

2018 ANNUAL REPORT

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CHINA BILLS FINANCE CORPORATION

2018 ANNUAL REPORT

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Chian Bills Finance Corporation(CBF) has operated since December 1, 1978. The principal activities of CBF include :

- 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.

Through the end of 2018, total assets amounted to NT\$199,531 million, and the net worth NT\$23,298 million.

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I. Message to Shareholders

One. Performance Report of 2018

I. Domestic and foreign economic environment in 2018

The global economic growth momentum continued to increase in 2018. According to the latest forecast by IHS Markit in February 2019, the global economic growth rate was 3.2% in 2018, less than 3.3% in 2017.

For the time being, the international economy still needs to deal with multiple risk variables to be noted, including the movement of the economic and trade policies adopted in the U.S.A., increasing trading conflict between China and the U.S.A., localization of supply chains and structural adjustment in China, negotiation for Brexit between Britain and the EU, geopolitical risk, changes in the price of international crude oil and bulks, global financial market and stock/foreign exchange market volatility, and the trade protectionism. The international economic vision varies depending on all of these variables.

Led by the semi-conductor production process and driven by application of the emerging technology, Taiwan's export growth momentum remained the same in 2018. Notwithstanding, the global economic expansion became sluggish gradually and thereby affected the growth momentum. Though the employment and salary were improving, the stock market turmoil affected consumers' confidence adversely. The investment projects for semiconductor and such green energy as offshore wind power are still pending. Meanwhile, the government continued to boost the Forward-Looking Infrastructure Development Program, improve the investment environment, and continue to promote the expansion of investment. The international crude oil price declination and termination of the tobacco tax effects helped mitigate the burden imposed by the increasing commodity price domestically. The Directorate-General of Budget, Accounting and Statistics, Executive Yuan forecast in February 2019 that the economic growth rate should attain 2.63% in 2018.

II. Change of the Organizational Structure

Nil

III. Performance Report

(I) Primary Market Transactions

1. Commercial Paper Certification and Underwriting

The Company had 9,516 commercial papers certified and underwritten in 2018, an increase of 476 commercial papers (or 5.27%) over the year 2017. The total transaction amount was NT\$1,719,138 million, an increase of NT\$56,022 million (or 3.37%) over the year 2017. The outstanding balance of commercial paper certified and underwritten by the Company amounted to NT\$214,861 million as of the end of 2018.

2. Outstanding Balance of Guarantee

As of December 31, 2018, the guaranteed balance of the Company's commercial paper amounted to NT\$104,435 million, an increase of NT\$4,693 million (or 4.71%) over the year 2017.

3. The initial Purchase of NTD Bills

The Company had the initial purchase of NTD bills of NT\$245,902 million in 2018, a decrease of NT\$67,575 million (or -21.56%) over the year 2017.

(II) Secondary Market Transactions

The bills traded in the secondary market amounted to NT\$4,138,693 million in 2018, representing a decrease of NT\$26,758 million (or -0.64%) over the year 2017.

(III) NTD Government Bonds

The Company's government bonds trading amounted to NT\$913,096 million in 2018, a decrease of NT\$154,945 million (or -14.51%) over the year 2017.

Regarding trading types, the Repo trading amounted to NT\$874,796 million, accounting for 95.81% of the total trades and representing a decrease of NT\$99,795 million (or -10.24%) over the year 2017. The Outright purchases/sales amounted to NT\$38,300 million, accounting for 4.19% of the total trades and representing a decrease of NT\$55,150 million (or -59.02%) over the year 2017.

(IV) NTD Bank Debentures

The Company's bank debentures trading totaled to NT\$219,572 million in 2018, a decrease of NT\$13,447 million (or -5.77%) over the year 2017.

Regarding trading types, the Repo trading amounted to NT\$213,172 million, accounting for 97.09% of the total trades and representing a decrease of NT\$17,107 million (or -7.43%) over the year 2017. The Outright purchases/sales amounted to NT\$6,400 million, accounting for 2.91% of the total trades and representing an increase of NT\$3,660 million (or 133.58%) over the year 2017.

(V) NTD Corporate Bonds

The Company's corporate bonds trading totaled NT\$1,516,761 million in 2018, a decrease of NT\$130,369 million (or -7.91%) over the year 2017.

In terms of trading types, the Repo trading amount was NT\$1,485,388 million, accounting for 97.93% of the total trades and representing a decrease of NT\$120,026 million (or -7.48%) over the year 2017. The Outright purchases/sales amount was NT\$31,373 million, accounting for 2.07% of the total trades and representing a decrease of NT\$10,343 million (or -24.79%) over the year 2017.

(VI) Foreign Currency Bonds

The Company's foreign bonds trading total was US\$ 8,409 million in 2018, representing an increase of US\$638 million(or 8.21%) over the year 2017.

Regarding trading types, the Repo trading of international bonds amounted to US\$264 million, accounting for 94.29% of the total trades and representing an increase of US\$262 million (or 13100.00%) over the year 2017. The Outright purchases/sales of international bonds amounted to US\$16 million, accounting for 5.71% of the total trades and representing a flat growth over the year 2017. The Repo trading of foreign bond amounted to US\$7845 million, accounting for 96.51% of the total trades and representing an increase of US\$380 million (or 5.09%) over the year 2017. The Outright purchases/sales of foreign bonds trading amounted to US\$284 million, accounting for 3.49% of the total trades and representing a decrease of US\$4 million (or-1.39%) over the year 2017.

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

In terms of the income, the revenue was NT\$1,977,208 thousand in 2018: The net interest income was NT\$971,688 thousand, the commissions and fee revenue was NT\$873,548 thousand, the net income from financial assets and liabilities at fair value through profit or loss NT\$51,257 thousand, the revenue from realization of other comprehensive financial assets at fair value through profit or loss NT\$57,259 thousand, and the non-interest net income NT\$23,456 thousand.

In 2018, the increasing in the capital cost and the intensive inter-bank competition affected the interest spread of bills and bonds and also narrowed the margins to profitability. Besides, the Sino-China trade dispute caused chaos in stock market and affected the performance of trading position. Notwithstanding, with the efforts by the Company's whole staff in developing customers, the main business lines, including underwriting of commercial paper and outstanding balance of guarantee, kept growing.

In terms of deposit/withdrawal operations, the various reversals were NT\$131,603 thousand in 2018, primarily due to reversal of the repayment of loan by accounts whose credit was demoted to guarantee liability allowance. The operating expenses were 478,583 thousand. Under the strict control, the expenditure was less than the budget.

In terms of earnings, the earnings before tax were NT\$1,630,228 thousand, net earnings after tax NT\$1,335,419 thousand, and EPS NT\$0.99 in 2018. The budget achievement rate was 101%. Further, in consideration of the adoption of IFRS No. 9, the equity product available for sale was stated as the "equity instrument at fair value through other comprehensive income" instead. With the gains from disposition of said products, NT\$93,133 thousand, the budget achievement rate became 104%.

V. Research and Development

In line with the FinTech trend prevailing in the financial industry, various innovative financial products have been released in the most recent years. The Company is also working hard to plan the innovative financial products that meet the characteristics of the bills industry, research the feasibility of the bond and bill trading platform and CP2CP, in hopes of releasing the innovative financial services which may satisfy customer needs.

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 2018 the Company has a total of 148 employees and has sent 2,882 headcounts for training (5,963 hours), or an average of 19 training (40 hours) per employee, annually.

Two. 2019 Business Plan Outline

I. Business Policy

- Continue the replacement of old self-guarantee loan accounts with new ones to make up the relevant deficiencies.
- Use the best efforts to expand the bond yielding position and take the chance to adjust foreign currency bond structures to balance profit and risk at the same time, and maintain the yielding interest spread as required.
- Enhance resolution of the relationship with the securities firms of convertible bond to strive for and expand excellent sources of securities.
- Establish the stock FV OCI positions in a timely manner; enhance the industrial trend analysis for the trading positions, and search the most promising individual stocks to access the market actively.
- Nourish clients' relationship of secondary market through advertising.

II. Business Target

Operating targets of the main businesses in 2019 are based on domestic and foreign economic situation and industrial environment estimates:

- Daily average outstanding of guaranteed commercial papers issuance amounted to NT\$105 billion.
- Annual average short-term bills underwriting and initial purchase amounted to NT\$257.4 billion.
- Annual average repo trading amounted to NT\$168.4 billion.
- Capital adequacy ratio will be not less than 12.5%.

III. Significant Operating Policy and Future Development Strategies

Please refer to Page 107~108 of this annual report for the long-term and short-term business development plan.

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

Domestically, the long-term monetary easing policy remains. Since the valued customers are a minority in quantity to strive for, it is expected the financial market will maintain intensive competition.

In order to keep in line with the international trend, the competent authority has successively implemented the new policies for personal information protection, anti-money laundering and countering of terrorism financing, and common reporting standards in the recent years. Besides, the competent authority focused on the legal compliance and corporate governance. Accordingly, the Company constructed and optimized various legal compliance mechanisms, and also invested additional resources, in order to upgrade the performance of legal compliance.

Given the sluggish global economic growth in 2018, the domestic economy appears to grow mildly. Looking forward to 2019, in consideration of the increasing uncertain factors, such as geopolitical conflict and Sino-US trade dispute, some international organizations forecast that the Macroeconomics financial performance adversely in 2019.

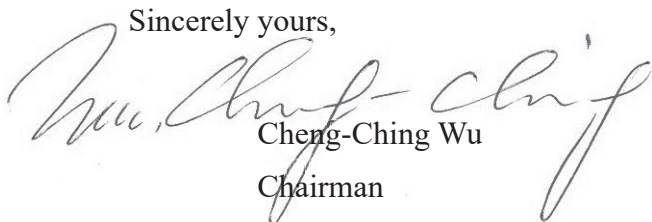
The Company will further its effort in its core business and will work even harder in earnest to bolster risk management and efficiency of capital use so as to upgrade its competitive power and operation performance and mitigate the impact from the external environment. For information on the assessment of influence in various forms, refer to Page 104~106 of this report.

Four. The Updated Rating

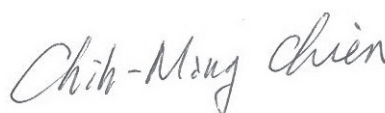
Fitch Ratings, Ltd., Taiwan Branch affirmed on July 17, 2018 the Company's ratings as follow: National long-term rating "A+(twn)", National short-term rating "F1(twn)" and the long-term outlook "Stable".

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

Sincerely yours,



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.

The principal activities of CBF include□

- 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.

Two. Corporate Milestones

1976

- In February, the Ministry of Finance sent a letter to Bank of Communications asking the Bank to found Bills Finance Corporation.

1978

- On April 10, the Founding Taskforce Committee convened by the Bank of Communications applied with Ministry of Finance for founding Bills Finance Corporation.

- On July 13, the Ministry of Finance authorized in writing that the shareholders should consist of the 7 entities including Bank of Communications, Central Investment Holding, Taiwan Power Company, CPC Corporation, CHB, Cathay United Bank, and National Bank of Detroit, a US-based company, and also authorized said shareholders' share subscription percentages. The paid-in capital was NT\$200 million.

- On September 6, the Company was named as “China Bills Finance Corporation” officially upon written authorization by Ministry of Finance. After the paid-in capital was fully paid, the Company held a shareholders' meeting to elect the directors and supervisors of 1st term. Mr. Hui-Fu Chen was elected as the Chairman and Mr. Zong-Han Zhang was elected as the President. Meanwhile, the company registration and business registration were completed.

- On December 1, start business officially.

1980

- On September 11, cash capital increase by NT\$75 million, recapitalization from earnings by NT\$25 million, and paid-in capital amounting to NT\$300 million.

1981

- On March 10, cash capital increase by NT\$50 million, and paid-in capital amounting to NT\$350 million.
- In July, cash capital increase by NT\$50 million, and paid-in capital amounting to NT\$400 million.
- On October 24, Kaohsiung Branch started business officially.
- In December, cash capital increase by NT\$50 million, and paid-in capital amounting to NT\$450 million.

1982

- On March 26, the authorized capital stock adjusted as NT\$800 million, recapitalization from 1981 earnings by NT\$134.75 million, and paid-in capital amounting to NT\$584.75 million.
- On September 25, Taichung Branch started business officially.
- On November 15, Headquarters moved to the new premises at 6&7F of Taipei Financial Center, No. 64, Dunhua N. Rd., Taipei City

1983

- On March 23, recapitalization from 1982 earnings by NT\$115.25 million, and paid-in capital amounting to NT\$700 million.
- On June 18, Tainan Branch started business officially.

1984

- On February 1, the new Chairman, Mr. Song-Gao Gu, assumed the office.

1985

- On January 1, the new President, Mr. Tong-De Xu, assumed the office.

1986

- On March 25, recapitalization from 1985 earnings by NT\$48 million, and paid-in capital amounting to NT\$748 million.

1987

- On April 14, recapitalization from 1986 earnings by NT\$52 million, and paid-in capital amounting to NT\$800 million.

1988

- On April 12, the authorized capital stock adjusted as NT\$1.2 billion, recapitalization from 1987 earnings by NT\$100 million, and paid-in capital amounting to NT\$900 million.
- On October 26, the equity of National Bank of Detroit was transferred to Mr. Wan-Cai Cai and Shen Yuan Investment Co., Ltd. wholly. The equity represented by Director Jui-Zhi Jan was transferred wholly. Therefore, he was discharged from the position as director pursuant to laws.

1989

- On April 1, the former Chairman, Mr. Song-Gao Gu, retired compulsorily. On the same day, the new Chairman, Mr. Long-Tao Qian, assumed the office.
- On April 17, recapitalization from 1988 earnings and special reserve by NT\$215 million in total, and paid-in capital amounting to NT\$1.115 billion.
- On June 17, Taoyuan Branch started business officially.
- On July 22, the Company rented 5F of Taipei Financial Center additionally to expand its business.

1990

- On May 4, Director Wan-Cai Cai transferred his equity to Zhong Xing Investment Co., Ltd. and Fubon Investment Co., Ltd. wholly. Therefore, he was discharged from the position as director pursuant to laws.
- On June 16, the authorized capital stock adjusted as NT\$2.4 billion, recapitalization from 1989 earnings and special reserve by NT\$385 million in total, and paid-in capital amounting to NT\$1.5 billion.
- On July 25, Banqiao Branch started business officially.

1991

- On March 30, recapitalization from 1990 earnings by NT\$500 million, and paid-in capital amounting to NT\$2 billion.
- On May 1, the former President, Mr. Tong-De Xu, retired compulsorily. On the same day, Vice President, Mr. Run-Sun Fu, was promoted to assume the office of President. □ On August 1, Changhua Branch started business officially.

1992

- In February, in order to meet the operational needs and take care of the shareholders' equity, the Company appointed Grand Cathay Securities Corporation as the leading underwriter responsible for the pre-listing tutorship for the Company.
- On March 28, the authorized capital stock adjusted as NT\$3.6 billion, recapitalization from 1991 earnings and special reserve by NT\$700 million in total, and paid-in capital amounting to NT\$2.7 billion.
- In July, the Company acquired the whole building situated at No. 14, Sec. 2, Dunhua S. Rd., Daan District, Taipei City as the Headquarters' new business place.

1993

- On April 28, recapitalization from 1992 earnings and special reserve by NT\$700 million in total, and paid-in capital amounting to NT\$3.4 billion.
- On September 1, the former Chairman, Mr. Long-Tao Qian, retired compulsorily. On the same day, Central Investment Holding reappointed Wei-Zhong Xue, Jun Zhang, Da-Hou Lin and Liang Zhang as its corporate shareholders' representatives, and nominated Mr. Wei-Zhong Xue as the candidate for managing director and Chairman of the Board. On the same day, the Board of Directors of 5th term held the first special directors'/supervisors' meeting to reelect the directors, Mr. Wei-Zhong Xue and Mr. Jun, Zhang as the managing directors, and held the managing directors' meeting to elect the managing director, Mr. Wei-Zhong Xue, to succeed to the position as Chairman.

1994

- On March 28, Headquarters moved to the China Bills Finance Corporation Building at No. 14, Sec. 2, Dunhua S. Rd., Taipei City to continue carrying out business.
- On April 23, recapitalization from 1993 earnings and special reserve by NT\$650 million in total, and paid-in capital amounting to NT\$4.05 billion.
- On May 24, TWSE Securities Listing Review Committee approved the Company's listing on TWSE.
- On October 24, the Company held the special shareholders' meeting to reelect directors/ supervisors. In order to satisfy the need for listing, the directors representing CP Corporation and Taiwan Power Company (TPC) offered a majority of their equity for public underwriting and, therefore, the directors were discharged from the position pursuant to laws. Mr. Ming-Xin Cai and Mr. Chuan-Jiong Zheng were reelected to succeed to the office. Meanwhile, the Company's largest shareholder, Development Fund Management Committee of Executive Yuan, redeemed the equity which the Central Investment Holding was initially appointed to invest in the Company in whole. As a result, the directors and supervisors representing the Central Investment Holding were re-appointed to represent the Development Fund Management Committee of Executive Yuan. Upon the election, all of them were also elected as directors and supervisors, and Mr. Wei-Zhong Xue and Mr. Jun Zhang were still elected as the managing directors. Managing Director Wei-Zhong Xue was elected by and among the directors as the Chairman of Board, and Mr. Da-Hou Lin as the standing supervisor. In other words, the entire management responsible for decision making remained with no material changes.
- On October 26, the Company started to trade on TWSE officially.

1995

- On April 17, recapitalization from 1994 earnings and capital surplus by NT\$850 million in total, cash capital increase by NT\$1 billion, and paid-in capital amounting to NT\$5.9 billion.

1996

- On April 30, recapitalization from 1995 earnings and capital surplus by NT\$1.1 billion in total, cash capital increase by NT\$2 billion, and paid-in capital amounting to NT\$9 billion.

1997

- On May 1, Bond Dept. was established and dedicated to the proprietary operations of government bonds.
- On May 28, recapitalization from 1996 earnings and capital surplus by NT\$1.5 billion in total, cash capital increase by NT\$2 billion, and paid-in capital amounting to NT\$12.5 billion.
- On July 12, the Company was held qualified for participating in the tender submission for government bonds directly as a trader of Central Government Bonds (CGBs).

1998

- On March 12, Taiwan Ratings granted the Company's long-term credit rating as "twA", and short-term credit rating as "twA-2". The Company was the first bills financing corporation receiving the credit ratings from the credit ratings organization in Taiwan.
- On April 29, recapitalization from 1997 earnings and capital surplus by NT\$1.95 billion in total, and paid-in capital amounting to NT\$14.45 billion.

- On July 14, Ministry of Finance permitted the Company to engage in the hedging transactions against NTD IRS and NTD FRA. As a result, the Company held additional hedging tool and also became the first bills finance company permitted to engage in such operations in Taiwan.

- On December 1, the Company organized its 20th anniversary celebration party at Grand Hyatt, and published the “China Bills Finance Special Edition for 20th Anniversary” available to the various sectors by upholding the management philosophy for “Gratitude, Cherishment and Improvement”.

1999

- On April 23, Taiwan Ratings announced its annual credit rating reports. The Company’s long-term ratings remained as “twA” and short-term credit ratings as “twA-2”.

- On May 20, recapitalization from 1998 earnings and capital surplus by NT\$2.07 billion in total, and paid-in capital amounting to NT\$16.52 billion.

2000

- On March 22, the former President, Mr. Run-Sun Fu, retired. The Vice President, Mr. Gao-Ming Cai, was promoted to assume the office as President.

- On May 8, Taiwan Ratings announced its annual credit rating reports. The Company’s long-term ratings remained as “twA” and short-term credit ratings as “twA-2”.

- On July 27, the Company adjusted its organizational structure and added Planning Department, Information Technology Department and Legal & Compliance Department.

- On September 7, recapitalization from 1999 earnings and capital surplus by NT\$680 million in total, and paid-in capital amounting to NT\$17.2 billion.

2001

- On February 1, Changhua Branch was terminated and consolidated to Taichung Branch.

- On March 14, treasury stock totaling 41,300,000 was annulled, and the capital decreased by NT\$413 million in total. After that, the paid-in capital became NT\$16.787 billion. The registration of changes was approved by Ministry of Economic Affairs via its letter under (99) Shang-Zi No. 09001083080, and the company license was re-issued accordingly.

- On June 5, Taiwan Ratings announced its annual credit rating reports. The Company’s long-term ratings remained as “twA” and short-term credit ratings as “twA-2”.

- On June 12, Mr. Guo-Xiong Zhuang, who was appointed as the Company's corporate shareholder's representative on behalf of the Bank of Communications and also the Company's director concurrently, was succeeded by Mr. Feng-Yi Huang. On June 14, he was elected as the managing director at the 1st special meeting of the Board of Directors of 8th term.

- On July 25, Mr. Wei-Zhong Xue, who was appointed to act as the Company's corporate shareholder's representative on behalf of the Development Fund Management Committee of Executive Yuan and also the Company's director concurrently, was succeeded by Mr. Jian-Cheng Zeng. On the same day, he was elected as the managing director and also Chairman of Board at the 2nd special meeting of the Board of Directors of 8th term and 1st special meeting of the Board of Managing Directors of 8th term.

- On July 25, Mr. Alex Guo-Cheng Tu, who was appointed to act as the Company's corporate shareholder's representative on behalf of National Development Fund of Executive Yuan and also the Company's supervisor concurrently, was discharged from the position, and his successor would be re-appointed in writing separately.

- On July 25, the former President, Mr. Gao-Ming Cai, and the former Vice President, Mr. Huang Jin-Dui, resigned. Then, Mr. Ji-Cun Li and Mr. Alex Guo-Cheng Tu were appointed as the successors.

- On August 13, the Company's director, Mr. Jin-Dui Huang, resigned. On October 20, Mr. Alex Guo-Cheng Tu, who was appointed to act as the Company's corporate shareholder's representative on behalf of the Development Fund Management Committee of Executive Yuan and also the Company's supervisor concurrently, was succeeded by Mr. Qing-Qi Lai.

- On December 19, the Company's director, Mr. Gao-Ming Cai, resigned.

