITIES		
Increase in other assets	(1,777,732)	(149,847)
Payments for property and equipment	(4,550)	(7,247)
Proceeds from disposal of property and equipment	383	113
Net cash used in investing activities	(1,781,899)	(156,981)
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in call loans from banks and overdrafts on banks	3,314,930	3,812,790
Increase in commercial paper payable	500,000	2,500,000
Dividends paid	(1,128,086)	(1,114,657)
Net cash generated from financing activities	2,686,844	5,198,133

(Continued)

CHINA BILLS FINANCE CORPORATION

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(In Thousands of New Taiwan Dollars)

	2017	2016
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	$ (1,050,089)	$ 1,063,392
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	1,357,590	294,198
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	$ 307,501	$ 1,357,590

Reconciliation of the amounts in the statements of cash flows with the equivalent items reported in the balance sheets at December 31, 2017 and 2016:

	2017	2016
Cash and cash equivalents in balance sheets	$ 307,501	$ 334,499
Due from the Central Bank and call loans to banks	-	1,023,091
Cash and cash equivalents in statements of cash flow	$ 307,501	$ 1,357,590

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

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