- On December 28, Mr. Han-Liang Wu, who was appointed to act as the Company's corporate shareholders' representative on behalf of Cathay United Bank and also the Company's director, was succeeded by Mr. Qian-Zhi Chen.

2002

- On March 6, the Company adjusted its organizational framework, added Operations Dept., and consolidated Accounting Department and Planning Department into Administration Department and Sales Department respectively.

- On April 3, Mr. Feng-Yi Huang and Ms. Zi-Fang Liu Yang, the Company's corporate shareholders' representative on behalf of the Bank of Communications and also the Company's directors, and Ms. Qing-Hui Cheng, the Company's corporate shareholder's representative on behalf of the Bank of Communications and also the Company's supervisor, were succeeded by Mr. Guo-Xiong Zhuang, Ms. Xiang-Li Yang and Mr. Zi-Ping Ren. On April 10, Mr. Guo-Xiong Zhuang was elected as the managing director at the 4th special meeting of the Board of Directors of 8th term.

- On April 24, Mr. Qian-Zhi Chen, who was appointed to act as the Company's corporate shareholders' representative on behalf of Cathay United Bank and also the Company's director, resigned, and no successor was appointed for him.

- On April 25, Taiwan Ratings announced its annual credit rating reports. The Company's long-term ratings were adjusted as "twA-" and short-term credit ratings remained as "twA-2".

- On June 1, Mr. Teng-Cheng Liu, who was appointed to act as the Company's corporate shareholder's representative on behalf of the Development Fund Management Committee of Executive Yuan and also the Company's director concurrently, was succeeded by Mr. Jun-Hui He.

- On June 20, Mr. Qing-Qi Lai, who was appointed to act as the Company's corporate shareholder's representative on behalf of the Development Fund Management Committee of Executive Yuan and also the Company's supervisor concurrently, was succeeded by Ms. Jiao-Ying Yang.

2003

- On April 1, Mr. Jun-Hui He, who was appointed to act as the Company's corporate shareholder's representative on behalf of the Development Fund Management Committee of Executive Yuan and also the Company's director concurrently, was succeeded by Mr. Zhong-Ying Hu.

- On April 23, Mr. Guo-Xiong Zhuang, who was appointed as the Company's corporate shareholder's representative on behalf of the Bank of Communications, Administration Division and also the Company's director concurrently, was succeeded by Mr. Wen-Xiong Sun. On the same day, he was elected as the managing director at the 37th meeting of the Board of Directors of 8th term.

- On May 29, Taiwan Ratings announced its annual credit rating reports. The Company's long-term ratings remained as "twA-", short-term credit ratings as "twA-2", and the outlook rating changed from "negative" to "stable".

- On June 6, the Company held the general shareholders' meeting to elect 9 directors and 3 supervisors of 9th term.

- On September 19, the Central Bank announced the selection results for "Main Traders of Central Government Bonds (CGBs)". As a result, the Company was selected as one of the nine major traders

2004

- On March 12, Ms. Yi Xi, who was appointed to act as the Company's corporate shareholder's representative on behalf of E-Li Trade Co., Ltd. and also the Company's director, was succeeded by Mr. Bing-Huang He.

- On April 19, Taiwan Ratings announced its annual credit rating reports. The Company's long-term ratings remained as "twA-", short-term credit ratings as "twA-2", and the outlook rating remained as "stable".

- On October 15, the Central Bank announced the additional selection results for "Main Traders of Central Government Bonds (CGBs)". As a result, the Company was still selected as one of the 11 major traders

- On October 26, Mr. Wen-Xiong Sun, who was appointed as the Company's corporate shareholder's representative on behalf of the Bank of Communications, Administration Division and also the Company's director concurrently, was succeeded by Mr. Feng-Yi Huang.

2005

- On April 13, Fitch Ratings, Taiwan announced its annual credit rating reports. It granted the Company's international long-term foreign currency ratings as "BBB", international short-term foreign currency ratings as "F3", domestic long-term rating as "A+(tw)", foreign short-term ratings as "F1(tw)", and long-term outlook ratings as "stable".

- On May 1, Ms. Jiao-Ying Yang, who was appointed to act as the Company's corporate shareholder's representative on behalf of the Development Fund Management Committee of Executive Yuan and also the Company's supervisor concurrently, was succeeded by Mr. Cheng-Zhang Yuan.

- On September 20, FSC approved that the Company was allowed to invest in equity products.
- On November 18, the Central Bank announced the additional selection results for “Main Traders of Central Government Bonds (CGBs)”. As a result, the Company was still selected as one of the 13 major traders

2006

- On May 11, Fitch Ratings, Taiwan announced its annual credit rating reports. It granted the Company's international long-term foreign currency ratings as “BBB”, international short-term foreign currency ratings as “F3”, domestic long-term rating as “A+(twn)”, foreign short-term ratings as “F1(twn)”, and long-term outlook ratings as “stable”.
- On June 9, the Company held the general shareholders' meeting to elect 9 directors of 10th term (including 2 independent directors) and 3 supervisors, including 3 directors from Industrial Bank of Taiwan, and 3 directors and 1 supervisor from the Management Committee of National Development Fund, Executive Yuan. Meanwhile, Mr. Ming-Ji Li, who was appointed to act as the Company's corporate shareholders' representative on behalf of Industrial Bank of Taiwan as the Chairman of Board.
- On October 1, Mr. Zun-Hua Shi, who was appointed to act as the Company's corporate shareholder's representative on behalf of the Management Committee of National Development Fund, Executive Yuan and also the Company's director concurrently, was succeeded by Mr. Zong-Da Yan.
- On December 8, Ms. De-Pei Yu, who was appointed to act as the Company's corporate shareholder's representative on behalf of Industrial Bank of Taiwan and also the Company's director, was succeeded by Mr. Tian-Wang Cai.

2007

- On January 1, Mr. Wen-Xian Lai, who was appointed to act as the Company's corporate shareholder's representative on behalf of the Management Committee of National Development Fund, Executive Yuan and also the Company's director concurrently, was succeeded by Mr. Jun-Hui He.
- On February 6, FSC approved that the Company was allowed to trade securitized products at its own business locations.
- On March 1, Ms. Man-Jin Guo, who was appointed to act as the Company's corporate shareholder's representative on behalf of the Management Committee of National Development Fund, Executive Yuan and also the Company's director concurrently, was succeeded by Mr. Fan-Guan Zhan.
- On April 19, Mr. Ji-Cun Li, who was appointed to act as the Company's corporate shareholder's representative on behalf of the Management Committee of National Development Fund, Executive Yuan and also the Company's director concurrently, was succeeded to by Mr. Cheng-Ching Wu.
- On April 26, Fitch Ratings, Taiwan confirmed the Company's annual credit ratings as following: long-term foreign currency IDR as “BBB”, short-term foreign currency ratings as “F3”, domestic long-term ratings as “A+(twn)”, domestic short-term ratings as “F1(twn)”, and all outlook ratings as “stable”.
- On May 1, the former President, Mr. Ji-Cun Li, retired due to health problems. The vacancy left by him was filled by Mr. Cheng-Ching Wu as of May 16, and upon authorization by the competent authority pursuant to the relevant requirements.

- On June 15, Independent Director, Mr. Neng-Bai Lin, resigned for press of business.
- On September 1, the Company adjusted its organizational framework, added Equity Products Department, consolidated Trading Department and Bond Department and renamed it into Fixed Income Products Department. Meanwhile, Business Department was renamed into Corporate Finance Department, and Sales Department renamed into Risk Management Department and consolidated Legal & Compliance Department.
- On December 17, the Management Committee of National Development Fund, Executive Yuan sold a majority of the shares held by it. Accordingly, the directors/supervisors representing it were all discharged from the position.
- On December 18, Mr. Tian-Wang Cai, who was appointed to act as the Company's corporate shareholder's representative on behalf of Industrial Bank of Taiwan and also the Company's director, was succeeded by Mr. Cheng-Ching Wu.

2008

- On February 5, the Company held the first special general shareholders' meeting to reelect 4 directors (including 1 independent director) and 1 supervisor to fill the vacancies. The name list of elected directors included Mr. Yao-Zu Qian, Mr. Rui-Yi Yen and Mr. Jonathan C.H. Wei representing Industrial Bank of Taiwan as directors and Mr. Zhong Su-Shen representing the Bank as an independent director. The elected supervisor was Mr. David C.C. Chang representing Tai Yuan Technology Co., Ltd.
- On February 22, Independent Director Zhao-Cheng Mai resigned for his personal career planning.
- On April 17, Fitch Ratings, Taiwan confirmed the Company's annual credit ratings as following: domestic long-term rating as "A+(tw)", domestic short-term ratings as "F1(tw)", and all outlook ratings as "stable".
- On May 1, The Company's Supervisor David C.C. Chang representing Tai Yuan Technology Co., Ltd. was succeeded by Mr. Ming-Yuan Lin.
- On June 13, the Company held the general shareholders' meeting to reelect 1 director (independent director) to fill the vacancy. As a result, Ms. Yi-Ru Liu was elected as the director.
- On August 22, the Company held the 2nd special shareholders' meeting and passed the motion for consolidation with Industrial Bank of Taiwan. The directors, Mr. Yao-Zu Qian, Mr. Rui-Yi Yen and Mr. Jonathan C.H. Wei, initially representing the Industrial Bank of Taiwan resigned because of press of business on June 25, 2008. In the meantime, the Industrial Bank of Taiwan waived the right to re-appoint its representatives. The resignation and waiver took effective from the date when the Company held the shareholders' meeting for reelection of directors pursuant to laws. At the same shareholders' meeting, three directors were reelected, who were Mr. David C.C. Chang representing the Industrial Bank of Taiwan and Ms. Mona I-Ru Lo and Mr. Ming-Fu Huang representing Mingsheng Investment Co., Ltd..
- On August 29, the 1st special meeting of the Board of Directors of 10th term resolved the

application with Banking Bureau of FSC, Executive Yuan for the “consolidation” with the Industrial Bank of Taiwan, “change of the business entity to an industrial bank” and “rename”.

- On November 21, the 2nd meeting of the Board of Directors of 10th term resolved to terminate the motion for consolidation and consolidation agreement subject to mutual agreement with the Industrial Bank of Taiwan, pursuant to Article 18.3 of the consolidation agreement.

- On December 16, Independent Director Yi-Ru Liu resigned for the press of business.

2009

- On April 15, Fitch Ratings, Taiwan confirmed the Company's annual credit ratings as following: domestic long-term rating as “A+(tw’n)”, domestic short-term ratings as “F1(tw’n)”, and all outlook ratings as “stable”.

- On June 19, the Company held the general shareholders’ meeting to elect 9 directors of 11th term (including 2 independent directors) and 3 supervisors. As a result, the Industrial Bank of Taiwan won 6 director seats in the Board, and Mingshen Investment and Tai Yuan Technology won 1 supervisor seat, respectively. The corporate shareholder's representative from the Industrial Bank of Taiwan, Mr. Ming-Ji Li, was elected as the Chairman of Board.

- On June 19, the general shareholders’ meeting resolved to pass the cash capital decrease by NT\$3,357,400,000. In consideration of the stock offered in the past years totaling 1,678,700,000 common shares at the par value NT\$10 per share, NT\$16,787,000,000 should serve as the basis and the capital decrease would be by 20%. The paid-in capital upon the capital decrease was NT\$13,429,600,000.

- On August 11, FSC approved that the Company was allowed to engage in the proprietary operations and investment of foreign currency bonds.

- On August 19, Mr. Ming-Yuan Lin representing Supervisor Tai Yuan Technology Co., Ltd., was succeeded by Mr. Ding-Kai Wu.

2010

- On January 6, the Company reported to the FSC that the cash capital decrease took effective.

- On January 29, the Ministry of Economic Affairs approved the registration of changes of the paid-in capital. After that, the Company’s paid-in capital became NT\$13,429,600,000.

- On March 30, the stocks were registered and offered in intangible form in whole.

- On March 31, Fitch Ratings, Taiwan confirmed the Company's annual credit ratings as following: domestic long-term rating as “A+(tw’n)”, domestic short-term ratings as “F1(tw’n)”, and all outlook ratings as “stable”.

- On August 12, the Central Bank approved that the Company was allowed to engage in the certification, underwriting, brokerage and proprietary operations of foreign currency bills domestically and overseas, and offer the services officially on December 6.

- On October 9, Mr. Ding-Kai Wu representing Supervisor Tai Yuan Technology Co., Ltd. was succeeded by Mr. Ji-Ming Chen.

2011

- On April 26, Fitch Ratings, Taiwan confirmed the Company's annual credit ratings as following: domestic long-term rating as “A+(tw’n)”, domestic short-term ratings as “F1(tw’n)”, and all outlook ratings as “stable”.

- On June 2, the shareholders’ meeting resolved to pass the motion for sale by tender of the Headquarters’ building (No. 14, Dunhua S. Rd., Taipei City).

- On June 14, Mr. Ming-Ji Li representing Corporate Director Industrial Bank of Taiwan was succeeded by Mr. David C.C. Chang.

- On June 14, Chairman Ming-Ji Li retired. At 24th meeting of the Board of Directors of 11th term, Mr. Cheng-Ching Wu, was elected to succeed to the position as Chairman of the Board. Meanwhile, he resigned from the position as President. The vacancy for the President was filled by Mr. Yao-Zu Qian. Said motion was also reported to the competent authority for authorization.

- On September 13, in order to enhance corporate governance and well found the Company's director, supervisor and managerial officer remuneration systems, the Company established the Remuneration Committee pursuant to laws.

- On September 28, the Company appointed DTZ to handle the sale by tender of the Headquarters’ office. As a result, TING HO DEVELOPMENT CO., LTD. of Ting Hisin International Group was awarded the contract at the price of NT\$4.629 billion.

- On September 29, the Company held the special directors’ meeting to report the application documents for approval of the relocation with the competent authority and lease of 4F of the headquarters building of the Industrial Bank of Taiwan (No. 99, Sec. 2, Tiding Blvd., Neihu Dist., Taipei City) as the Company's Headquarters office.

- On October 24, the Company’s application with Banking Bureau of FSC, Executive Yuan for moving its Headquarters to 4F, No. 99, Sec. 2, Tiding Blvd., Neihu Dist., Taipei City to continue its operation was approved.

- On December 19, the Company moved to 4F, No. 99, Sec. 2, Tiding Blvd., Neihu Dist., Taipei City officially to continue its operation.

2012

- On April 2, Mr. Xing-Bang Wang representing Corporate Director Industrial Bank of Taiwan was succeeded by Mr. Jin-Yu Yang.

- On April 23, Fitch Ratings, Taiwan confirmed the Company's annual credit ratings as following: domestic long-term rating as “A+(tw’n)”, domestic short-term ratings as “F1(tw’n)”, and all outlook ratings as “stable”.

- On June 15, the Company held the general shareholders’ meeting to elect 11 directors of 12th term (including 3 independent directors). As a result, the Industrial Bank of Taiwan won 6 director seats in the Board, and Mingshen Investment won 1 director seat. The corporate shareholder's representative from the Industrial Bank of Taiwan, Mr. Cheng-Ching Wu, was elected as the Chairman of Board.

- On June 15, in order to enhance the corporate governance, upgrade the enterprise's competitiveness, signify the investors' protection and increase the Company's value, the 3 independent directors formed the Audit Committee.

2013

- On March 27, Fitch Ratings, Taiwan confirmed the Company's annual credit ratings as following: domestic long-term rating as "A+(twn)", domestic short-term ratings as "F1(twn)", and all outlook ratings as "stable".

2014

- On January 10, Mr. Rui-Yi Yen representing Corporate Director Industrial Bank of Taiwan was succeeded by Mr. Xiong-Rong Chen.

- On March 20, Fitch Ratings, Taiwan confirmed the Company's annual credit ratings as following: domestic long-term rating as "A+(twn)", domestic short-term ratings as "F1(twn)", and all outlook ratings as "stable".

- On September 26, Mr. Xiong-Rong Cheng representing Corporate Director Industrial Bank of Taiwan was succeeded by Mr. Yi-Feng Lin.

2015

- On February 1, according to Article 32 of the "Implementation Rules of Internal Audit and Internal Control System of Financial Holding Companies and Banking Industries" amended on August 8, 2014, the Company added the Legal & Compliance Department subordinated to the President and dedicated to planning, managing and executing the legal & compliance system. The chief compliance officer of the Headquarters shall not hold any other positions concurrently.

- On March 5, Fitch Ratings, Taiwan confirmed the Company's annual credit ratings as following: domestic long-term rating as "A+(twn)", domestic short-term ratings as "F1(twn)", and all outlook ratings as "stable".

- On June 2, the Company held the general shareholders' meeting to elect 11 directors of 13th term (including 3 independent directors). As a result, the Industrial Bank of Taiwan won 6 director seats in the Board, and Mingshen Investment won 1 director seat. The corporate shareholder's representative from the Industrial Bank of Taiwan, Mr. Cheng-Ching Wu, was elected as the Chairman of Board.

- On June 16, the former President, Mr. Yao-Zu Qian, retired compulsorily. The vacancy left by him would be filled by Mr. Chih-Ming Chien as of June 16. Said motion was also reported to the competent authority for authorization pursuant to the relevant requirements on July 20.

2016

- On March 4, Fitch Ratings, Taiwan confirmed the Company's annual credit ratings as following: domestic long-term rating as "A+(twn)", domestic short-term ratings as "F1(twn)", and all outlook ratings as "stable".

- On July 28, Fitch Ratings, Taiwan confirmed the Company's annual credit ratings as following: domestic long-term rating as "A+(twn)", domestic short-term ratings as "F1(twn)", and all outlook ratings as "stable".

- On December 13, the Company won the best bills finance distinguished honor award in the “Taiwan Banking and Finance Best Practice Awards” of 8th term organized by Taiwan Academy of Banking and Finance.

2017

- On July 26, Fitch Ratings, Taiwan confirmed the Company's annual credit ratings as following: domestic long-term rating as “A+(twn)”, domestic short-term ratings as “F1(twn)”, and all outlook ratings as “stable”.

2018

- On June 8, the Company held the general shareholders’ meeting to elect 11 directors of 14th term (including 3 independent directors). As a result, O-Bank won 5 director seats in the Board, Mingshen Investment won 1 director seat and He Zhu Investment Co., Ltd. won 2 director seats. The corporate shareholder's representative from the O-Bank, Mr. Cheng-Ching Wu, was elected as the Chairman of Board.

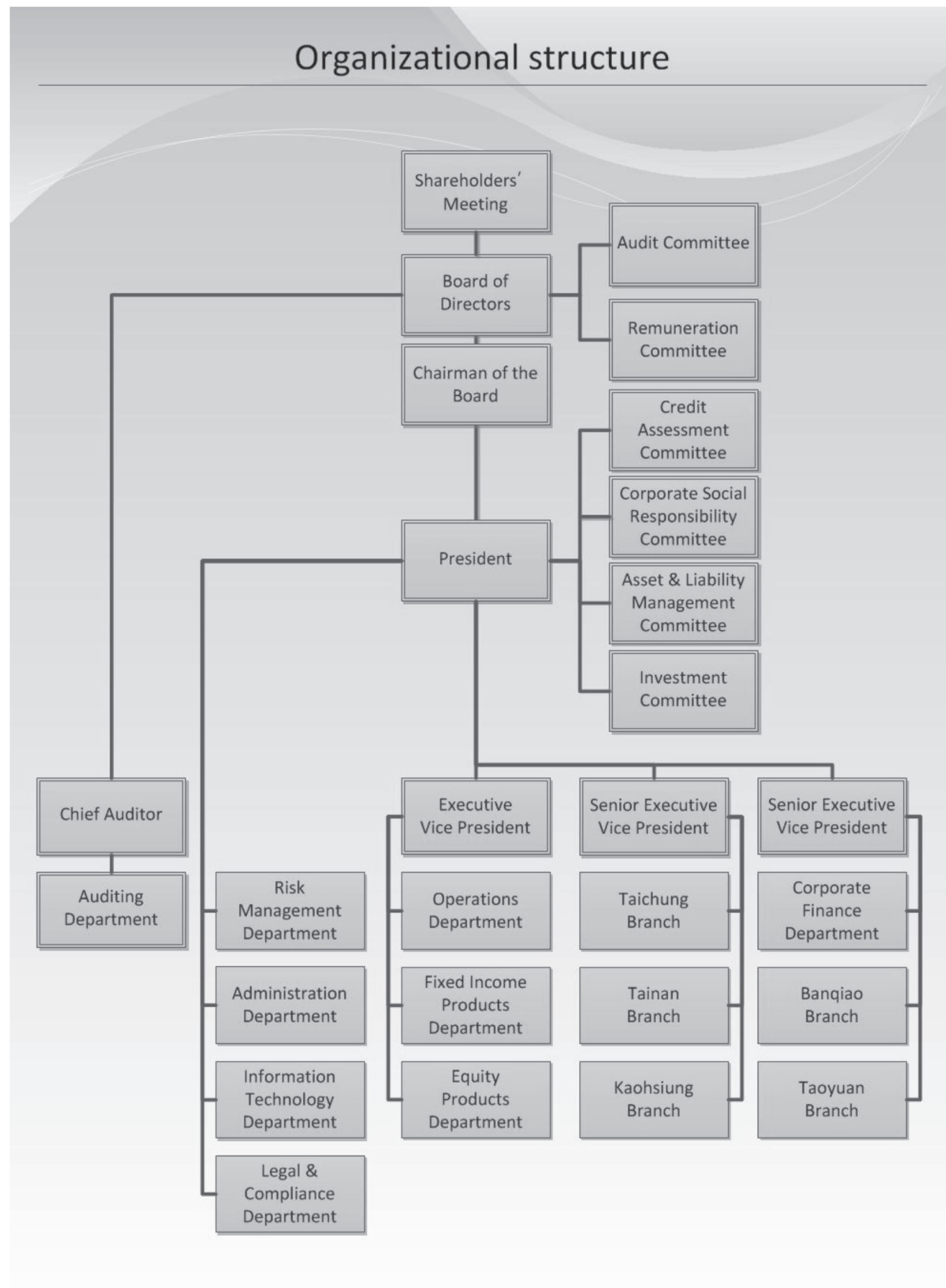
- On July 17, Fitch Ratings, Taiwan confirmed the Company's annual credit ratings as following: domestic long-term rating as “A+(twn)”, domestic short-term ratings as “F1(twn)”, and all outlook ratings as “stable”.

- On December 3, the corporate shareholders’ representative from He Zhu Investment Co., Ltd., Mr. Jian-Jie Dai, was succeeded by Mr. Ming-Sheng Zheng.

- On December 20, Mr. Jonathan C.H. Wei representing Corporate Director O-Bank was succeeded by Mr. Niel Chang.

Corporate Governance Report

One. Organizational Structure



Two. Information concerning the director, president, vice presidents, assistant vice presidents, and department and branch managers

I. Information about directors

Record date: March 19, 2019

Job Title	Nationality or Place of Registration	Name	Gender	Date of Election (Appointment)	Term (years)	Date when first elected	Shareholding when elected		Current shareholding		Shareholdings of spouse and underage children		Shareholding under another		Education and selected past positions	Concurrent positions at other companies	Managers, directors or supervisors who are spouses or relatives within the second degree of kinship		
							Shares (1,000)	Shareholding ratio (%)	Shares (1,000)	Shareholding ratio (%)	Shares	Shareholding ratio (%)	Shares	Shareholding ratio (%)			Title	Name	Relationship
Chairman	Republic of China	Cheng-Ching Wu (Representative of O-Bank Co., Ltd.)	Male	June 8, 2018	Three Years	December 18, 2017	380,982	28.37%	380,982	28.37%	Nil	Nil	Nil	Nil	President, China Bills Finance Co., Ltd. Chairman of Board and also President of Fubon Bills Finance Co., Ltd. EMBA of National Taiwan University	Chairman of the Board, China Bills Finance Co., Ltd. Independent Director of Motech Industries Inc. Supervisor of C-Tech United Corporation	Nil	Nil	Nil
Director and also President	Republic of China	Chih-Ming Chien (Representative of O-Bank Co., Ltd.)	Male	June 8, 2018	Three Years	June 16, 2015	380,982	28.37%	380,982	28.37%	Nil	Nil	Nil	Nil	Senior Vice President, O-Bank (formerly Industrial Bank of Taiwan) Department of Cooperative Management, National Chung Hsing University	President, China Bills Finance Co., Ltd.	Nil	Nil	Nil
Director	Republic of China	David C.C. Chang (Representative of O-Bank Co., Ltd.)	Male	June 8, 2018	Three Years	June 14, 2011	380,982	28.37%	380,982	28.37%	Nil	Nil	Nil	Nil	Deputy President & Chief Operating Officer, O-Bank (formerly Industrial Bank of Taiwan) Master of Business Administration (MBA), National Chengchi University	Deputy President & Chief Operating Officer, O-Bank Supervisor of IBT Leasing Co., Ltd.	Nil	Nil	Nil
Director	Republic of China	Jonathan C.H. Wei (Representative of O-Bank Co., Ltd.)	Male	New director elected on June 8, 2018 and resigned upon re-appointment on December 20, 2018	Three Years	June 19, 2009	380,982	28.37%	380,982	28.37%	Nil	Nil	Nil	Nil	Senior Executive Vice President & Chief Strategy Officer, O-Bank (formerly Industrial Bank of Taiwan) MBA, the University of Texas at Arlington	Senior Executive Vice President & Chief Strategy Officer, O-Bank Director of IBT Leasing Co., Ltd.	Nil	Nil	Nil
Director	Republic of China	Niel Chang (Representative of O-Bank Co., Ltd.)	Male	Re-appoint on December 20, 2018	Three Years	December 20, 2018	380,982	28.37%	380,982	28.37%	Nil	Nil	Nil	Nil	Senior Executive Vice President & Chief Financial Markets Officer, O-Bank (formerly Industrial Bank of Taiwan) Master of Business, National Taiwan University	Senior Executive Vice President & Chief Financial Markets Officer, O-Bank	Nil	Nil	Nil
Director	Republic of China	Tessie Y.H. Chen (Representative of O-Bank Co., Ltd.)	female	Resigned upon expiration of term of office on June 8, 2018	Three Years	June 19, 2009	380,982	28.37%	380,982	28.37%	Nil	Nil	Nil	Nil	Senior Executive Vice President & Chief Financial Markets Officer, O-Bank EMBA, The City University of New York	Senior Executive Vice President & Chief Financial Markets Officer, O-Bank	Nil	Nil	Nil

Job Title	Nationality or Place of Registration	Name	Gender	Date of Election (Appointment)	Term (years)	Date when first elected	Shareholding when elected		Current shareholding		Shareholdings of spouse and underage children		Shareholding under another		Education and selected past positions	Concurrent positions at other companies	Managers, directors or supervisors who are spouses or relatives within the second degree of kinship		
							Shares (1,000)	Shareholding ratio (%)	Shares (1,000)	Shareholding ratio (%)	Shares (%)	Shares (%)	Shares (%)	Shareholding ratio (%)			Title	Name	Relationship
Director	Republic of China	Roger Y.F. Lin (Representative of O-Bank Co., Ltd.)	Male	June 8, 2018	Three Years	September 26, 2014	380,982	28.37%	380,982	28.37%	Nil	Nil	Nil	Nil	Executive Vice President and Corporate Banking CEO of O-Bank (formerly Industrial Bank of Taiwan) Master in Finance, Tamkang University	Executive Vice President and Corporate Banking CEO of O-Bank	Nil	Nil	Nil
Director	Republic of China	Mona I-Ru Lo Director, (Representative of Ming Shan Investment Co., Ltd.)	female	June 8, 2018	Three Years	June 15, 2012	1,510	0.11%	1,510	0.11%	Nil	Nil	Nil	Nil	Director of Mingshan Investment Co., Ltd. Supervisor of Yi Chang Investment Co., Ltd. Master in Educational Psychology, Univ. of California, Los Angeles, Supervisor of Tai Xuan Investment Co., Ltd. Supervisor of Tai Ya Investment Co., Ltd.	Director of Mingshan Investment Co., Ltd. Supervisor of Yi Chang Investment Co., Ltd. Supervisor of Tai Xuan Investment Co., Ltd. Supervisor of Tai Ya Investment Co., Ltd.	Nil	Nil	Nil
Director	Republic of China	Si-Tsong Zheng (Representative of He Zhu Investment Co., Ltd.)	Male	New director elected on June 8, 2018	Three Years	June 8, 2008	74,971	5.58%	76,284	5.68%	Nil	Nil	Nil	Nil	Representative of Corporate Director COTA Commercial Bank Department of International Business, Fu Jen Catholic University	Director of Hong Yi Investment Company Limited Supervisor of Yuan Tong Investment Co., Ltd.	Nil	Nil	Nil
Director	Republic of China	Jian-Jie Dai (Representative of He Zhu Investment Co., Ltd.)	Male	New director elected on June 8, 2018, and resigned upon re-appointment on December 3, 2018	Three Years	June 8, 2008	74,971	5.58%	76,284	5.68%	Nil	Nil	Nil	Nil	Vice President of Taiwan Cooperative Bills Finance Corporation Department of Finance, National Chengchi University	Director and Vice President of PJ Asset Management Co., Ltd.	Nil	Nil	Nil
Director	Republic of China	Ming-Sheng Zheng (Representative of He Zhu Investment Co., Ltd.)	Male	Resigned upon re-appointment on December 3, 2018	Three Years	December 3, 2018	74,971	5.58%	76,284	5.68%	Nil	Nil	Nil	Nil	Senior Assistant Vice President, Finance Department of KGI Bank Master in Finance, The City University of New York	CFO of PJ Asset Management Co., Ltd.	Nil	Nil	Nil
Director	Republic of China	Sekin Chen	Male	Resigned upon expiration of term of office on June 8, 2018	Three Years	June 15, 2012	10	0.00%	8	0.00%	Nil	Nil	Nil	Nil	Advisor of O-Bank (formerly Industrial Bank of Taiwan) Department of Accounting, Soochow University	Nil	Nil	Nil	Nil
Independent Director	Republic of China	Herbert Chung	Male	Resigned upon expiration of term of office on June 8, 2018	Three Years	February 5, 2008	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Chairman of Bowa Bank Master in Economics, Soochow University	Supervisor, San Fu Chemical Co., Ltd	Nil	Nil	Nil	Nil

Job Title	Nationality or Place of Registration	Name	Gender	Date of Election (Appointment)	Term (years)	Date when first elected	Shareholding when elected		Current shareholding		Shareholdings of spouse and underage children		Shareholding under another		Education and selected past positions	Concurrent positions at other companies	Managers, directors or supervisors who are spouses or relatives within the second degree of kinship		
							Shares (1,000)	Shareholding ratio (%)	Shares (1,000)	Shareholding ratio (%)	Shares	Shareholding ratio (%)	Shares	Shareholding ratio (%)			Title	Name	Relationship
Independent Director	Republic of China	Hung-Mao Tien	Male	Resigned upon expiration of term of office on June 8, 2018	Three Years	June 15, 2012	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Minister, Ministry of Foreign Affairs of the R.O.C. Representative of Taipei Representative Office in the United Kingdom Doctor of Political Science, University of Wisconsin	Chairman, Straits Exchange Foundation President and Chairman of the Board, Institute for National Policy Research Director of O-Bank Education Foundation Director of Yu Chi-Chung Cultural and Educational Foundation Director of Lin Teng Cultural and Educational Foundation Independent Director of Teleport Access Services, Inc. Director of Taiwan Secom Co., Ltd.	Nil	Nil	Nil
Independent Director	Republic of China	Wayne W. Wu	Male	June 8, 2018	Three Years	June 2, 2015	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Full-time Vice Chairman of Taiwan External Trade Development Council (TAITRA), Representative of Taipei Representative Office, Bratislava, Representative of Taipei Economic and Cultural Office in Malaysia, Director General of Bureau of Foreign Trade, and Supervisor of Commercial Division, Taipei Economic and Cultural Office in Los Angeles, et al. MBA, Texas A&M University	Nil	Nil	Nil	Nil
Independent Director	Republic of China	Chung-Ho Chen	Male	New director elected on June 8, 2018	Three Years	June 8, 2018	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Supervisor of Shin Kong Commercial Bank Co., Ltd. Taichung Second Senior High School	Nil	Nil	Nil	Nil
Independent Director	Republic of China	An-Wei Su	Male	New director elected on June 8, 2018	Three Years	June 8, 2018	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Deputy General Manager of Taiwan Cooperative Bills Finance Corporation Department of Finance, National Chengchi University	Nil	Nil	Nil	Nil

(I) Major shareholders of corporate shareholders

Record date: December 31, 2018

Name of corporate shareholder	Major shareholders of corporate shareholders (Note)
O-Bank Co., Ltd.	Mingshan Investment Co., Ltd. (9.98%), Yi Chang Investment Co., Ltd. (9.73%), Tai Xuan Investment Co., Ltd. (9.67%), Hengtong Machinery Co., Ltd. (5.47%), ChinaSteel (3.83%), ADI CORPORATION (3.83%), Chailease Finance Co., Ltd. (3.42%), Tai Ya Investment Co., Ltd. (3.05%), HUNG SHENG Construction Co., Ltd. (2.97%), SAN HO PLASTICS FAB. CO., LTD. (2.02%)
He Zhu Investment Co., Ltd.	Jia-Hong Lin (100%)
Mingshan Investment Co., Ltd.	KC Investments Corp. (86.11%), Jin-Ming Lo (3.73%), Shi-Zi Chen (3.62%), Tina I-Jun Lo(2.91%), Nina I-Qian Lo(2.04%), Mona I-Ru Lo (1.59%)

Note: The major shareholders refer to the top ten shareholders (for the equity including common stock and preferred stock).

(II) Major shareholders of corporate shareholders who are representatives of the corporate shareholders

1. O-Bank Co., Ltd.

Record date: December 31, 2018

Name of corporate shareholder	Major shareholder of corporate shareholder
Mingshan Investment Co., Ltd.	KC Investments Corp. (86.11%), Jin-Ming Lo (3.73%), Shi-Zi Chen (3.62%), Tina I-Jun Lo(2.91%), Nina I-Qian Lo(2.04%), Mona I-Ru Lo (1.59%)
Yi Chang Investment Co., Ltd.	Triple Ace Management Co., Ltd. (42.80%), Shi-Zi Chen (31.72%), Jin-Ming Lo(22.63%), Tina I-Jun Lo (0.95%), Nina I-Qian Lo (0.95%), Mona I-Ru Lo (0.95%)
Tai Xuan Investment Co., Ltd.	Sky Capital International Group Inc. (63.10%), Jin-Ming Lo (36.90%)
Hengtong Machinery Co., Ltd.	Heng Ting Fang Investment Development Co., Ltd. (15.79%), Tong Qun Investment Development Co., Ltd. (15.16%), Bai Tong Investment Co., Ltd. (13.62%), Ceng Teng-Yu (10.92%), CHIA WHEEL ENTERPRISES CO., LTD. (10.05%), HENG JIH SONG ACCURATE INDUSTRIES CO., LTD. (7.68%), Ceng Teng-Ke (6.53%), Chang Yang Investment Co., Ltd. (6.52%), Xiang Tai Investment Co., Ltd. (5.25%), Hong Da Investment Co., Ltd. (3.64%)
China Steel	Ministry of Economic Affairs (20.00%), Mega Bank as Trustee of ChinaSteel Employee Stock Option Plan Account (4.22%), Yun Hong Investment Co., Ltd. (1.62%), J. P. Morgan Chase Bank N.A. Taipei Branch as Trustee of Vanguard Total International Stock Index Fund, a series of Vanguard Star Funds (1.19%), J. P. Morgan Chase Bank N.A., Taipei Branch as Trustee of Vanguard Total International Stock Index Fund, a series of Vanguard Star Funds (1.13%), Winnett Investments Limited(1.01%), Labor Insurance Fund (0.97%), Citibank (Taiwan) as Trustee of Norges Bank Investment Account (0.94%), Public Service Pension Fund Management Board (0.94%), Fubon Life Insurance Co., Ltd.(0.85%) Record date: August 1, 2018
ADI CORPORATION	Ji-Cheng Liao (9.16%), Li-Yue Wang Wu (1.15%), Shu-Qun Liao (0.67%), Cheng-Xue Liao Li (0.14%) Wen-Wei Liu (0.14%), Zheng-Xian Lu (0.13%), Zhao-Nian Meng (0.10%), Bin-Quan Lai (0.08%), Hao-Zhong Lu (0.08%), Yu Wang (0.07%)
Chailease Finance Co., Ltd.	Chailease International Company (UK) Limited (100%)
Tai Ya Investment Co., Ltd.	Crystal Lake Global Limited(65.91%), Shi-Zi Chen (34.09%)

Name of corporate shareholder	Major shareholder of corporate shareholder
HUNG SHENG Construction Co., Ltd.	Hontai Life Insurance Co., Ltd. (5.84%), Quan Yi Investment Co., Ltd. (5.67%), Han Bao Enterprise Co., Ltd. (5.42%), Bao Qing Investment Co., Ltd. (5.33%), Wang Xing Enterprise Co., Ltd. (4.55%), Hong Jia Investment Co., Ltd. (1.97%), The First Insurance Co., Ltd. (1.67%), , J. P. Morgan Chase Bank N.A. , Taipei Branch, JP Morgan Securities - the external account administrator Bank of New York Mellon, acting through London Branch, as Trustee of Investment Account (1.61%), Bao Zuo Investment Co., Ltd. (1.26%), J. P. Morgan Chase Bank N.A., Taipei Branch as Trustee of Vanguard Total International Stock Index Fund, a series of Vanguard Star Funds (1.24%) Record date: August 21, 2018
SAN HO PLASTICS FAB. CO., LTD.	Rong-Xiang Zheng (12.73%), Rong-Ji Zheng (12.41%), Cheng-Qi Zheng (11.43%), Sen-He Zheng (10.22%), Cong-Ming Zheng (10.01%), Sen-Yuan Zheng (6.27%), Bao-Yun Zheng (5.52%), Bao-Wen Zheng (5.38%), Guang-Zhe Zheng (4.66%), Cheng-Zuo Zheng (4.39%)

2. Hezhu Investment Co., Ltd.

Name of corporate shareholder	Major shareholder of corporate shareholder (Note)
None	None

3. Mingshan Investment Co., Ltd.

Name of corporate shareholder	Major shareholder of corporate shareholder (Note)
KC Investments Corp	Paradise Palms Ltd.(100%)

Note: The major shareholders refer to the top ten shareholders

(III) Status of professional knowledge and independence to be held by directors

Record date: March 19, 2019

Qualification Name	Has at least five years of relevant working experience and the following professional qualifications			Compliance of independence (Note)										Number of positions as an Independent Director in other public listed companies concurrently
	Lecturer (or above) of commerce, law, finance, accounting, or any subject relevant to the Company's operations in a public or private tertiary institution	Certified judge, attorney, lawyer, accountant, or holder of professional qualification relevant to the Company's operations	Commercial, legal, financial, accounting or other work experience required to perform the assigned duties	1	2	3	4	5	6	7	8	9	10	
Cheng-Ching Wu	-	-	✓	-	✓	✓	✓	-	✓	✓	✓	✓	✓	one
Chih-Ming Chien	-	-	✓	-	✓	✓	✓	-	✓	✓	✓	✓	✓	Nil
David C.C. Chang	-	-	✓	-	-	✓	✓	-	-	✓	✓	✓	✓	Nil
Roger Y.F. Lin	-	-	✓	-	-	✓	✓	-	-	✓	✓	✓	✓	Nil

Neil Chang	-	-	✓	-	-	✓	✓	-	-	✓	✓	✓	✓	Nil
Mona I-Ru Lo	-	-	✓	-	-	✓	✓	-	-	✓	✓	✓	✓	Nil
Si-Tsong Zheng	-	-	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	Nil
Ming-Sheng Zheng	-	-	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	Nil
Wayne W. Wu	-	-	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	Nil
Chung-Ho Chen	-	-	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	Nil
An-Wei Su	-	-	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	Nil

Note: A “✓” is marked in the space beneath a condition number when a director has met that condition during the two (2) years prior to election and during his or her period of service. The conditions are as follows:

1. Not an employee of the Company or any of its affiliates.
2. Not a director or supervisor of the Company or any of its affiliates (unless the person is an independent director of the Company or its parent company or any subsidiary in which the Company holds a majority of the shares with voting right, directly or indirectly).
3. The director, or his or her spouse or minor child, does not hold, in his or her own name or in another name, more than 1% of the Company’s total outstanding shares, nor is one of the Company’s ten largest natural-person shareholders.
4. Not a spouse, relative within the second degree of kinship, or direct blood relative within the third degree of kinship of a person listed in the preceding three subparagraphs.
5. Not a director, supervisor, or employee of a corporate shareholder directly holding more than 5% of the Company’s total outstanding shares, nor is a director, supervisor, or employee of one of the five largest corporate shareholders in terms of shareholdings.
6. Neither a director, supervisor, manager, nor a shareholder holding more than 5% of the outstanding shares, of a certain company or organization that has a financial or business relationship with the Company.
7. Not a professional providing business, legal, financial, accounting, or consulting services to the Company or any of its affiliates, nor an owner, partner, director, supervisor, or manager, or the spouse of any of the foregoing, of a sole proprietorship, partnership, company, or organization providing such services to the Company or any of its affiliates. However, this shall not apply to the remuneration committee members who exercise their powers in accordance with Article 7 of the Regulations on the Establishment of Remuneration Committees by TWSE/TPEX Listed Companies and their Exercise of Powers.
8. Not the spouse or relative within the second degree of kinship of another director.
9. Not a person who meets the conditions specified in any of the sub-paragraphs of Article 30 of the Company Act.
10. Has not been elected as a government unit, institution, or their representative as prescribed in Article 27 of the Company Act.

II. Information concerning the president, vice presidents, assistant vice presidents, and department and branch managers

Record date: March 19, 2019

Job Title	Nationality	Name	Gender	Date of Election (Appointment)	Shares held		By spouse and underage children		Shares held under another person's name		Education and selected past positions	Concurrent positions at other companies	Managers who are spouses or relatives within the second degree of kinship		
					Quantity of shares	Shareholding Rate	Quantity of shares	Shareholding Rate	Quantity of shares	Shareholding ratio (%)			Job Title	Name	Relationship
President	Republic of China	Chih-Ming Chien	Male	June 16, 2015	Nil	Nil	Nil	Nil	Nil	Nil	Senior Vice President of O-Bank (formerly Industrial Bank of Taiwan) Department of Cooperative Management, National Chung Hsing University	Nil	Nil	Nil	Nil
Vice President Also Supervisor of Corporate Banking Dept.	Republic of China	Alex Tu	Male	July 25, 2011	Nil	Nil	Nil	Nil	Nil	Nil	Deputy Supervisor of National Development Fund, Executive Yuan Master of Graduate Institute of International Business, Chinese Culture University	Nil	Nil	Nil	Nil
Senior Executive Vice President & Chief, Kaohsiung Branch (Retired compulsorily on June 1, 2018)	Republic of China	Li-Fei Chiu	Female	September 23, 2015	12,516	0.00 %	7,393	0.00%	Nil	Nil	Manager, Bond Department of the Company Department of Public Finance, National Chengchi University	Nil	Nil	Nil	Nil
Chief Auditor	Republic of China	Chao-Ku Wang	Male	July 1, 2017	238,558	0.02 %	28,361	0.00%	Nil	Nil	Vice President, Operations Department of the Company Department of Accounting, National Taipei College of Business	Nil	Nil	Nil	Nil
Executive Vice President, Fixed Income Products Department	Republic of China	Yi-Tien Chen	Male	September 23, 2015	509	0.00 %	Nil	Nil	Nil	Nil	Vice President, Banqiao Branch of the Company Master in Finance, Louisiana State University	Nil	Nil	Nil	Nil
Vice President, Equity Products Department	Republic of China	I-Chih Chou	Male	November 1, 2011	Nil	Nil	Nil	Nil	Nil	Nil	Manager of O-Bank (formerly Industrial Bank of Taiwan) Department of Management Science, Ming Chuan University	Nil	Nil	Nil	Nil
Vice President, Risk Management Department	Republic of China	Yi-Chang Kan	Male	February 1, 2017	Nil	Nil	Nil	Nil	Nil	Nil	Senior Manager, Risk Management Dept. of the Company In-Service Graduate Programs, Department of Economics, Soochow University	Nil	Nil	Nil	Nil

Job Title	Nationality	Name	Gender	Date of Election (Appointment)	Shares held		By spouse and underage children		Shares held under another person's name		Education and selected past positions	Concurrent positions at other companies	Managers who are spouses or relatives within the second degree of kinship		
					Quantity of shares	Shareholding Rate	Quantity of shares	Shareholding Rate	Quantity of shares	Shareholding ratio (%)			Job Title	Name	Relationship
Manager, Operation Department	Republic of China	Min-Mei Huang	Female	July 1, 2017	Nil	Nil	Nil	Nil	Nil	Nil	Project Manager, Operations Department of the Company Department of Electronic and Computer Engineering, Ming Chuan University	Nil	Nil	Nil	Nil
Vice President, Administration Department (March 1, 2019) and also Corporate Governance Officer	Republic of China	Hou-Sheng Yu	Male	September 23, 2015	3,727	0.00 %	Nil	Nil	Nil	Nil	Project Manager, Operations Department of the Company Department of Bank Insurance, Takming University of Science and Technology	Nil	Nil	Nil	Nil
Vice President, Information Technology Department	Republic of China	Hung-Ta Chou	Male	January 18, 2017	58	0.00 %	Nil	Nil	Nil	Nil	Senior Manager, Information Technology Department of the Company Department of Computer Science and Information Engineering, Tamkang University	Nil	Nil	Nil	Nil
Vice President, Legal & Compliance Department	Republic of China	Chen-Cheng Hsieh	Male	September 23, 2015	Nil	Nil	Nil	Nil	Nil	Nil	Manager, Legal Affairs Section of Risk Management Dept. of the Company Department of Law, National Taiwan University	Nil	Nil	Nil	Nil
Senior Executive Vice President & Chief, Kaohsiung Branch (Transferred on June 1, 2018)	Republic of China	Wen-Tsung Chen	Male	June 1, 2018	17,244	0.00 %	Nil	Nil	Nil	Nil	Vice President, Tainan Branch of the Company Department of Finance, National Chung Hsing University	Nil	Nil	Nil	Nil
Vice President, Tainan Branch (Promoted on June 1, 2018)	Republic of China	Ming-Chi Chou	Male	June 1, 2018	Nil	Nil	Nil	Nil	Nil	Nil	Senior Manager, Kaohsiung Branch of the Company NSYSU Master's Degree for Business Management	Nil	Nil	Nil	Nil
Vice President, Taichung Branch	Republic of China	Wei-Min Cho	Male	January 1, 2016	Nil	Nil	Nil	Nil	Nil	Nil	Senior Manager, Corporate Banking Department of the Company NCCU Department of Business Administration	Nil	Nil	Nil	Nil
Vice President, Taoyuan Branch	Republic of China	Jen-Chien Chen	Male	January 1, 2012	Nil	Nil	86,000	0.00%	Nil	Nil	Senior Manager, Taoyuan Branch of the Company Graduate Institute of Finance, National Taiwan University of Science and Technology	Nil	Nil	Nil	Nil

Job Title	Nationality	Name	Gender	Date of Election (Appointment)	Shares held		By spouse and underage children		Shares held under another person's name		Education and selected past positions	Concurrent positions at other companies	Managers who are spouses or relatives within the second degree of kinship		
					Quantity of shares	Shareholding Rate	Quantity of shares	Shareholding Rate	Quantity of shares	Shareholding ratio (%)			Job Title	Name	Relationship
Vice President, Banqiao Branch (Resigned on May 1, 2018)	Republic of China	Chuan-Kuei Lin	Male	December 1, 2015	Nil	Nil	Nil	Nil	Nil	Nil	Senior Assistant Vice President of Tainan District of Business Dept. of O-Bank (formerly Industrial Bank of Taiwan) Department of Management Science, National Chiao Tung University	Nil	Nil	Nil	Nil
Vice President, Banqiao Branch (Promoted on May 1, 2018)	Republic of China	Chung-Hsien Tsao	Male	May 1, 2018	Nil	Nil	Nil	Nil	Nil	Nil	Senior Manager, Fixed Income Products Department of the Company EMBA, Soochow University	Nil	Nil	Nil	Nil

III. Remuneration paid to directors, presidents and vice presidents, and compensation paid to employees in the most recent year

(I) Remuneration to directors (including independent directors)

Unit: NT\$1,000

Record date: December 31, 2018

Job Title	Name	Remuneration to directors								Sum of A, B, C, and D as percentage of net income		Remuneration from concurrently servings as employees								Sum of A, B, C, D, E, F, and G as percentage of net income		Remuneration from invested non-subsidiary enterprise(s)
		Remuneration (A)		Pension upon retirement (B)		Remuneration to director (C)		Service Expenses (D)				Wages, bonuses, and special allowances, etc. (E)		Pension upon retirement (F)		Employee Compensation (G)						
		the Company	Companies included into the financial statement	the Company	Companies included into the financial statement	the Company	Companies included into the financial statement	the Company	Companies included into the financial statement	the Company	Companies included into the financial statement	the Company	Companies included into the financial statement	the Company	Cash	Stock	Cash	Stock	the Company	Companies included into the financial statement		
Corporate director	O-Bank Co., Ltd.	820	820	Nil	Nil	14,194	14,194	292	292	1.15%	1.15%	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	1.15%	1.15%	Nil
Corporate director	Mingshan Investment Co., Ltd.																					
Corporate director	He Zhu Investment Co., Ltd (New director elected on June 8, 2018)																					
Chairman of the Board	Cheng-Ching Wu (Representative of O-Bank Co., Ltd.)																					
Director and also President	Chih-Ming Chien (Representative of O-Bank Co., Ltd.)	16,386	16,386	Nil	Nil	6,707	6,707	1,466	1,466	1.84%	1.84%	6,615	6,615	Nil	Nil	904	Nil	904	Nil	2.40%	2.40%	Nil
Director	Roger Y.F. Lin (Representative of O-Bank Co., Ltd.)																					
Director	Jonathan C.H. Wei (Representative of O-Bank Co., Ltd.) Resigned upon re-appointment on December 20, 2018																					

Job Title	Name	Remuneration to directors						Sum of A, B, C, and D as percentage of net income	Remuneration from concurrently servings as employees						Sum of A, B, C, D, E, F, and G as percentage of net income	Remuneration from invested non-subsidiary enterprises)			
		Remuneration (A)		Pension upon retirement (B)		Remuneration to director (C)			Service Expenses (D)		Wages, bonuses, and special allowances, etc. (E)		Pension upon retirement (F)				Employee Compensation (G)		
		the Company	Companies included into the financial statement	the Company	Companies included into the financial statement	the Company	Companies included into the financial statement		the Company	Companies included into the financial statement	the Company	Companies included into the financial statement	the Company	Cash			Stock	Cash	Stock
Director	Niel Chang (Representative of O-Bank Co., Ltd.) Re-appoint on December 20, 2018																		
Director	Tessie Y.H. Chen (Representative of O-Bank Co., Ltd.) Resigned upon expiration of term of office on June 8, 2018																		
Director	David C.C. Chang (Representative of O-Bank Co., Ltd.)																		
Director	Mona I-Ru Lo Director, (Representative of Ming Shan Investment Co., Ltd.)																		
Director	Si-Tsong Zheng (Representative of He Zhu Investment Co., Ltd. New director elected on June 8, 2018																		

Job Title	Name	Remuneration to directors						Sum of A, B, C, and D as percentage of net income	Remuneration from concurrently servings as employees						Sum of A, B, C, D, E, F, and G as percentage of net income	Remuneration from invested non-subsidiary enterprises)		
		Remuneration (A)		Pension upon retirement (B)		Remuneration to director (C)			Service Expenses (D)		Wages, bonuses, and special allowances, etc. (E)		Pension upon retirement (F)				Employee Compensation (G)	
		the Company	Companies included into the financial statement	the Company	Companies included into the financial statement	the Company	Companies included into the financial statement		the Company	Companies included into the financial statement	the Company	Companies included into the financial statement	the Company	Companies included into the financial statement			Cash	Stock
Director	Jian-Jie Dai (Representative of He Zhu Investment Co., Ltd.) New director elected on June 8, 2018 ; Resigned upon re-appointm ent on December 3, 2018																	
Director	Ming-Sheng Zheng (Representative of He Zhu Investment Co., Ltd.) Resigned upon re-appointm ent on December 3, 2018																	
Director	Sekin Chen Resigned upon expiration of term of office on June 8, 2018																	
Independ-ent Director	Herbert Chung Resigned upon expiration of term of office on June 8, 2018																	
Independ-ent Director	Hung-Mao Tien Resigned upon expiration of term of office on June 8, 2018																	
Independ-ent Director	Wayne W. Wu																	

Job Title	Name	Remuneration to directors								Sum of A, B, C, and D as percentage of net income		Remuneration from concurrently servings as employees						Sum of A, B, C, D, E, F, and G as percentage of net income		Remuneration from invested non-subsidiary enterprises)		
		Remuneration (A)		Pension upon retirement (B)		Remuneration to director (C)		Service Expenses (D)				Wages, bonuses, and special allowances, etc. (E)		Pension upon retirement (F)		Employee Compensation (G)						
		the Company	Companies included into the financial statement	the Company	Companies included into the financial statement	the Company	Companies included into the financial statement	the Company	Companies included into the financial statement	the Company	Companies included into the financial statement	the Company	Companies included into the financial statement	the Company	Companies included into the financial statement	the Company	Cash	Stock	Companies included into the financial statement			
Cash	Stock																					
Independent Director	Chung-Ho Chen New director elected on June 8, 2018																					
Independent Director	An-Wei Su New director elected on June 8, 2018																					
Total		17,206	17,206	Nil	Nil	20,901	20,901	1,758	1,758	2.99	2.99%	6,615	6,615	Nil	Nil	904	Nil	904	Nil	3.55%	3.55%	Nil

Note: Directors' remuneration for concurrently serving as employees and compensation paid to employees were disclosed based on the actual allocated figures and estimated figures.

Breakdown of remuneration to directors (NT\$)	Directors			
	Sum of foregoing four items (A+B+C+D)		Sum of foregoing seven items (A+B+C+D+E+F+G)	
	the Company	Companies included into the financial statement	the Company	Companies included into the financial statement
Below 2,000,000	Jonathan C.H. Wei 、 Tessie Y.H. Chen 、 David C.C. Chang 、 Roger Y.F. Lin 、 Niel Chang 、 Mona I-Ru Lo 、 Si-Tsong Zheng 、 Jian-Jie Dai 、 Ming-Sheng Zheng 、 Chih-Ming Chien 、 Herbert Chung 、 Hung-Mao Tien 、 Chung-Ho Chen 、 An-Wei Su	Jonathan C.H. Wei 、 Tessie Y.H. Chen 、 David C.C. Chang 、 Roger Y.F. Lin 、 Niel Chang 、 Mona I-Ru Lo 、 Si-Tsong Zheng 、 Jian-Jie Dai 、 Ming-Sheng Zheng 、 Chih-Ming Chien 、 Herbert Chung 、 Hung-Mao Tien 、 Chung-Ho Chen 、 An-Wei Su	Jonathan C.H. Wei 、 Tessie Y.H. Chen 、 David C.C. Chang 、 Roger Y.F. Lin 、 Niel Chang 、 Mona I-Ru Lo 、 Si-Tsong Zheng 、 Jian-Jie Dai 、 Ming-Sheng Zheng 、 Herbert Chung 、 Hung-Mao Tien 、 Chung-Ho Chen 、 An-Wei Su	Jonathan C.H. Wei 、 Tessie Y.H. Chen 、 David C.C. Chang 、 Roger Y.F. Lin 、 Niel Chang 、 Mona I-Ru Lo 、 Si-Tsong Zheng 、 Jian-Jie Dai 、 Ming-Sheng Zheng 、 Herbert Chung 、 Hung-Mao Tien 、 Chung-Ho Chen 、 An-Wei Su
2,000,000 (inclusive) ~ 5,000,000	Mingshan Investment, He Zhu Investment, Wayne W. Wu	Mingshan Investment, He Zhu Investment, Wayne W. Wu	Mingshan Investment, He Zhu Investment, Wayne W. Wu	Mingshan Investment, He Zhu Investment, Wayne W. Wu
5,000,000 (inclusive) ~ 10,000,000	Cheng-Ching Wu ,Chih-Ming Chien	Cheng-Ching Wu, Chih-Ming Chien	Cheng-Ching Wu, Chih-Ming Chien	Cheng-Ching Wu, Chih-Ming Chien
10,000,000 (inclusive) ~ 15,000,000	Nil	Nil	Nil	Nil
15,000,000 (inclusive) ~ 30,000,000	O-Bank	O-Bank	O-Bank	O-Bank
30,000,000 (inclusive) ~ 50,000,000	Nil	Nil	Nil	Nil
50,000,000 (inclusive) ~ 100,000,000	Nil	Nil	Nil	Nil
Above 100,000,000	Nil	Nil	Nil	Nil
Total	19 persons	19 persons	19 persons	19 persons

(II) Remuneration to president and vice presidents this year

Unit: NT\$1,000

Record date: December 31, 2018

Job Title	Name	Wages (A)		Pension upon retirement (B)		Bonuses and special allowances, etc. (C)		Employee Compensation (D)				Sum of A, B, C, and D as percentage of net income		Remuneration from invested non-subsidiary enterprise(s)
		the Company	Companies included into the financial statement	the Company	Companies included into the financial statement	the Company	Companies included into the financial statement	the Company		Companies included into the financial statement		the Company	Companies included into the financial statement	
								Cash	Stock	Cash	Stock			
President	Chih-Ming Chien	14,111	14,111	Nil	Nil	11,887	11,887	3,163	Nil	3,163	Nil	2.18%	2.18%	Nil
Senior Executive Vice President	Alex Tu													
Senior Executive Vice President (Retired compulsorily on June 1, 2018)	Li-Fei Chiu													
Chief Auditor	Chao-Ku Wang													
Executive Vice President	Yi-Tien Chen													
Executive Vice President	Wen -Tsung Chen													

Note: The pension upon retirement was allocated as NT\$4,926,075 in 2018. Bonus and employee compensation were disclosed based on the actual allocated figures and estimated figures.

Breakdown of remuneration to president and vice presidents (NT\$)	President and vice presidents	
	the Company	Companies included into the financial statement
Below 2,000,000	Li-Fei Chiu	Li-Fei Chiu
2,000,000 (inclusive) ~ 5,000,000	Chao-Ku Wang 、 Wen -Tsung Chen 、 Yi-Tien Chen	Chao-Ku Wang 、 Wen -Tsung Chen 、 Yi-Tien Chen
5,000,000 (inclusive) ~ 10,000,000	Chih-Ming Chien 、 Alex Tu	Chih-Ming Chien 、 Alex Tu
10,000,000 (inclusive) ~ 15,000,000	Nil	Nil
15,000,000 (inclusive) ~ 30,000,000	Nil	Nil
30,000,000 (inclusive) ~ 50,000,000	Nil	Nil
50,000,000 (inclusive) ~ 100,000,000	Nil	Nil
Above 100,000,000	Nil	Nil
Total	6 persons	6 persons

(III) Managers receiving employee compensation and state of distribution

Unit: NT\$1,000

Record date: December 31, 2018

	Job Title	Name	Stock	Cash	Total	The sum as percentage of net income (%)
Managers	President	Chih-Ming Chien	Nil	5,765	5,765	0.43%
	Senior Executive Vice President & Chief, Corporate Finance Department	Alex Tu				
	Chief Auditor	Chao-Ku Wang				
	Executive Vice President, Fixed Income Products Department	Yi-Tien Chen				
	Vice President, Equity Products Department	I-Chih Chou				
	Vice President, Risk Management Department	Yi-Chang Kan				
	Manager, Operation Department	Min-Mei Huang				
	Assistant Vice President, Administration Department (March 1, 2019) and also Corporate Governance Officer	Hou-Sheng Yu				
	Vice President, Information Technology Department	Hung-Ta Chou				
	Vice President, Legal & Compliance Department	Chen-Cheng Hsieh				
	Senior Executive Vice President & Chief, Kaohsiung Branch (Transferred on June 1, 2018)	Wen -Tsung Chen				
	Vice President, Tainan Branch (Transferred on June 1, 2018)	Ming- Chi Chou				
	Vice President, Taichung Branch	Wei-Min Cho				

	Vice President, Taoyuan Branch	Jen-Chien Chen				
	Vice President, Banqiao Branch (Promoted on June 1, 2018)	Chung-Hsien Tsao				

Note: The employee compensation was disclosed based on the estimated figures.

IV. Ratio of directors', presidents' and vice presidents' remuneration to net income after tax of the entity or individual financial report in the most recent two years, and remuneration policies, standards and packages; procedures for determining remuneration and its connection with business performance and future risk exposure.

- (1) Ratio of directors' presidents' and vice presidents' remuneration to net income after tax:

Ratio of directors' presidents' and vice presidents' remuneration to net income after tax of the entity or individual financial report in 2018 is 5.73%.

Ratio of directors' presidents' and vice presidents' remuneration to net income after tax of the entity or individual financial report in 2017 is 5.24%.

- (2) Remuneration policies, standards and packages; procedures for determining remuneration and its connection with business performance and future risk exposure:

In addition to the monthly remuneration and transportation allowance (to be paid subject to the actual attendance of meeting), the directors' remuneration would be allocated pursuant to the Articles of incorporation, subject to the profit status for then year, and the allocation, if any, shall be reported to the remuneration committee, and approved upon resolution made by a directors' meeting and reported to a shareholders' meeting. Notwithstanding, independent directors should be excluded from the allocation of remuneration. The remuneration to the company's chairman, president, vice presidents and managers should be subject to the review and approval by the remuneration committee on a yearly basis. The bonus was allocated in the manner referred to in the "regulations governing provision and allocation of year-end bonus" passed upon resolution by a directors' meeting, which were established in line with the transformation in the industrial environment (future risks) and in order to practice the spirit in linking bonus with performance. The bonus was categorized into trading and non-trading business performance bonus. The trading business performance bonus was allocated or written off subject to the accumulated earnings. The non-trading business performance bonus was allocated or written off subject to the accumulated roe before tax. Both were allocated physically together with employee bonus at the end of the year.

Three. Status of Corporate Governance

I. Operation of the Board of Directors

(I) Board member diversity policy

The composition of the Company's Board of Directors adopted a diversity policy. The Company formulated an appropriate policy on diversity based on the Company's business operation, business type, and development needs, and practiced the diversity principles about directors based on such basic requirements as gender, age, nationality and culture. The directors also held the professional knowledge, expertise and experience in different areas.

Each board member held the necessary knowledge, skills, and experience to perform their duties. In order to achieve the goal for corporate governance, the Company's "Corporate Governance Best-Practice Principles" have expressly defined the functions to be held by the entire Board of Directors.

For details, please refer to the “Corporate Governance Best-Practice Principles of China Bills Finance Corporation”.

The Company’s directors who hold the position as employees accounted for 9% of the whole directors, and 27% of the independent directors. Female directors accounted for 9% thereof. Two independent directors served the term of office for less than one year. One independent director served the term of office less than 4 years. Three directors’ ages range from 71 to 75 years old. Two directors’ ages range from 61 to 70 years old. Three directors’ ages range from 51 to 60 years old. Three directors’ ages range from 40 to 50 years old.

Status of practice about diversity of Board members

Record date: March 19, 2019

Item Name	Gender	Ability to make judgments about operations	Accounting and financial analysis ability	Business management ability	Industrial area	International market perspective	Leadership ability	Decision-making ability
Cheng-Ching Wu	Male	V	V	V	V	V	V	V
Chih-Ming Chien	Male	V	V	V	V	V	V	V
David C.C. Chang	Male	V	V	V	V	V	V	V
Niel Chang	Male	V	V	V	V	V	V	V
Roger Y.F. Lin	Male	V	V	V	V	V	V	V
Mona I-Ru Lo	Female	V	-	V	V	V	V	V
Si-Tsong Zheng	Male	V	V	V	V	V	V	V
Ming-Sheng Zheng	Male	V	V	V	V	V	V	V
Wayne W. Wu	Male	V	-	V	-	V	V	V
Zhong-He Chen	Male	V	V	V	V	V	V	V
An-Wei Su	Male	V	V	V	V	V	V	V

(II) Status of members' attendance

The board held 17(a) meetings in the most recent year. The attendance of directors is summarized as follows:

Record date: March 19, 2019

Job Title	Name	Actual presence (attendance) counts (B)	Counts of presence by proxy	Actual presence (attendance) rate (%) (B/A)	Remarks
Chairman	Cheng-Ching Wu (Representative of O-Bank Co., Ltd.)	17	0	100.00%	
Director and also President	Chih-Ming Chien (Representative of O-Bank Co., Ltd.)	17	0	100.00%	

Job Title	Name	Actual presence (attendance) counts (B)	Counts of presence by proxy	Actual presence rate (%) (B/A)	Remarks
Director	David C.C. Chang (Representative of O-Bank Co., Ltd.)	16	1	94.12%	
Director	Jonathan C.H. Wei (Representative of O-Bank Co., Ltd.)	13	1	92.86%	Resigned upon re-appointment on December 20, 2018; Held a total of 14 meetings during the term of office
Director	Niel Chang (Representative of O-Bank Co., Ltd.)	3	0	100.00%	Succeeded upon re-appointment on December 20, 2018; Held a total of 3 meetings during the term of office
Director	Tessie Y.H. Chen (Representative of O-Bank Co., Ltd.)	7	0	100.00%	Resigned upon expiration of the term of office; held a total of 7 meetings during the term of office.
Director	Roger Y.F. Lin (Representative of O-Bank Co., Ltd.)	16	0	94.12%	
Director	Mona I-Ru Lo (Representative of Ming Shan Investment Co., Ltd.)	14	0	82.35%	
Director	Si-Tsong Zheng (Representative of He Zhu Investment Co., Ltd.)	10	0	90.91%	New director elected on June 8, 2018; held a total of 11 meetings during the term of office.
Director	Jian-Jie Dai (Representative of He Zhu Investment Co., Ltd.)	7	0	100.00%	New director elected on June 8, 2018, and resigned upon re-appointment on December 3, 2018 Held a total of 7 meetings during the term of office.
Director	Ming-Sheng Zheng (Representative of He Zhu Investment Co., Ltd.)	4	0	100.00%	Succeeded upon re-appointment on December 3 2018; Held a total of 4 meetings during the term of office.
Director	Sekin Chen	7	0	100.00%	Resigned upon expiration of the term of office; held a total of 7 meetings during the term of office.
Independent Director	Herbert Chung	7	0	100.00%	Resigned upon expiration of the term of office; held a total of 7 meetings during the term of office.
Independent Director	Hung-Mao Tien	7	0	100.00%	Resigned upon expiration of the term of office; held a total of 7 meetings during the term of office.
Independent Director	Wayne W. Wu	17	0	100.00%	
Independent Director	Zhong-He Chen	11	0	100.00%	New director elected on June 8, 2018; held a total of 11 meetings during the term of office.
Independent Director	An-Wei Su	11	0	100.00%	New director elected on June 8, 2018; held a total of 11 meetings during the term of office.

Note: The company has elected the new directors at the shareholders' meeting on June 8, 2018.

Other items to be stated:

- I. Where the operation of the Board of Directors meets any of the following circumstances, the minutes concerned shall clearly state the meeting date, term, contents of motions, opinions of all independent directors and the Company's resolution of said opinions:
 - (I) The circumstances referred to in Article 14-3 of the Securities and Exchange Act;
 - (II) Any other resolution(s) passed but with independent directors voicing opposing or qualified opinions on the record or in writing: None.
- II. In instances where a director recused himself/herself due to a conflict of interest, the minutes shall clearly state the director's name, contents of the proposal and resolution thereof, reason for not voting and actual voting counts: See the following chart.

Date of Directors' Meeting/Term of Board of Directors	Contents of Motions and Resolutions	Securities and Exchange Act §14-3 of the circumstances referred to in	Independent directors voicing opposing or qualified opinions
34th meeting of the Board of Directors of 13th term on February 2, 2018	The motion for the statement of allocation of performance bonus to the personnel holding the position as manager and above in 2017 was submitted for review and approval. The Company's resolution of the independent director's opinions: None. (Chaired by Director Wayne W. Wu) Resolution: Except Chairman Cheng-Ching Wu and Director & President Chih-Ming Chien, who recused themselves from the discussion and voting for conflict of interest pursuant to laws, the motion was agreed upon by the remaining present directors unanimously.	✓	None
35th meeting of the Board of Directors of 13th term on February 26, 2018	The motion for renewed appointment by the Company of "Deloitte Taiwan" to perform the audit, certification and related services on finance and taxation in 2018 was submitted for review and approval. The Company's resolution of the independent director's opinions: None. Resolution: The motion was agreed upon by all of the present directors unanimously.	✓	None
37th meeting of the Board of Directors of 13th term on April 24, 2018	The motion for acquisition and holding of the beneficial securities of O-Bank No.1 Real Estate Investment Trust Fund in the amount of NT\$150 million was submitted for review and approval. The Company's resolution of the independent director's opinions: None. (Chaired by Director Herbert Chung as a proxy) Resolution: Except the representatives of the corporate shareholder, O-Bank (Cheng-Ching Wu 、 Chih-Ming Chien 、 David C.C. Chang 、 Roger Y.F. Lin 、 Tessie Y.H. Chen 、 Jonathan C.H. Wei), Director Mona I-Ru Lo (the blood relative within the first degree of kinship of Chairman of O-Bank, Jin-Ming Lo), who recused themselves from the discussion and voting for conflict of interest pursuant to laws, the motion was agreed upon by the remaining present directors unanimously.	✓	None
	The motion for donation of NT\$800,000 to "O-Bank Education Foundation" to support the promotion of arts and cultures was submitted for review and approval. The Company's resolution of the independent director's opinions: None. (Chaired by Director Herbert Chung as a proxy) Resolution: Except the representatives of the corporate shareholder, O-Bank (Cheng-Ching Wu 、 Chih-Ming Chien 、 David C.C. Chang 、 Roger Y.F. Lin 、 Tessie Y.H. Chen 、 Jonathan C.H. Wei), Director Mona I-Ru Lo (the blood relative within the first degree of kinship of Chairman of O-Bank, Jin-Ming Lo), Independent Director Hung-Mao Tien (director of the foundation), who recused themselves from the discussion and voting for conflict of interest pursuant to laws, the motion was agreed upon by the remaining present directors unanimously.	✓	None

Date of Directors' Meeting/Term of Board of Directors	Contents of Motions and Resolutions	Securities and Exchange Act §14-3 of the circumstances referred to in	Independent directors voicing opposing or qualified opinions
	The motion for review on the name list of candidates for directors (independent directors) of the Board of Directors of 14th term was submitted for review and approval. The Company's resolution of the independent director's opinions: None. (Chaired by Director Herbert Chung as a proxy) Resolution: Except those who needed to recuse themselves from the review for conflict of interest (Candidate Cheng-Ching Wu recused himself from the review on his qualification as director; Candidate Chih-Ming Chien recused himself from the review on his qualification as director; Candidate David C.C. Chang recused himself from the review on his qualification as director; Candidate Jonathan C.H. Wei recused himself from the review on his qualification as director; Candidate Roger Y.F. Lin recused himself from the review on his qualification as director; Candidate Mona I-Ru Lo recused himself from the review on his qualification as director; Candidate Wayne W. Wu recused himself from the review on his qualification as director), the other present directors were held qualified as the nominated candidates pursuant to the relevant requirements and, therefore, included into the name list of candidates for directors (independent directors) at the general shareholders' meeting 2018.	✓	None
	The motion for the statement of allocation of remuneration to directors in 2017 was submitted for review and approval. The Company's resolution of the independent director's opinions: None. (Chaired by Director Herbert Chung as a proxy) Resolution: Except the representatives of the corporate shareholder, O-Bank(Cheng-Ching Wu 、Chih-Ming Chien 、David C.C. Chang 、Roger Y.F. Lin 、Tessie Y.H. Chen 、Jonathan C.H. Wei), the representative of the corporate shareholder, Mingshan Investment Co., Ltd., (Director Mona I-Ru Lo), and Director Sekin Chen, who recused themselves from the discussion and voting for conflict of interest pursuant to laws, the motion was agreed upon by the remaining present directors unanimously.	✓	None
	The motion for the statement of allocation of remuneration to the management holding the position as president, department and branch managers and above in 2017 was submitted for review and approval. The Company's resolution of the independent director's opinions: None. Resolution: Except Director and also President Chih-Ming Chien, who recused himself from the discussion and voting for conflict of interest pursuant to laws, the motion was agreed upon by the remaining present directors unanimously.	✓	None

Date of Directors' Meeting/Term of Board of Directors	Contents of Motions and Resolutions	Securities and Exchange Act §14-3 of the circumstances referred to in	Independent directors voicing opposing or qualified opinions
	The motion for the raise by no more than 2.48% as of April 1 based on the range of raise applicable in the same trade in 2018 was submitted for review and approval. The Company's resolution of the independent director's opinions: None. (Chaired by Director Herbert Chung as a proxy) Resolution: Except Chairman Cheng-Ching Wu and Director & President Chih-Ming Chien, who recused themselves from the discussion and voting for conflict of interest pursuant to laws, the motion was agreed upon by the remaining present directors unanimously.	✓	None
38th meeting of the Board of Directors of 13th term on May 23, 2018	The motion for authorization of salary to the Company's Chairman and managers was submitted for review and approval. The Company's resolution of the independent director's opinions: None. (Chaired by Director Wayne W. Wu as a proxy) Resolution: Except Chairman Cheng-Ching Wu and Director & President Chih-Ming Chien, who recused themselves from the discussion and voting for conflict of interest pursuant to laws, the motion was agreed upon by the remaining present directors unanimously.	✓	None
1st meeting of the Board of Directors of 14th term on June 8, 2018	Proposed by the Chairman: The motion for immediate renewed appointment of President Chih-Ming Chien as the Company's new president of 14th term to hold the term of office until June 7, 2021 under the same employment terms and conditions was submitted for review and approval. The Company's resolution of the independent director's opinions: None. Resolution: Except Director and also President Chih-Ming Chien, who recused himself from the discussion and voting for conflict of interest pursuant to laws, the motion was agreed upon by the remaining present directors unanimously.	✓	None
8th meeting of the Board of Directors of 14th term on December 18, 2018	The motion for subscription for the negotiable term deposit certificate and financial bonds offered by O-Bank and underwriting of interbank loans/deposit operations for the total positions no more than NT\$4 billion in 2019 to be in line with the business planning was submitted for review and approval. The Company's resolution of the independent director's opinions: None. (Chaired by Dependent Director Wayne W. Wu as a proxy) Resolution: Except the representatives of the corporate shareholder, O-Bank(Cheng-Ching Wu 、Chih-Ming Chien 、David C.C. Chang 、Roger Y.F. Lin 、Jonathan C.H. Wei),, Director Mona I-Ru Lo (the blood relative within the first degree of kinship of Chairman of O-Bank, Jin-Ming Lo), who recused themselves from the discussion and voting for conflict of interest pursuant to laws, the motion was agreed upon by the remaining present directors unanimously.	✓	None

Date of Directors' Meeting/Term of Board of Directors	Contents of Motions and Resolutions	Securities and Exchange Act §14-3 of the circumstances referred to in	Independent directors voicing opposing or qualified opinions
9th meeting of the Board of Directors of 14th term on January 28, 2019	The motion for the statement of allocation of performance bonus to the personnel holding the position as manager and above in 2018 was submitted for review and approval. The Company's resolution of the independent director's opinions: None. Resolution: Except Chairman Cheng-Ching Wu and Director & President Chih-Ming Chien, who recused themselves from the discussion and voting for conflict of interest pursuant to laws, the motion was agreed upon by the remaining present directors unanimously.	✓	None
10th meeting of the Board of Directors of 14th term on February 26, 2019	The motion for amendments to certain articles of the Company's "Operating Procedure for the Acquisition and Disposal of Assets" was submitted for review and approval. The Company's resolution of the independent director's opinions: None. Resolution: The motion was agreed upon by all of the present directors unanimously and reported to the general shareholders' meeting 2019.	✓	None
	Proposed by the Chairman: The motion for appointment of the Vice President of Management Department of the Company, Hou-Sheng Yu, to hold the position as the Company's Corporate Governance Officer concurrently and effectively as of March 1, 2019 was submitted for review and approval. The Company's resolution of the independent director's opinions: None. Resolution: The motion was agreed upon by all of the present directors unanimously.	✓	None
	The motion for renewed appointment by the Company of "Deloitte Taiwan" to perform the audit, certification and related services on finance and taxation in 2018 was submitted for review and approval. The Company's resolution of the independent director's opinions: None. Resolution: The motion was agreed upon by all of the present directors unanimously.	✓	None

III. Measures undertaken during the current year and past year in order to strengthen the functions of the Board of Directors (such as the establishment of an audit committee and improvement of information transparency, etc.) and assessment of their implementation:

Please refer to the Company's annual report, "Three. Status of Corporate Governance", II. Operation of the Audit Committee (Pages 47~51) and V. Composition, Duties and Operations of the Remuneration Committee (Pages 59~62).

II. Annual highlights and operations of Audit Committee

(I) The highlights of annual review include:

Review on internal control system and related policies	Appraisal on the validity of internal control system
Review on annual internal audit plan	Corporate risk management
Major acquisition or disposition of assets	Review on motions involving directors' own interests
Review on major assets or derivatives transactions	Review on raising, offering or private placement of equity securities
Review on appointment, dismissal or fees of independent directors	Review on appointment/dismissal of financial, accounting or internal audit officers
Review on annual financial statements or semi-annual financial statements	Review on implementation of the compliance system

(II) The audit committee held 12 (A) meetings in the most recent year. The attendance of independent directors is summarized as follows:

Record date: March 19, 2019

Job Title	Name	Actual presence (attendance) counts (B)	Counts of presence by proxy	Actual presence (attendance) rate (%) (B/A)	Remarks
Independent Director	Zhong-He Chen	7	0	100	New independent director elected on June 8, 2018
Independent Director	Wayne W. Wu	12	0	100	
Independent Director	An-Wei Su	7	0	100	New independent director elected on June 8, 2018
Independent Director	Hung-Mao Tien	5	0	100	Resigned upon re-election on June 8, 2018
Independent Director	Herbert Chung	5	0	100	Resigned upon re-election on June 8, 2018

Other items to be stated:

I. Where the operation of the Audit Committee meets any of the following circumstances, the minutes concerned shall clearly state the meeting date, term, contents of motions, Audit Committee's resolution and the Company's resolution of Audit Committee's opinions:

(I) The circumstances referred to in Article 14-5 of the Securities and Exchange Act:

Date of Directors' Meeting	Term of Board of Directors	Contents of Motion	Resolution by Audit Committee	The Company's resolution of Audit Committee's opinions
January 16, 2018	33rd meeting of the Board of Directors of 13th term	1. The response to the "Corrective action report on deficiencies" found in the FSC's inspection report on the Company's anti-money laundering and countering of terrorism financing project in August 2017 was reported for review. 2. Amendments to certain articles of the "Regulations Governing Loans by China Bills Finance Corporation".	Approved or acknowledged by all of the present members unanimously.	The motions were approved by all of the present members unanimously.
February 26, 2018	35th meeting of the Board of Directors of 13th term	1. Audit report on the legal compliance system in the second half of 2017. 2. The "Continued report on corrective actions against the inspection opinions" was submitted for review. 3. The 2018 internal audit plan applied for adjusting the title of audit matters and supplementing the key points of the "operating procedure for executing the anti-money laundering and countering of terrorism financing compliance and plan". 4. 2017 financial statements and communications between the external auditor and Audit Committee. 5. 2017 business report. 6. Appointment by the Company of "Deloitte Taiwan" to perform the audit, certification and related services on finance and taxation in 2018.	Approved or acknowledged by all of the present members unanimously.	The motions were approved by all of the present members unanimously.
March 20, 2018	36th meeting of the Board of Directors of 13th term	1. Amendments to certain articles of the Company's "Articles of Incorporation". 2. Allocation of the Company's 2017 earnings.	Approved or acknowledged by all of the present members unanimously.	The motions were approved by all of the present members unanimously.
April 24, 2018	37th meeting of the Board of Directors of 13th term	1. Report on execution of the anti-money laundering and countering of terrorism financing operations from October 1, 2017 to March 31, 2018. 2. The motion for acquisition and holding of the beneficial securities of O-Bank No.1 Real Estate Investment Trust Fund in the amount of NT\$150 million. 3. Amendments to certain articles of the "Regulations Governing Identification of Qualifications of Foreign Bond Trading Counterparts". 4. The motion for donation of NT\$800,000 to "O-Bank Education Foundation".	Except for 4. the motion for donation to "O-Bank Education Foundation" in which Independent Director Tian Hong-Mao recused himself from voting pursuant to laws for conflict of interest, the motion was approved by the remaining present members unanimously. The other motions were also approved or acknowledged by all of the present members unanimously.	The motions were approved by all of the present members unanimously.
May 23, 2018	38th meeting of the Board of Directors of 13th term	1. Amendments to certain articles of the "Regulations Governing Bonus for Operation of Equity Products". 2. Draft of the "Company's Corporate Governance Best-Practice Principles" was submitted.	Approved or acknowledged by all of the present members unanimously.	The motions were approved by all of the present members unanimously.

Date of Directors' Meeting	Term of Board of Directors	Contents of Motion	Resolution by Audit Committee	The Company's resolution of Audit Committee's opinions
August 14, 2018	4th meeting of the Board of Directors of 14th term	1. Audit report on the legal compliance system in the first half of 2018. 2. Amendments to the "Regulations Governing Implementation of Legal Compliance System". 3. Draft of the "Regulations Governing Whistle-Blowing Cases" was submitted. 4. Draft of amendments to certain articles of the "Operating Procedure for Processing of Pending/ Long-Term Promissory Notes". 5. Financial statement of Q2 in 2018 was submitted.	Approved or acknowledged by all of the present members unanimously.	The motions were approved by all of the present members unanimously.
September 18, 2018	5th meeting of the Board of Directors of 14th term	1. The FSC's general business inspection report on the Company in May 2018 was submitted. 2. Amendments to certain articles of the "Regulations Governing Guarantee Business by China Bills Finance Corporation".	1. The motion was approved and acknowledged by all of the present members unanimously. The responses provided by the various on the inspection opinion should be reported to the Audit Committee for review before they are sent out. 2. All of the present members resolved unanimously that the relevant clerks should supplement related documentation and report the same at a meeting for discussion again.	For the Motion No. 1, per the members' instruction, the response to the inspection opinion has been reported to the Audit Committee for review before the same was sent out.
October 23, 2018	6th meeting of the Board of Directors of 14th term	1. The response to the "Corrective action report on deficiencies" found in the FSC's general business inspection report on the Company in May 2018 was submitted. 2. Report on execution of the anti-money laundering and countering of terrorism financing operations from April 1, 2018 to September 30, 2018. 3. Amendments to certain articles of the "Regulations Governing Guarantee Business by China Bills Finance Corporation".	1. Approved and acknowledged by all of the present members unanimously. 2. Approved and acknowledged by all of the present members unanimously. 3. The amendments were approved upon resolution by all of the present members unanimously; notwithstanding, the proportion of the future control over the locations and zones of the real estate mortgage collaterals should be further researched and reported to the Board of Director altogether.	For the Motion No. 3, per the members' instruction, the proportion of the control over the locations and zones of the real estate mortgage collaterals has been further researched and reported to the Board of Directors altogether.

Date of Directors' Meeting	Term of Board of Directors	Contents of Motion	Resolution by Audit Committee	The Company's resolution of Audit Committee's opinions
December 18, 2018	8th meeting of the Board of Directors of 14th term	1. New amendments to the "Standard Operating Procedure for Anti-money Laundering and Countering of Terrorism Financing". 2. 2019 "Anti-money laundering and countering of terrorism financing plan" was submitted. 3. 2019 Internal audit plan was submitted. 4. The motion for subscription for the negotiable term deposit certificate and financial bonds offered by O-Bank and underwriting of interbank loans/deposit operations for the total positions no more than NT\$4 billion in 2019. 5. Amendments to certain articles of the "Articles of Association".	Approved or acknowledged by all of the present members unanimously.	The motions were approved by all of the present members unanimously.
January 28, 2019	9th meeting of the Board of Directors of 14th term	1. Draft of amendments to certain articles of the "Regulations Governing Bond Trading and Risk Positions". 2. Appointment by the Company of "Deloitte Taiwan" to perform the audit on anti-money laundering and countering of terrorism and personal information protection operations in 2018. 3. Draft of the "Information Security Policy".	1. The motion was approved by all of the present members unanimously. Notwithstanding, with respect to the approved motion, Fixed Income Products Department was required to report the schedule for modification of the business trading system and planning of the online real-time facility control function to each director at the directors' meeting held on January 28. 2. Approved by all of the present members unanimously. 3. Approved by all of the present members unanimously.	For the Motion No. 1, per the members' instruction, the schedule for modification of the business trading system and planning of the online real-time facility control function has been reported at the directors' meeting held on January 28.

Date of Directors' Meeting	Term of Board of Directors	Contents of Motion	Resolution by Audit Committee	The Company's resolution of Audit Committee's opinions
February 26, 2019	10th meeting of the Board of Directors of 14th term	1. Report on execution of the anti-money laundering and countering of terrorism financing operations from October 1, 2018 to December 31, 2018. 2. Audit report on the legal compliance system in the second half of 2018. 3. The response to the "Continued report on corrective actions against the inspection opinions" in the FSC's general business inspection report on the Company in May 2018. 4. 2018 financial statements were submitted. 5. The motion for appointment by the Company of "Deloitte Taiwan" to perform the audit, certification and related services on finance and taxation in 2019. 6. The statement of allocation of the Company's 2018 earnings was drafted. 7. 2018 business report was submitted. 8. Amendments to certain articles of the Company's "Operating Procedure for the Acquisition and Disposal of Assets". 9. Draft of amendments to certain articles of the "Regulations Governing Short-Term Bills".	Approved or acknowledged by all of the present members unanimously.	The motions were approved by all of the present members unanimously.

(II) Aside from said circumstances, resolution(s) not passed by the audit committee but receiving the consent of two thirds of the Board of Directors: None.

II. In instances where an independent director recused himself/herself due to a conflict of interest, the minutes shall clearly state the director's name, contents of the motion and resolution thereof, reason for not voting and actual voting counts:

On April 23, 2018, Audit Committee recused itself from voting for the motion for donation of the fund to O-Bank Education Foundation, on the ground that Independent Director Hong-Mao Tian also served as a director of the Foundation.

III. Communication between independent directors and internal auditing officers as well as CPAs:

Auditing Department will prepare and send various reports (e.g. the general inspection report and project inspection report) to independent directors and Audit Committee for review pursuant to laws on a monthly basis. Meanwhile, the chief internal audit officer will summarize the report at a directors' meeting. The independent directors will communicate with the CPAs, in writing or via conference, for the key audit matters and mode of audit adopted by the CPAs with respect to the financial statements periodically and also arrange the CPAs to attend the Audit Committee meeting at the time of the annual audit. Accordingly, the communication between all parties is fair.

III. Items to be disclosed in accordance with the Corporate Governance Best-Practice Principles for Bills Finance Corporations

The related items to be disclosed pursuant to laws, including the Company's finance, business, insiders' shareholdings and corporate governance matters, are all disclosed on the Company's website at <http://www.cbf.com.tw>, and also disclosed at the MOPS at <http://mops.twse.com.tw>

IV. Status of the Company's corporate governance, departures from the Corporate Governance Best-Practice Principles for Bills Finance Corporations and reasons for such departures

Scope of Assessment	Status			Departures from the Corporate Governance Best-Practice Principles for Bills Finance Corporations and Reasons Thereof
	Yes	No	Summary	
I. Equity structure and shareholders' rights of bills finance corporation				
(I) Whether the Company deals with suggestions, questions, disputes and legal actions from shareholders adequately?	✓		(I) In order to ensure the shareholders' equity, the Company has the dedicated personnel from Management Department responsible for dealing with the suggestions or disputes from shareholders.	(I) Compliance
(II) Whether the Company controls a register of major shareholders who own a relatively high percentage of shares and have controlling power, and of the persons with ultimate control over those major shareholders?	✓		(II) The Company appoints dedicated personnel to deal with the relevant shareholders service matters, and follows up and verifies the register of the major shareholders and the persons with ultimate control from time to time.	(II) Compliance
(III) Whether the Company establishes or implements some risk control and firewall mechanisms between it and its affiliates?	✓		(III) The guarantee business and any transactions other than guarantee business between the Company and its affiliates are controlled in accordance with the related operating procedures and regulations established by the various units in accordance with the Act Governing Bills Finance Business and the Banking Act of The Republic of China.	(III) Compliance
II. Composition and responsibilities of Board of Directors				
(I) Whether the Company appoints any independent director? Whether it establishes any other functional committees?	✓		(I) The Company has three independent directors. For the time being, the Company establishes the Remuneration Committee and Audit Committee pursuant to laws.	(I) Compliance
(II) Whether the Company assesses the independence of the external auditor periodically?	✓		(II) The Company's Audit Committee and Board of Directors assess the independence and competency of the independent external auditors each year. Before appointing the	(II) Compliance

Scope of Assessment	Status			Departures from the Corporate Governance Best-Practice Principles for Bills Finance Corporations and Reasons Thereof
	Yes	No	Summary	
			independent external auditors each year, the Company will ask them to issue their statement of declaration of independence. After the Company reviews the same and confirms that no financial interest or business relations, other than the services about certification on finance and taxation, exist between the independent external auditors and the Company and none of their family members is held breaching the requirements about their independence, the Company will submit the motion for appointment of the independent external auditors to the Audit Committee and Board of Directors. The independent external auditors' statement of declaration of independence will also be submitted to the Audit Committee and Board of Directors when the Committee and Board are discussing about the motion for appointment of the independent external auditors. Where any new independent external auditor is retained, the new auditor's resume will also be submitted to the Audit Committee and Board of Directors members for assessment on the new auditor's independence and competency.	
III. Where the Company is a TWSE/TPEX-listed company, whether it has delegated the unit or personnel dedicated to (concurrently in charge of) corporate governance (including but not limited to, provision of information required by directors for carrying out business, organization of directors' meetings and shareholders' meetings, registration of incorporation and registration of changes, and production of directors'	✓		The Company delegated the corporate governance officer, who would be served by the Vice President of Management Department of the Company concurrently (Management Department is in charge of processing the affairs related to directors' meetings and shareholders' meetings pursuant to laws). Meanwhile, the Company designated dedicated personnel to help with the corporate governance matters. The Company's corporate governance affairs are in charge of by the Company's Corporate Governance Officer, and aided by 3 staff from the Legal & Compliance Department and 5 staff from the Management Department, including	Compliance

Scope of Assessment	Status			Departures from the Corporate Governance Best-Practice Principles for Bills Finance Corporations and Reasons Thereof
	Yes	No	Summary	
meeting and shareholders' meeting minute)?			processing of the legal advice on directors' meetings and shareholders' meetings, helping the directors with compliance affairs, processing of the affairs related to directors' meetings and shareholders' meetings pursuant to laws, production of the directors' meeting and shareholders' meeting minute, provision of information required by directors for carrying out business, helping the directors with their assumption of the position and continuing education, investor relations and any other requirements under the Articles of Incorporation or by contract. The implementation of the Company's corporate governance affairs in 2018 is as follows. • In accordance with the related operating procedures and regulations, the Company established its "Corporate Governance Best-Practice Principles", and had the same approved at meeting of the Board of Directors on May 23, 2018. The "Code of Ethics" was approved at meeting of the Board of Directors in December, 2017, and so were the second amendments to the "Procedures for Ethical Management and Guidelines for Conduct" as well. Both motions were implemented upon approval by the general shareholders' meeting on June 8, 2018. • Held the general shareholders' meeting on June 8, 2018 and completed the election of directors as well as the production of shareholders' meeting minutes. • Held 6 meetings of the Board of Directors of 13th term (from January to May) and 8 meetings of the Board of Directors of 14th term (from June to December), with the production of directors' meeting minutes each time. • Helped the directors with their assumption of the position and continuing education: 14th new directors elected completed the education pursuant to the relevant requirements. The Company will assist the new directors re-appointed, Ming-Sheng Zheng and Niel Chang, to complete the education pursuant to the relevant requirements.	

Scope of Assessment	Status			Departures from the Corporate Governance Best-Practice Principles for Bills Finance Corporations and Reasons Thereof
	Yes	No	Summary	
			• Held the investor conference on June 25, 2018 as required. • Held a forum for the directors of O-Bank and CBF, of which the theme was about ethical management. • Held two forums to discuss the deficiencies of internal control system (March and September, 2018), arranging independent directors and all of the directors to communicate with the internal auditors. • Assisted the Chairman to submit the motion for appointment of the Company's Corporate Governance Officer, which was approved by the directors' meeting in February 2019 with the consequence that Vice President of Management Department of the Company, Hou-Sheng Yu, held the position as the Company's Corporate Governance Officer.	
IV. Whether the Company establishes communication channels with stakeholders (including but not limited to, shareholders, employees, and customers, etc.)?	✓		The Company's website at www.cbf.com.tw has set up the "Stakeholders Section" covering the types of stakeholder, important concerns, the Company's main responsibility, communication channels and responses, and also providing the complaint mailbox to be responded by dedicated personnel.	Compliance
V. Information Disclosure				
(I) Whether the Company establishes a corporate website to disclose information concerning financial affairs and corporate governance?	✓		(I) The Company's website at www.cbf.com.tw is equipped with the investor conference information section dedicated to disclosing the information about the Company's finance, operation and corporate governance, which will be updated by dedicated personnel from time to time for access by shareholders and the public.	(I) Compliance
(II) Whether the Company adopts other information disclosure channels (e.g. English website, assignment of specific personnel to collect and disclose the Company's information, implementation of a spokesperson system, and	✓		(II) The Company has established a spokesperson system, under which press conferences, presentations and important messages will be held and announced in a timely manner, and also posted on the "MOPS". Meanwhile, the Company will assign dedicated personnel to collect and disclose the Company's information.	(II) Compliance

Scope of Assessment	Status			Departures from the Corporate Governance Best-Practice Principles for Bills Finance Corporations and Reasons Thereof
	Yes	No	Summary	
the broadcasting of investor conferences via the Company's website)?			The Company also has set up an English website accessible by foreign investors for reference. The Company has held the investor conference 2018 on June 25, 2018 as required. The related information thereof was posted on the Company's official website.	
VI. Other information enabling better understanding of the Company's corporate governance (e.g. employee interests and rights, employee care, investor relations, stakeholders' interests and rights, continuing education of directors, status of directors' attendance at the directors' meetings, implementation of risk management policies and risk measurement criteria, implementation of consumer or customer policy, purchase of liability insurance by the Company for directors, and corporate social responsibility)?	✓		(I) Employee interests and rights: Subject to the Labor Standard Act and the Company's work rules. (II) Employee care: The Company established the Employee Welfare Committee engaged in processing the employee welfare affairs, labor insurance, national health insurance and group insurance, safety and health work pursuant to the related labor safety and health laws, and plan the employee health checkup each year. (III) Investor relations: The Company's corporate shareholders (served by the representatives appointed by corporate directors) included O-Bank and Mingshan Investment Co., Ltd., in addition to another corporate director, He Zhu Investment Co., Ltd. elected at the 2018 shareholders' meeting (the two representatives appointed by it were elected). Meanwhile, in December 2018, PJ Asset Management Co., Ltd. declared to the Company that it held the shares more than 10% and, therefore, became the corporate shareholder of the Company, while the other shareholders were identified as the general investors. (IV) Stakeholders' interests and rights: The Company adopts information disclosure and uninterrupted communication channels. The employees, customers or suppliers are allowed to feed back their opinion and communicate with the Company via phone, mail and email. (V) Continuing education of directors: All of the Company's directors would	Compliance for (I)~(X)

Scope of Assessment	Status			Departures from the Corporate Governance Best-Practice Principles for Bills Finance Corporations and Reasons Thereof
	Yes	No	Summary	
			complete the continuing education for 6 hours in then year pursuant to the relevant requirements. (VI) Status of directors' attendance at the directors' meetings: All of the directors would attend the directors' meeting periodically pursuant to the relevant requirements. (VII) Implementation of risk management policy and risk measurement criteria: Pursuant to the regulations established by the competent authority, the Company would assess the Company's operational risk and set the risk limits acceptable by various operations carried out by the Company, in order to urge the management units to take any necessary actions to ensure the safety of the Company's operations and also balance the operating performance at the same time. In order to ensure the effective promotion of various risk management policies, the Company would hold the Credit Assessment meetings, asset and liability management committee meetings and investment review meetings periodically to help verify the benefits and deficiencies in the various risk controls and adjust the various risk control policies in a timely manner. (VIII) Implementation of consumer or customer policy: The Company has expressly stated the related requirements to be followed by the Company in accordance with the FSC's "Financial Consumer Protection Act" and the Company's "Consumption Dispute Resolution Regulations". Meanwhile, the Company also expressly stated the contractual terms and conditions to be followed by the Company in the "Bill/Bond Repurchase/Resale (RP/RS) Master Agreement". Consumers or customers may claim their rights based on the Contract. The Company also set up the contact	

Scope of Assessment	Status			Departures from the Corporate Governance Best-Practice Principles for Bills Finance Corporations and Reasons Thereof
	Yes	No	Summary	
			section dedicated to processing the complaints against financial consumption on the Company's website for the purpose of communication by consumers or customers. (IX) Purchase of liability insurance by the Company for directors: The Company has maintained the insurance as required. (X) Corporate social responsibility: Please refer to the fulfillment of corporate social responsibility.	

VII. Please specify the status of the correction based on the corporate governance assessment report released by the Corporate Governance Center of TWSE in the most recent year, and the priority corrective actions and measures against the remaining deficiencies.

Based on the result of the 4th Annual Corporate Governance Evaluation and the indicator of the 5th Annual Corporate Governance Evaluation released by the TWSE in April 2018, as well as the latest laws and regulations promulgated by the competent authority, the Company passed the implementation of its "Corporate Governance Best-Practice Principles" and "Code of Ethics", amended the "Procedures for Ethical Management and Guidelines for Conduct", and completed the external certification of its corporate social responsibility report in 2018.

The relevant statement is provided as follows.

Based on the "Corporate Governance Best-Practice Principles for Bills Finance Corporations" of the R.O.C. Bills Finance Association approved by FSC on January 3, 2018, the Company established its "Corporate Governance Best-Practice Principles", and had the same approved at 38th meeting of the Board of Directors of 13th term on May 23, 2018. The same has also been posted on the official website.

The "Code of Ethics" was approved at 32nd meeting of the Board of Directors of 13th term on December 19, 2017, and so were the second amendments to the "Procedures for Ethical Management and Guidelines for Conduct" as well. Both motions were implemented upon approval by the general shareholders' meeting on June 8, 2018. The "Procedures for Ethical Management and Guidelines for Conduct" have also been posted on the official website.

The Company completed the corporate social responsibility (CSR) report in 2017, and also the external certification thereof in May 2018 for the first time to upgrade the creditability of the CSR report and fulfill the corporate governance.

The Company had the Board of Directors approve the appointment of the Corporate Governance Officer in February 2019, who is served by the Assistant Vice President of Management Department concurrently. The Company's corporate governance operations are in charge of by the corporate governance officer and assisted by 3 staff from the Legal & Compliance Department and 5 staff from the Management Department separately, whose duties are stated in the following chart:

Related units	Operations and personnel	Duties
Legal & Compliance Department	It consists of 1 executive officer and 2 staff. All of the 3 persons are responsible for planning, managing and executing the compliance system to ensure effective operation of the legal compliance system and strengthen the self-discipline function.	- Process the legal advice on directors' meetings and shareholders' meetings pursuant to laws. - Help the directors comply with laws.

Scope of Assessment			Status			Departures from the Corporate Governance Best-Practice Principles for Bills Finance Corporations and Reasons Thereof
			Yes	No	Summary	
	Management Department	It consists of 1 executive officer and 4 staff. All of the 5 persons are engaged in managing and coordinating the affairs related to shareholders' service and directors' meetings.			• Process the affairs related to directors' meetings and shareholders' meetings pursuant to laws. • Produce the directors' meeting and shareholders' meeting minutes. • Provide the directors with any information required by them to perform their duties. • Help the directors with their assumption of the position and continuing education. • Investor relations affairs, and any other requirements under the Articles of Incorporation or by contract.	

V. Composition, Duties and Operations of the Remuneration Committee

(I) Information about Remuneration Committee members

Record date: March 19, 2019

Position Title (Note 1)	Qualification Name	Has at least five years of relevant working experience and the following professional qualifications			Compliance of independence (Note 2)								Number of positions as a Remuneration Committee Member in other public listed companies	Remarks (Note 3)
		Lecturer (or above) of commerce, law, finance, accounting, or any subject relevant to the Company's operations in a public or private tertiary institution	Certified judge, attorney, lawyer, accountant, or holder of professional qualification relevant to the Company's operations	Commercial, legal, financial, accounting or other work experience required to perform the assigned duties	1	2	3	4	5	6	7	8		
Independent Director	Wayne W. Wu	-	-	✓	✓	✓	✓	✓	✓	✓	✓	✓	0	Nil
Independent Director	Zhong-He Chen	-	-	✓	✓	✓	✓	✓	✓	✓	✓	✓	0	Nil
Independent Director	An-Wei i Su	-	-	✓	✓	✓	✓	✓	✓	✓	✓	✓	0	Nil

Note 1: Please specify director, independent director or others.

Note 2: "✓" is marked in the space beneath a condition number when a member has met that condition during the two years prior to election and during his or her period of service. The conditions are as follows:

- (1) Not an employee of the Company or any of its affiliates.
- (2) Not a director or supervisor of the Company or any of its affiliates, unless the person is an independent director of the Company or its parent company or any subsidiary in which the Company holds a majority of the shares with voting right, directly or indirectly.
- (3) The director, or his or her spouse or minor child, does not hold, in his or her own name or in another name, more than 1% of the Company's total outstanding shares, nor is one of the Company's ten largest natural-person shareholders.

- (4) Not a spouse, relative within the second degree of kinship, or direct blood relative within the third degree of kinship of a person listed in the three foregoing paragraphs.
- (5) Not a director, supervisor, or employee of a corporate shareholder directly holding more than 5% of the Company's total outstanding shares, nor is a director, supervisor, or employee of one of the five largest corporate shareholders in terms of shareholdings.
- (6) Neither a director, supervisor, manager, nor a shareholder holding more than 5% of the outstanding shares, of a certain company or organization that has a financial or business relationship with the Company.
- (7) Not a professional providing business, legal, financial, accounting, or consulting services to the Company or any of its affiliates, nor an owner, partner, director, supervisor, or manager, or the spouse of any of the foregoing, of a sole proprietorship, partnership, company, or organization providing such services to the Company or any of its affiliates.
- (8) Is not a person of the conditions specified in any of the sub-paragraphs of Article 30 of the Company Act.

Note 3: Where the member's position title is a director, please state whether he/she meets the circumstances referred to in Paragraph 5 of Article 6 of the "Regulations on the Establishment of Remuneration Committees by TWSE/TPEX Listed Companies and their Exercise of Powers".

(II) Duties and Responsibilities

Shall perform the following functions honestly with due diligence, and submit their motions to the Board of Directors for discussion:

1. Determine and periodically review the performance appraisal on the Company's directors and managers, and remuneration policy, system, standard and structure;
2. Periodically evaluate and determine the Company's remuneration to directors and managers.

Shall comply with the following principles before performing the functions referred to in the preceding paragraph:

- (1) For the assessment on performance and the salary and remuneration of directors and managers, the Company shall refer to the typical pay levels adopted by peer companies, and take into consideration the reasonableness of the correlation between remuneration and individual performance, the Company's business performance, and future risk exposure.
- (2) It shall not produce an incentive for the directors and managers to engage in any activity to pursue the remuneration beyond the Company's risk appetite.
- (3) It shall take into consideration the characteristics of the industry and the nature of the Company's business when determining the ratio of bonus payout based on the short-term performance of its directors and senior management and the time for payment of the variable part of remuneration.

(III) Information about operations of the Remuneration Committee

1. The Company's Remuneration Committee consists of 3 members.
2. The term of office to be served by the current members: from June 19, 2018 to June 7, 2020. The Remuneration Committee has held 5(A) meetings for in the most recent year, and the members' qualification and attendance are summarized as follows:

Record date: March 19, 2019

Job Title	Name	Actual attendance (B)	Counts of presence by proxy	Actual attendance rate (%) (B/A) [Note]	Remarks
Convener	Wayne W. Wu	5	0	100%	

Member	Zhong-He Chen	5	0	100%	
Member	An-Wei Su	5	0	100%	
Other items to be stated: I. If the Board of Directors does not adopt or amend the remuneration committee's suggestions, please specify the meeting date, term, contents of motion, resolution of the Board of Directors, and the company's handling of the remuneration committee's opinions (if the remuneration approved by the Board of Directors is superior than that suggested by the remuneration committee, please specify the deviation and reason): None. II. For resolution(s) made by the remuneration committee with the committee members voicing opposing or qualified opinions on the record or in writing, please state the meeting date, term, contents of motion, opinions of all members and the company's handling of the said opinions: None.					

Note:

- (1) Where any of the Remuneration Committee members may be relieved from duties before the end of the fiscal year, specify the date of discharge in the remark section. Actual attendance rate (%) was calculated based on the number of the Committee meetings held during each member's term and the number of meetings actually attended by that member.
- (2) Where a reelection may be held for filling the vacancies of the Remuneration Committee members before the end of the fiscal year, list both the new and the discharged members, and specify if they are the former members, or newly elected, re-elected and the date of the reelection in the remark section. Actual attendance rate (%) was calculated based on the number of the Committee meetings held during each member's term and the number of meetings actually attended by that member.

3. Contents of motions and resolutions, and the Company's handling of the members' opinion:

Date of Remuneration Committee's Meeting/Term of Remuneration Committee	Contents of Motions and Resolutions
June 19, 2018 1st meeting of the Remuneration Committee of 4th term	To elect the convener and chairman of the Committee. Resolution: Independent Director Wayne W. Wu was elected by all of the present members unanimously as the convener and chairman of the Committee.
August 1, 2018 2nd meeting of the Remuneration Committee of 4th term	The motion for the Company's performance assessment system was submitted for review and approval. Resolution: The current assessment system was approved by all of the present members unanimously.
	The motion for the Company's entire remuneration system and status of execution thereof was submitted for review and approval. Resolution: The current remuneration system was approved by all of the present members unanimously.
January 24, 2019 3rd meeting of the Remuneration Committee of 4th term	The motion for allocation of performance bonus to the personnel holding the position as manager and above in 2018 was submitted for review and approval. (The attendant, President Chih-Ming Chien, recused himself.) Resolution: Approved by all of the present members unanimously.
February 14, 2019 4th meeting of the Remuneration Committee of 4th term	The motion for determination of the total amount of remuneration to employees and directors in 2018 was submitted for review and approval. Resolution: Approved by all of the present members unanimously.
March 7, 2019 4th meeting of the	The motion for allocation of remuneration to directors in 2018 was submitted for review and approval.

Remuneration Committee of 4th term	(The attendant, President Chi-Ming Chien, recused himself.) Resolution: Approved by all of the present members unanimously.
	The motion for allocation of remuneration to the management holding the position as president, department and branch managers and above in 2018 was submitted for review and approval. (The attendant, President Chi-Ming Chien, recused himself.) Resolution: Approved by all of the present members unanimously.

VI. Fulfillment of corporate social responsibility

Scope of Assessment		Status			Deviations from Corporate Social Responsibility Best Practice Principles for TWSE/TPEx Listed Companies and reasons
		Yes	No	Summary	
I.	Fulfillment of corporate governance				
(I)	Whether the Company defines corporate social responsibility policies or systems and reviews the effect of implementation thereof?	✓		(I) The Company upholds the core management philosophy for “Gratitude, Cherishment and Improvement”. In order to fulfill the corporate social responsibility and facilitate the economic, environmental and social improvement for the purpose of sustainability, on December 15, 2015, the Company's Board of Directors passed the "Corporate Governance Best-Practice Principles" to be followed by the Company. The Company established the CSR Committee in February 2015, of which the Chairman was served by the Company's President concurrently. The Committee will report the implement result of the CSR to the Board of Directors each year and hold the review meeting each year. The meeting is chaired by the President, and attended by CSR members and various team members to discuss the implementation of CSR together and also propose the motion for new CSR programs. For the related CSR activities in 2018, please see Three. Corporate Social Responsibilities and Ethics in the “Overview of Operations” of the annual report (Page 113~115).	(I) Compliance
(II)	Whether the Company periodically organizes any corporate social responsibility education and training program?	✓		(II) The Company will organize the CSR-related educational courses periodically each year, in order to enable the colleagues to know about the development, laws & regulations, and policies adopted by peer companies related to the CSR and also to propagate the internal rules and related compliance systems. In 2018, the Company has held a total of three CSR workshops or project conferences (in July, November and December), inviting external advisors to explain about the development of CSR, GRI	(II) Compliance

Scope of Assessment	Status			Deviations from Corporate Social Responsibility Best Practice Principles for TWSE/TPEx Listed Companies and reasons
	Yes	No	Summary	
(III) Whether the Company establishes a unit dedicated to (concurrently engaged in) promoting corporate social responsibility under supervision by the high-rank management authorized by the Board of Directors who shall be responsible for reporting the status thereof to the Board of Directors?	✓		standards and the latest policy applicable to preparation of the CSR report. (III) In order to upgrade the Company's fulfillment of the CSR and integrate related planning and allocate resources adequately, the Company established the CSR Committee in February 2015. In February 2015, the Chairman of Board authorized the Articles of Association for the CSR Committee. The first amendments to the Articles of Association were made in December 2015. The functions of CSR Committee include review on the annual target of CSR, review or inspection on execution results, follow-up and review on the implementation results, review on preparation of CSR report, and review or inspection on other CSR-related requirements. The Chairman of CSR Committee is served by the President. The Director-General of the Committee shall be concurrently served by the Vice President or any member appointed by the Chairman. For the time being, the Director-General is served by vice president of Management Department concurrently. The Committee members consist of the department supervisors and branch managers. Meanwhile, the team dedicated to preparation of CSR report consisting of several members and one executive secretary of the Committee are delegated too. The Committee governed 5 teams subject to the operations and duties, namely: Social Participation Team, Employee Care Team, Environmental Sustainability Team, Corporate Governance and Risk Management Team, and Customer Relations Team. The Committee holds no less than two meetings each year and reports the status of CSR to the Board of Directors periodically. The relevant motions about donation shall be subject to authorization by the Board of Directors.	(III) Compliance

Scope of Assessment	Status			Deviations from Corporate Social Responsibility Best Practice Principles for TWSE/TPEx Listed Companies and reasons
	Yes	No	Summary	
(IV) Whether the Company defines some reasonable compensation policy, integrates corporate social responsibility with employees' performance evaluation, and establishes some clear and effective reward/disciplinary system?	✓		(IV) The Company's "Performance assessment" and "Instructions to employee reward and punishment" were both subject to the evaluation indicators related to "Honors and ethics".	(IV) Compliance
II. Fostering a Sustainable Environment				
(I) Whether the Company endeavors to upgrade the efficient use of available resources, and the use of environmental-friendly materials?	✓		(I) The Company believes that an enterprise should be identified as one member of the global village and, therefore, all of them should work together to love the earth, save energy and reduce carbon, save water, oil and paper, and upgrade the efficient use of resources to avoid wasting resources. Please see Corporate Social Responsibilities and Ethics II Responsibility for Environmental Protection on Pages 115~117.	(I) Compliance
(II) Whether the Company establishes environmental policies suitable for the Company's industrial characteristics?	✓		(II) The Company has established the energy-saving policies for controlling the utility expenses, reducing power capacity by contract and consumption of paper. The Company is engaged in the financial business, instead of manufacturing. Therefore, the Company has no factories engaged in production of goods and no ISO 14001 or similar environmental management system certification is applicable to the Company.	(II) Compliance
(III) Whether the Company is aware of how climate change impacts business operations, or conducts investigation into greenhouse gas, or defines some energy saving and	✓		(III) The Company values the impact rendered by the climate change on business operations, conducts investigation into greenhouse gas, and adopts the energy saving and carbon/greenhouse gas reduction strategies in the course of its routine operations. For example:	(III) Compliance

Scope of Assessment	Status			Deviations from Corporate Social Responsibility Best Practice Principles for TWSE/TPEx Listed Companies and reasons
	Yes	No	Summary	
carbon/greenhouse gas reduction strategies?			The air conditioner temperature is set at 26°C permanently in summertime. Conduct the investigation into air quality in offices every day to maintain the fair air quality in offices; install one indoor air quality monitor in each of the left and right areas of the Company dedicated to monitoring the air quality in offices for 24 hours a day, so that the central control room of the building will notify the Company to make correction of any abnormality detected by the monitor at any time. Please see Corporate Social Responsibilities and Ethics II Responsibility for Environmental Protection on Pages 115~117.	
III. Preserving Public Welfare (I) Whether the Company establishes any human rights protection policy in accordance with the relevant laws and international human rights conventions?	✓		(I) The Company's human rights protection policy has been posted on its official website. The Company supports the objectives disclosed in such international human rights conventions as the “Universal Declaration of Human Rights”, “United Nations Global Compact” and “ILO Declaration on Fundamental Principles and Rights at Work” to fulfill the spirit of human rights protection, establish a safe and healthy workplace, build a diversified, open, fair and harassment-free work environment, forbid any discrimination based on gender, age, marriage, religion, political party, race and social & economic status, regulate reasonable working hours, prohibit any forced labor and employment of child labors, respect employees' freedom of association, protect the privacy of employees, customers and stakeholders, and also provide diversified and safe complaint channels to protect the employees' interest and rights from infringement. The Company has established such personnel regulations as the “Personnel Management Regulations” and “Work Rules” to protect its	(I) Compliance

Scope of Assessment	Status			Deviations from Corporate Social Responsibility Best Practice Principles for TWSE/TPEx Listed Companies and reasons
	Yes	No	Summary	
(II) Whether the Company establishes any employee complaint mechanism and channel, and takes care of such complaints adequately?	✓		workers' interest and right and set the basic guidelines governing the labor-management relationship. (II) The Company has set up the “employee section”, “employee opinion mailbox” and “sexual harassment prevention committee” to have the complaints processed/responded by dedicated units.	(II) Compliance
(III) Whether the Company provides the employees with a safe and healthy work environment, and conducts regular health and safety training for the employees?	✓		(III) The Company organizes the fire protection seminar periodically each year, covering the prevention of fire, disaster relief and refuge from earthquake. The Company also inspects the Company's fire protection equipment periodically and contracts professional cleaning companies to clean and disinfect the environment inside/outside the building. Meanwhile, the Company organizes the health checkup for employees each year, and includes soft curriculum about its workers' physical and mental health into its internal educational training, such as seminars about health and stress relief, etc. Organize the spring-time health care seminar in 2018.	(III) Compliance
(IV) Whether the Company establishes a mechanism for periodic communication with employees, and notification to employees of the circumstances that might materially affect the operation in a reasonable manner?	✓		(IV) The Company has its President and employees convene the performance assessment meeting periodically each year for the purpose of immediate discussion and communication, and releases messages to the whole workers via email or some bulletin board system. Meanwhile, the Company organizes the educational training program for all employees twice per year, and arranges the Chairman and President to talk with the whole employees to build a face-to-face communication channel for them.	(IV) Compliance
(V) Whether the Company establishes some	✓		(V) The Company organizes the educational training program for all	(V) Compliance

Scope of Assessment	Status			Deviations from Corporate Social Responsibility Best Practice Principles for TWSE/TPEx Listed Companies and reasons
	Yes	No	Summary	
effective career development training plan for employees?			employees twice per year, or invites scholars to give speech from time to time. It also encourages its employees to attend the courses organized by external professional organizations to enhance the employees' career development ability.	
(VI) Whether the Company establishes the related consumer protection policies and complaints procedures toward the R&D, procurement, production, operation and service procedures?	✓		(VI) The Company has expressly stated the terms and conditions to be followed by the Company in the contract in accordance with the regulations of the competent authority and R.O.C. Bills Finance Association, under which consumers may claim their rights. Meanwhile, the Company sets up the “Stakeholder section” on the Company's official website to provide the consumers with a complaint channel.	(VI) Compliance
(VII) Whether the Company markets and labels products and services in accordance with the related laws and international practices?	✓		(VII) See above.	(VII) Compliance
(VIII) Whether the Company has assessed the supplier's record in environmental protection and society before trading with the supplier?	✓		(VIII) In order to fulfill the environmental sustainability, the Company demands that the suppliers should comply with the relevant regulations on such issues as environmental protection, safety or sanitation and work with the Company to upgrade the corporate social responsibility. The Company asks the suppliers to provide toxic-free products and encourages the utilization of office equipment and supplies, computers and peripheral devices bearing the environmental protection mark. For example, when purchasing the toner for copy machine, the Company will ask the relevant supplier to show the environmental protection mark. The Company's main supplier refers to the one who engages in printing the Company's annual report in Chinese and English languages each year. The	(VIII) Compliance

Scope of Assessment	Status			Deviations from Corporate Social Responsibility Best Practice Principles for TWSE/TPEx Listed Companies and reasons
	Yes	No	Summary	
(IX) Whether the contract between the Company and its main supplier includes the provision stating that where the supplier is suspected of violating its corporate social responsibility policies or renders remarkable effect to the environment and society adversely, the Company may terminate or rescind the contract?	✓		Company's annual report printing supplier is the only one leading printing plant which is awarded the accreditation of golden environmental protection mark by Environmental Protection Administration throughout the nation. Further, the Company particularly ordered the meal held in the container made of iron for employees in order to respond to the policy for prohibition of disposable and melamine tableware adopted by Department of Environmental Protection, Taipei City Government. On March 12, 2019, the Company was awarded the certificate of gratitude by Taipei City Government publicly.	(IX) Compliance
IV. Enhancing Information Disclosure Whether the Company discloses relevant and reliable information relating to corporate social responsibility on its website or Market Observation Post System (MOPS)?	✓		The Company has disclosed the information about corporate social responsibility in its annual report, and in the “CSR/Stakeholder” section on its official website, e.g. the result of implementation thereof, et al., and also disclosed the information about environmental sustainability on the Company's website and MOPS, such as greenhouse gas emission and reduction, reduction of paper consumption, water saving, energy saving and carbon reduction, et al..	Compliance

V.	If the Company has established its corporate social responsibility best-practice principles based on “Corporate Social Responsibility Best Practice Principles for TWSE/TPEX Listed Companies”, please describe any discrepancy between the principles and their implementation: No discrepancy exists.
VI.	Other information material to the understanding of the corporate social responsibility: The Company established the CSR Committee and team dedicated to preparing the CSR report on February 4, 2015. In the meantime, the Company completed the CSR reports for 2014, 2015, 2016 and 2017, and uploaded the same to the MOPS and in the “CSR/Stakeholder” section on the Company's website accessible by the public.
VII.	If the Company’s corporate social responsibility reports have met the assurance standards of relevant certification institutions, they should be stated below: The Company's CSR reports for 2014, 2015 and 2016 have not yet been confirmed by any external organization. Notwithstanding, the CSR report for 2017 published in June 2018 has been confirmed by the external auditor, “Deloitte Taiwan”.

VII. Fulfillment of ethical corporate management and adoption of related measures

Scope of Assessment	Status			Deviations from “Ethical Corporate Management Best Practice Principles for TWSE/TPEX Listed Companies” and reasons thereof
	Yes	No	Summary	
I. Enactment of ethical corporate management policy and program				
(I) Whether the Company expressly states the ethical corporate management policy and rules, and its fulfillment by the Board of Directors and the management in its Articles of Incorporation and public documents?	✓		(I) The Company has established the “Procedures for Ethical Management and Guidelines for Conduct” which covers the Company's ethical corporate management policy and duties of the Board of Directors and management.	(I) Compliance
(II) Whether the Company defines the policy against unethical conduct, expressly states the SOP, guidelines and reward and disciplinary & complaining systems for misconduct and implements the policy precisely?	✓		(II) The Company's “Procedures for Ethical Management and Guidelines for Conduct” define the requirements to be noted by the Company's staff when they are carrying out business, and expressly state that the Company should include the ethical corporate management to the employee performance assessment and human resource policy to establish definite and valid reward & punishment and complaint systems.	(II) Compliance
(III) Whether the Company takes any preventative measures against the operating activities involving highly unethical conduct under Paragraph 2 of Article 7 of the “Ethical Corporate Management Best Practice Principles for TWSE/TPEX Listed Companies” or within other operating areas?	✓		(III) The Company's “Procedures for Ethical Management and Guidelines for Conduct” provide the preventative measures against the operating activities involving highly unethical conduct within other operating areas. The Guidelines expressly state the operating procedure for dealing with the acceptance of unjustified enrichment, and also provide that the Company shall comply with the relevant requirements when providing donations, sponsorship or	(III) Compliance

Scope of Assessment	Status			Deviations from “Ethical Corporate Management Best Practice Principles for TWSE/TPEX Listed Companies” and reasons thereof
	Yes	No	Summary	
			political contribution; the Company shall comply with the Fair Trade Act and related competition laws when engaging in business activities; the Company shall comply with related laws and international practices with respect to the products and services provided by the Company; the Company's staff shall comply with the operating procedures related to intellectual property rights when carrying out business. Where any person in violation of the Guidelines, the Company shall demand that the offender should cease the related activities immediately, and shall take appropriate measures against the offender, and claim damages through a legal action, if necessary.	
II. Implementation of ethical management				
(I) Whether the Company assesses a trading counterpart's ethical management record, and expressly states the ethical corporate management clause in the contract to be signed with the trading counterpart?	✓		(I) The Company's “Procedures for Ethical Management and Guidelines for Conduct” have expressly provided the related clauses, and the Company has stated the ethical corporate management clauses in the contract signed with it and its suppliers.	(I) Compliance
(II) Whether the Company establishes a unit dedicated to (concurrently engaged in) promoting ethical corporate management under supervision by the Board of Directors who shall be responsible for reporting the status thereof to the Board of Directors?	✓		(II) The Company authorizes its President to designate the Management Department to serve as the unit dedicated to promoting ethical corporate management, responsible for processing and supervising the amendments to and execution, interpretation and consulting service of the Procedures for Ethical Management and Guidelines for Conduct and documentation of reported cases. Auditing Department is the unit dedicated to processing whistle-blowing cases, and reports any whistle-blowing cases to the Board of Directors periodically.	(II) Compliance

Scope of Assessment	Status			Deviations from “Ethical Corporate Management Best Practice Principles for TWSE/TPEx Listed Companies” and reasons thereof
	Yes	No	Summary	
(III) Whether the Company defines any policy against conflict of interest, provides adequate channel thereof, and fulfills the same precisely?	✓		(III) The Company's directors and staff shall recuse themselves from any cases with which they have a conflict of interest when performing their duties. As to the channel for declaration of the conflict of interest, the Company's staff shall report the declaration to the department supervisor within 3 days upon receipt of the same, and transfer the case to the Company's dedicated unit which will suggest refund of payment, acceptance with pay, confiscation, re-donation to charity organizations or any other appropriate measures to be adopted upon approval.	(III) Compliance
(IV) Whether the Company fulfills the ethical corporate management by establishing an effective accounting system and internal control system, and has an internal audit unit conduct periodic audits, or appoints an external auditor to conduct audits?	✓		(IV) The Company audits the compliance by its accounting system and internal control system periodically via its internal auditors, independent external auditors and self-audit on internal control, and reports the audit result to the Board of Directors.	(IV) Compliance
(V) Whether the Company organizes internal/external education training programs for ethical corporate management periodically?	✓		(V) The Company conducts the training programs for compliance periodically each year to propagate the internal rules and related compliance systems, and organizes the training for ethical corporate management to promote such requirements related to ethical corporate management as the “Procedures for Ethical Management and Guidelines for Conduct”, “Code of Ethics” and whistle-blowing regulations, in order to build the employees' correct knowledge about it and upgrade their familiarity with the related regulations and systems.	(V) Compliance

III. Status of the Company's whistle-blowing system (I) Whether the Company defines a specific whistle-blowing and rewards system, and establishes some convenient whistle-blowing channel, and assigns competent dedicated personnel to deal with the situation?	✓		(I) Article 5 of the Company's "Procedures for Ethical Management and Guidelines for Conduct" expressly states that the unit dedicated to processing whistle-blowing shall be Auditing Department. Article 21 of the same Procedure encourages internal and external personnel to whistle-blow any unethical conduct or misconduct, and expressly states the entire whistle-blowing system (including the whistle-blowing channels and operating procedure for processing the whistle-blowing). The Company's official website and intranet set up and post the independent whistle-blowing mailbox and hotline available to internal and external personnel. In August 2018, the Board of Directors passed the Company's "Regulations Governing Whistle-Blowing Cases", which was already posted on the Company's intranet.	(I) Compliance
(II) Whether the Company defines the standard operating procedure and nondisclosure mechanism toward the investigation of whistle-blowing cases as accepted?	✓		(II) The Company's "Procedures for Ethical Management and Guidelines for Conduct" have expressly stated the information to be provided by the whistle-blower and the operating procedure to be adopted by Auditing Department upon its receipt of any whistle-blowing. The Company established the "Regulations Governing Whistle-Blowing Cases" in August 2018. Article 8 of the Regulations expressly provides the standard operating procedure and maintenance of information about the accepted whistle-blowing cases, and Article 9 thereof expressly provides the non-disclosure mechanism.	(II) Compliance
(III) Whether the Company adopts any measures to prevent the whistle-blowers from being abused after the whistle-blowing?	✓		(III) The Company's investigation process will not be disclosed to the public, and only the dedicated unit's authorized personnel may access the mails sent to the whistle-blowing mailbox. Article 9 of the Company's "Regulations Governing	(III) Compliance

			Whistle-Blowing Cases” expressly states the whistle-blower protection policy. The Company shall promise not to take any actions disadvantaged to the whistle-blower on the ground of the whistle-blowing. The whistle-blower who considers that he/she is subject to any action disadvantaged to him/her may file a complaint with the Audit Committee.	
IV.	Enhancing Information Disclosure Whether the Company discloses the ethical corporate management best-practice principles established by it and effect of implementation thereof on its website and MOPS?	✓	The “Procedure for Ethical Management and Guidelines for Conduct” established by the Company is posted on the Company's website and the MOPS, and the effect of implementation thereof is posted on the Company's website.	Compliance
V.	If the Company has established its own ethical management principles based on “Ethical Corporate Management Best Practice Principles for TWSE/TPEX Listed Companies”, please describe any discrepancy between the principles and their implementation: No discrepancy exists.			
VI.	Other information material to the understanding of ethical corporate management operation (e.g. discussion of an amendment to the ethical corporate management best-practice principles defined by the Company): The first amendments to the “Procedure for Ethical Management and Guidelines for Conduct” were approved at 22nd meeting of the Board of Directors of 13th term on February 21, 2017, and implemented upon approval at the general shareholders' meeting on May 26, 2017. Meanwhile, the “Code of Ethics” and “Regulations Governing Donations to Outsiders” were approved at 32nd meeting of the Board of Directors of 13th term on December 19, 2017, and so were the second amendments to the “Procedures for Ethical Management and Guidelines for Conduct” as well. The “Regulations Governing Donations to Outsiders” expressly define the level of authority in charge of determining the donated or sponsored parties to fulfill the decentralization of responsibility. To this end, the Company amended the clauses about donations in the “Procedure for Ethical Management and Guidelines for Conduct”, and the amended clauses were implemented upon approval at the general shareholders' meeting on June 8, 2018.			

VIII. The Company's Corporate Governance Best-Practice Principles, if any, and the approach to access the related regulations

The Company performed the corporate governance practices in accordance with the “Corporate Governance Best-Practice Principles for Bills Finance Corporations” established by the R.O.C. Bills Finance Association. In 2017, the amendments made by the Association to said Principles were approved by FSC in January 2018. Based on said amended Principles, the Company established its “Corporate Governance Best-Practice Principles”, and had the same approved by the directors' meeting in May 2018. The same has also been posted on the Company's official website. To be in line with the new Corporate Governance Roadmap activated by FSC in April 2018, TWSE amended and promulgated the new “Corporate Governance Best-Practice Principles” in December 2018. The R.O.C. Bills Finance Association also planned to amend its Principles in Q1 of 2019. Accordingly, the Company will amend its own “Corporate Governance Best-Practice Principles” therefor in the first half of 2019.

IX. Other important information

X. Implementation of the internal control system

(I) Internal Control System Statement

See Page77.

China Bills Finance Corporation

Statement on Internal Control System

We hereby declare on behalf of China Bills Finance Corporation that the Company has established the internal control system, implemented the risk management, had the Internal Audit Dept., which acts independently, conduct the audit, and reported to the Board of Directors and Audit Committee periodically, in accordance with the “Implementation Rules of Internal Audit and Internal Control System of Financial Holding Companies and Banking Industries” from January 1, 2018 to December 31, 2018. With respect to concurrent engagement in securities trading, the Company adopted the criteria for determination of the effectiveness of internal control system referred to in the “Regulations Governing the Establishment of Internal Control Systems by Service Enterprises in Securities and Futures Markets” promulgated by Securities and Futures, FSC to validate the effectiveness of its internal control policy design and execution. After a careful assessment, it was found that all units were able to effectively implement internal control and legal compliance tasks during the year. This Statement constitutes an integral part of the Company’s annual report and prospectus, and is disclosed to the public. If the information listed above is fraudulent or deceptive to the point that is against the law, the Company shall be held liable under Articles 20, 32, 171, and 174 of the Securities and Exchange Act

To: Financial Supervisory Commission (FSC)

Declarers:

Chairman of Board: Cheng-Ching Wu

President: Chih-Ming Chien

General Auditor: Chao-Ku Wang

Head Office CCO: Chen-Cheng Hsieh

March 19, 2019

(II) Independent external auditor's report on special audit of internal control system:

None.

XI. Penalties imposed during the most recent two years and until the date of publication of the annual report for illegalities and major deficiencies, and improvements made

(I) Indictment of the Company's statutory responsible person or an employee by prosecutors for crimes committed on the job

None.

(II) Fine imposed by the competent authority for violations of Banking Act and Act Governing Bills Finance Business

None.

(III) Penalty imposed by FSC, Executive Yuan in accordance with Article 51 of the Banking Act under which Article 61-1 of the Banking Act applies mutatis mutandis

None.

(IV) Disclosure of the nature and amount of losses exceeding \$50 million incurred during the year, whether individually or in total, as a result of conspiracy, material contingencies (including fraud, theft, misappropriation of assets, fictitious transactions, forgery of documents and securities, kick-backs, natural disasters, external forces, hackers' attacks, theft and leakage of confidential information, disclosure of customers' details or other major events), or accidents arising from failure to execute the safety and maintenance work precisely

None.

(V) Other disclosures required by the competent authority

None.

XII. Important resolutions of shareholders' meetings and directors' meetings

- (I) Important resolutions of shareholder meetings during the most recent year and up to the date of publication of this annual report

Year	Date	Proposal	Resolution		Implementation status
2018 Shareholders' meeting	June 8, 2018	The company's 2017 final accounting books and statements were submitted for ratification.	Number of votes held by the whole present shareholders at the time of voting: 1,039,840,335 votes		Implemented per the resolution.
			Voting result	% of the number of votes held by the whole present shareholders	
			Votes in favor of the motion: 1,024,594,195 votes (including 529,880,153 votes by e-voting)	98.53%	
			Votes opposing the motion: 120,414 votes (including 120,414 votes by e-voting)	0.01%	
			votes invalid: 0 vote (including 0 vote by e-voting)	0.00%	
			Votes waived/abstained: 15,125,726 votes (including 12,150,866 vote by e-voting)	1.45%	
			Upon voting, the motion was approved accordingly.		
		The motion for allocation of the Company's 2017 earnings was submitted for ratification.	Number of votes held by the whole present shareholders at the time of voting: 1,039,840,335 votes		Per the resolution, the dividend record date was set on July 10, 2018, and the cash dividend was allocated on July 27, 2018.
			Voting result	% of the number of votes held by the whole present shareholders	
			Votes in favor of the motion: 1,024,579,052 votes (including 529,865,010 vote by e-voting)	98.53%	
			Votes opposing the motion: 140,428 votes (including 140,428 vote by e-voting)	0.01%	
			votes invalid: 0 vote (including 0 vote by e-voting)	0.00%	
			Votes waived/abstained: 15,120,855 votes (including 12,145,995 vote by	1.45%	

			e-voting)				
			Upon voting, the motion was approved accordingly.				
		The motion for amend-ments to certain articles of the Company's “Articles of Incorporation” was submitted for resolution.	Number of votes held by the whole present shareholders at the time of voting: 1,039,840,335 votes				Implemented per the resolution.
			Voting result		% of the number of votes held by the whole present shareholders		
			Votes in favor of the motion: 1,024,588,965 votes (including 529,874,923 vote by e-voting)		98.53%		
			Votes opposing the motion: 124,712 votes (including 124,712 vote by e-voting)		0.01%		
			votes invalid: 0 vote (including 0 vote by e-voting)		0.00%		
			Votes waived/abstained: 15,126,658 votes (including 12,151,798 vote by e-voting)		1.45%		
			Upon voting, the motion was approved accordingly.				
		The motion for reelection of 11 directors of the Company's Board of Directors of 14th term (including independent directors).	Election result:				Already made public announcement and completed related registrations per the election result.
Director's name	Number of votes in favor of the elected		Note				
Representative of O-Bank: Cheng-Ching Wu	Won 1,054,434,854 votes		Confirmed to be elected				
Representative of O-Bank: Chih-Ming Chien	Won 1,021,790,052 votes		Confirmed to be elected				
	Representative of O-Bank: David C.C. Chang	Won 1,016,959,352 votes	Confirmed to be elected				

			Representative of O-Bank: Jonathan C.H. Wei	Won 1,014,850,033 votes	Confirmed to be elected	
			Representative of O-Bank: Roger Y.F. Lin	Won 1,013,010,705 votes	Confirmed to be elected	
			Representative of Mingshan Investment Co., Ltd.: Mona I-Ru Lo	Won 1,012,326,520 votes	Confirmed to be elected	
			Representative of He Zhu Investment Co., Ltd.: Jian-Jie Dai	Won 1,003,087,464 votes	Confirmed to be elected	
			Representative of He Zhu Investment Co., Ltd.: Si-Tsong Zheng	Won 1,002,108,906 votes	Confirmed to be elected	
			Wayne W. Wu (Independent Director)	Won 1,032,354,510 votes	Confirmed to be elected	

			Chung-Ho Chen (Independent Director)	Won 1,029,368,589 votes	Confirmed to be elected	
			An-Wei Su (Independent Director)	Won 1,020,688,248 votes	Confirmed to be elected	
		The motion for termination of the non-competition restriction imposed on the Company's new directors was submitted for resolution.	Number of votes held by the whole present shareholders at the time of voting: 1,039,840,335 votes		Implemented per the resolution.	
			Voting result	% of the number of votes held by the whole present shareholders		
			Votes in favor of the motion: 1,023,083,893 votes (including 528,369,851 vote by e-voting)	98.38%		
			Votes opposing the motion: 800,205 votes (including 390,205 vote by e-voting)	0.07%		
			votes invalid: 0 vote (including 0 vote by e-voting)	0.00%		
			Votes waived/abstained: 15,956,237 votes (including 13,391,377 vote by e-voting)	1.53%		
			Upon voting, the motion was approved accordingly.			

(II) Important resolutions of directors' meetings during the most recent year and up to the date of publication of this annual report

1. The motion for renewed appointment by the company of "Deloitte Taiwan" to perform the audit, certification and related services on finance and taxation in 2018 was passed at the 35th meeting of the board of directors of 13th term on February 26, 2018.

2. The motion for allocation of remuneration to employees and directors for 2017, organization and agenda of the 2018 general shareholders' meeting, and allocation of cash dividend to shareholders at NT\$0.71 per share from 2017 earnings was passed at 36th meeting of the board of directors of 13th term on March 20, 2018.
3. The motion for donation of NT\$800,000 to “O-Bank Education Foundation” was passed at 37th meeting of the board of directors of 13th term on April 24, 2018.
4. The motion for establishment of the company's “corporate governance best-practice principles” was passed at 38th meeting of the board of directors of 13th term on May 23, 2018.
5. The motion for renewed appointment by the company of “Deloitte Taiwan” to perform the audit, certification and related services on finance and taxation in 2019 was passed at 10th meeting of the board of directors of 14th term on February 26, 2019.
6. The motion for allocation of remuneration to employees and directors for 2018, organization and agenda of the 2019 general shareholders' meeting, and allocation of cash dividend to shareholders at NT\$0.79 per share from 2018 earnings was passed at 10th meeting of the board of directors of 14th term on February 26, 2019.
7. The motion for appointment of the corporate governance officer was passed at 10th meeting of the board of directors of 14th term on February 26, 2019, and the appointment was effective from March 1, 2019.

XIII. The main contents of important resolutions passed by the Board of Directors regarding in which directors have voiced differing opinions on the record or in writing:

None.

XIV. Summary of resignation or dismissal of personnel who are involved with the Company's financial statements:

None.

Four. Information about Independent Auditor Fees

Unit: NT\$

Firm name	Name of accountant		Audit Fee	Non-Audit Fees					Whether the audit period covers the whole fiscal year		
				System Design	Business Registration	Human Resources	Others (Note 1)	Subtotal	Yes	No	Audit period
Deloitte Touche Tohmatsu Limited	Jui-Chan Huang	Chen-Hsiu Yang	2,762,000	None	None	None	2,037,020	2,037,020	✓		2018

Note 1: Including \$250,000 for the translation fees, \$680,000 for internal control project audit, \$1,000,000 for personal information, money laundering and counteracting of terrorism financing internal control project audit, and \$107,020 for others .

Note 2: The audit fees reduced by more than 15% from the previous year.

Five. Information about replacement of CPAs

I. About the former CPA

Date of Replacement	February 26, 2019									
Replacement reason and explanation	According to Article 20 and Article 68 of the Statement on Auditing Standards No. 46, any certified public accountant (CPA) who has been in charge of the audit on any TWSE/TPEX listed company's financial statements for a specific period (generally no more than 7 years) shall be transferred and replaced.									
Explain the replacement as the result of a termination by the principal or CPA, or a declination	<table> <tr> <td rowspan="2">Status</td><td>Principal</td><td>CPA</td><td>Principal</td></tr> <tr> <td></td><td></td><td></td></tr> </table>			Status	Principal	CPA	Principal			
Status	Principal	CPA	Principal							
	Voluntary termination of the appointment									
	Declination of the appointment (renewed appointment)									
Issuance of the audit report other than the audit report containing unqualified opinions in the most recent two years, and cause thereof	None.									
Any disagreement with the issuer	Yes		Accounting principles or practices							
			Disclosure of financial report							
			Scope or steps of audit							
			Others							
	No	✓								
	Note: None.									
Other disclosures	None.									

II. About the successor CPA

Firm Name	Deloitte Touche Tohmatsu Limited
Name of CPA	Joe Chen, CPA & Eric Lin, CPA
Date of Appointment	February 26, 2019
Consultation about the accounting treatment of or application of accounting principles to a specific transaction or the type of audit opinion that might be rendered prior to the formal engagement, and the consultation result	Nil
Written opinion from the successor CPA regarding the matters disagreed by the former CPA	Nil

III. Written responses referred to in Item 1 and Item 2(3) of the subparagraph 6 of Article 10 of the “Regulations Governing Information to be Published in Annual Reports of Bills Finance Companies”.

None.

Six. Information About Relationship of the Company's Chairman, President and CFO with the CPA Firm and its affiliates

The company's chairman, president and cfo have never held any position in deloitte Taiwan, which is responsible for certifying the company's financial statements, or its affiliates in the most recent years.

Seven. Transfer/pledge of equity by directors, managers, and any officers required to declare equity under Article 10 of the Act Governing Bills Finance Business

I. Changes of Equity by Directors, Managers, and Any Officers Required to Declare Equity Under Article 10 of the Act Governing Bills Finance Business

Job Title	Name		2018		Ending March 19, 2019	
			Increase (decrease) in shares held	Increase (decrease) in shares pledged	Increase (decrease) in shares held	Increase (decrease) in shares pledged
Corporate director/ Major shareholder	O-Bank Co., Ltd.		None	None	None	None
Corporate director	Mingshan Investment Co., Ltd.		None	None	None	None
Corporate director	He Zhu Investment Co., Ltd.		76,284	67,148	None	None
Major corporate shareholder	PJ Asset Management Co., Ltd.		135,130	None	5,497	None
Director	Cheng-Ching Wu	Representative of O-Bank	None	None	None	None
Director	Chih-Ming Chien					
Director	David C.C. Chang					
Director	Jonathan C.H. Wei					
Director	Niel Chang					
Director	Roger Y.F. Lin					
Director	Tessie Y.H. Chen					
Director	Mona I-Ru Lo	Representative of Mingshan Investment Co., Ltd.	None	None	None	None
Director	Si-Tsong Zheng	Representative of He zhu Investment Co., Ltd.	None	None	None	None
Director	Jian-Jie Dai	Representative of He Zhu Investment Co., Ltd	None	None	N/A	N/A
Director	Ming-Sheng Zheng	Representative of He Zhu Investment Co., Ltd	None	None	None	None
Director	Sekin Chen		None	None	N/A	N/A
Independent Director	Herbert Chung		None	None	N/A	N/A
Independent Director	Hung-Mao Tien		None	None	N/A	N/A
Independent Director	Wayne W. Wu		None	None	None	None
Independent Director	Zhong-He Chen		None	None	None	None
Independent Director	An-Wei Su		None	None	None	None
Chairman of the Board	Cheng-Ching Wu		None	None	None	None
President	Chih-Ming Chien		None	None	None	None
Senior Executive Vice President & Chief, Corporate Finance Department	Alex Tu		None	None	None	None
Senior Executive Vice President	Li-Fei Chiu		None	None	N/A	N/A
Chief Auditor	Chao-Ku Wang		None	None	None	None
Executive Vice President	Yi-Tien Chen		None	None	None	None
Senior Executive Vice President	Wen -Tsung Chen		None	None	None	None
Vice President	Yi-Chang Kan		None	None	None	None
Vice President	Hung-Ta Chou		None	None	None	None
Vice President	I-Chih Chou		None	None	None	None

Job Title	Name	2018		Ending March 19, 2019	
		Increase (decrease) in shares held	Increase (decrease) in shares pledged	Increase (decrease) in shares held	Increase (decrease) in shares pledged
Vice President	Chen-Cheng Hsieh	None	None	None	None
Vice President	Hou-Sheng Yu	None	None	None	None
Manager	Min-Mei Huang	None	None	None	None
Vice President	Ming- Chi Chou	None	None	None	None
Vice President	Wei-Min Cho	None	None	None	None
Vice President	Jen-Chien Chen	None	None	None	None
Vice President	Chuan- Kuei Lin	None	None	N/A	N/A
Vice President	Chung-Hsien Tsao	None	None	None	None

Note : "Not applicable"(N/A) was defined as not yet assuming the job until March 19, 2019.

II. Information about the counterpart in any transfer or pledge of equity who is a related party

- (I) Information about the counterpart in any transfer of the Company's equity who is a related party
None.
- (II) Information about the counterpart in any pledge of the Company's equity who is a related party
None.

Eight. Disclosure of information on related parties or spousal relationship or relations within second degree of kinship, among top ten shareholders, in terms of shareholdings

Record date: March 19, 2019

Title (or Name)	Shareholdings by oneself		Shareholdings of spouse and underage children		Shareholding using other's name		Disclosure of information on related parties or spousal relationship or relations within second degree of kinship, among top ten shareholders, including their names and Name relationships		Remarks
	Quantity of shares	Shareholding ratio	Quantity of shares	Shareholding Rate	Quantity of shares	Shareholding ratio	Title (or Name)	Relationship	
O-Bank Responsible person: Mr. Jin-Ming Lo	380,981,600	28.37%	0	0.00%	0	0.00%	None	None	Note 2,4

Title (or Name)	Shareholdings by oneself		Shareholdings of spouse and underage children		Shareholding using other's name		Disclosure of information on related parties or spousal relationship or relations within second degree of kinship, among top ten shareholders, including their names and Name relationships		Remarks
	Quantity of shares	Shareholding ratio	Quantity of shares	Shareholding Rate	Quantity of shares	Shareholding ratio	Title (or Name)	Relationship	
PJ Asset Management Co., Ltd. Responsible person: Mr. Chen-Hai Lin	140,627,000	10.47%	0	0.00%	0	0.00%	Note 3,4	Relations within second degree of kinship	Note 4
He Zhu Investment Co., Ltd. Responsible person: Mr. Jia-Hong Lin	76,284,000	5.68%	0	0.00%	0	0.00%	Note 2	Relations within second degree of kinship	Note 3,4
Yuan Tong Investment Co., Ltd. Responsible person: Mr. Jia-Hong Lin	34,490,000	2.57%	0	0.00%	0	0.00%	Note 2	Relations within second degree of kinship	Note 4
Citibank (Taiwan) as Trustee of Norges Bank Investment Account	17,062,800	1.27%	0	0.00%	0	0.00%	None	None	Investment by overseas Chinese
J.P. Morgan Chase Bank N.A., Taipei Branch as Trustee of Vanguard Emerging Markets Stock Index Fund, a Series of Vanguard International Equity Index Funds Investment Account	15,833,000	1.18%	0	0.00%	0	0.00%	None	None	Investment by overseas Chinese
Standard Chartered Bank, Dunhua Branch as Trustee of iShares MSCI Emerging Market ETF Investment Account	13,316,000	0.99%	0	0.00%	0	0.00%	None	None	Investment by overseas Chinese
HSBC as Trustee of Robeco Capital Growth Funds Investment Account	13,084,000	0.97%	0	0.00%	0	0.00%	None	None	Investment by overseas Chinese
J. P. Morgan Chase Bank N.A., Taipei Branch as Trustee of Vanguard Total International Stock Index Fund, a series of Vanguard Star Funds	12,110,000	0.90%	0	0.00%	0	0.00%	None	None	Investment by overseas Chinese

Title (or Name)	Shareholdings by oneself		Shareholdings of spouse and underage children		Shareholding using other's name		Disclosure of information on related parties or spousal relationship or relations within second degree of kinship, among top ten shareholders, including their names and Name relationships		Remarks
	Quantity of shares	Shareholding ratio	Quantity of shares	Shareholding Rate	Quantity of shares	Shareholding ratio	Title (or Name)	Relationship	
Yi Sheng Investment Co., Ltd. Responsible person: Lan Li-Hua	7,000,200	0.52%	0	0.00%	0	0.00%	None	None	

Note1 : Said information is based on the company's roster available on the date of suspension of share transfer, July 6, 2018.

Note 2: The representatives designated by the corporate directors are Mr. Cheng-Ching Wu, Mr. Chih-Ming Chien, Mr. David C.C. Chang David C.C. Chang, Mr. Roger Y.F. Lin, and Mr. Niel Chang.

Note 3: The representatives designated by the corporate directors are Mr. Si-Tsong Zheng and Mr. Ming-Sheng Zheng.

Note 4: The information about the Company's major shareholders who hold 10% or more of the Company's shares, individually or jointly, discloses their actual shareholdings available until March 19.

IX. Total number of shares and total equity stake held in any single invested enterprise by the Company, its directors, President, vice presidents, assistant vice presidents, department and branch managers and any companies controlled either directly or indirectly by the Company

Units: 1000 shares
Record date: December 31, 2018

Invested enterprise (Note)	Investment made by the Company		Investment by the directors, President, vice presidents, assistant vice presidents, department and branch managers and any companies controlled either directly or indirectly by the Company		Total investment	
	Quantity of shares	Shareholding ratio	Quantity of shares	Shareholding ratio	Quantity of shares	Shareholding ratio
Core Pacific City Co., Ltd.	7,476	0.75%	None	0.00%	7,476	0.75%
Taiwan Asset Management Corporation	6,000	0.57%	None	0.00%	6,000	0.57%
Taiwan Depository & Clearing Corporation (TDCC)	1,857	0.50%	None	0.00%	1,857	0.50%
Taiwan Futures Exchange (TAIFEX)	1,503	0.45%	None	0.00%	1,503	0.45%

Note 1: The investment made in accordance with Paragraph 1 of Article 40 of the Act Governing Bills Finance Business.

Financing Status

One. Corporate Capital and Shares

I. Capital stock sources

Unit: NT\$1,000; 1,000 shares

Record date: March 19, 2019

Date/ Year	Issue price	Authorized capital stock		Paid-in capital		Remarks	
		Shares	Amount	Shares	Amount	Capital stock sources	Others
81.09	NT\$ 10	360,000	3,600,000	270,000	2,700,000	The capital was NT\$200,000 thousand when the Company was founded, and the cash capital increase by NT\$175,000 thousand, recapitalization from earnings by NT\$2,249,100 thousand (including employee bonus NT\$111,905.5 thousand), and recapitalization from special reserve by NT\$75,900 thousand.	Note 1
82.09	NT\$ 10	360,000	3,600,000	340,000	3,400,000	The recapitalization from earnings by NT\$625,750 thousand (including employee bonus NT\$33,100 thousand), and recapitalization from special reserve by NT\$74,250 thousand.	Note 2
83.12	NT\$ 10	405,000	4,050,000	405,000	4,050,000	The recapitalization from earnings by NT\$629,260 thousand (including employee bonus NT\$27,800 thousand), and recapitalization from special reserve by NT\$20,740 thousand.	Note 3
84.10	NT\$ 10	590,000	5,900,000	590,000	5,900,000	The cash capital increase by NT\$1,000,000 thousand, recapitalization from earnings by NT\$748,750 thousand (including employee bonus NT\$40,000 thousand), and recapitalization from capital surplus by NT\$101,250 thousand.	Note 4
85.10	NT\$ 10	900,000	9,000,000	900,000	9,000,000	The cash capital increase by NT\$2,000,000 thousand, recapitalization from earnings by NT\$893,500 thousand (including employee bonus NT\$38,000 thousand), and recapitalization from capital surplus by NT\$206,500 thousand.	Note 5
86.10	NT\$ 10	1,250,000	12,500,000	1,250,000	12,500,000	The cash capital increase by NT\$2,000,000 thousand, recapitalization from earnings by NT\$969,000 thousand (including employee bonus NT\$33,000 thousand), and recapitalization from capital surplus by NT\$531,000 thousand.	Note 6
87.08	NT\$ 10	1,445,000	14,450,000	1,445,000	14,450,000	The recapitalization from earnings by NT\$1,118,750 thousand (including employee bonus NT\$32,500 thousand), and recapitalization from special reserve by NT\$831,250 thousand.	Note 7
88.11	NT\$ 10	1,852,000	18,520,000	1,652,000	16,520,000	The recapitalization from earnings by NT\$1,246,350 thousand (including employee bonus NT\$47,000 thousand), and recapitalization from special reserve by NT\$823,650 thousand.	Note 8
89.09	NT\$ 10	1,720,000	17,200,000	1,720,000	17,200,000	The recapitalization from earnings by NT\$171,184 thousand (including employee bonus NT\$19,200 thousand), and recapitalization from special reserve by NT\$508,816 thousand.	Note 9
90.03	NT\$ 10	1,678,700	16,787,000	1,678,700	16,787,000	Capital decrease by NT\$413,000 thousand upon repurchase of treasury stock.	Note 10

99.01	NT\$10	1,678,700	16,787,000	1,342,960	13,429,600	Cash capital decrease by NT\$3,357,400 thousand	Note 11
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Note 1: Approval Letter from the Securities and Futures Commission of the Ministry of Finance under (81) Tai-Cai-Zhen-(1)-Zi No. 01771 dated July 24, 1992

Note 2: Approval Letter from the Securities and Futures Commission of the Ministry of Finance under (82) Tai-Cai-Zhen-(1)-Zi No. 30864 dated July 20, 1993

Note 3: Approval Letter from the Securities and Futures Commission of the Ministry of Finance under (83) Tai-Cai-Zhen-(1)-Zi No. 42731 dated October 6, 1994

Note 4: Approval Letter from the Securities and Futures Commission of the Ministry of Finance under (84) Tai-Cai-Zhen-(1)-Zi No. 33106 dated June 15, 1995

Note 5: Approval Letter from the Securities and Futures Commission of the Ministry of Finance under (85) Tai-Cai-Zhen-(1)-Zi No. 39386 dated July 4, 1996

Note 6: Approval Letter from the Securities and Futures Commission of the Ministry of Finance under (86) Tai-Cai-Zhen-(1)-Zi No. 52380 dated July 14, 1997

Note 7: Approval Letter from the Securities and Futures Commission of the Ministry of Finance under (87) Tai-Cai-Zhen-(1)-Zi No. 49410 dated June 6, 1998

Note 8: Approval Letter from the Securities and Futures Commission of the Ministry of Finance under (88) Tai-Cai-Zhen-(1)-Zi No. 84213 dated September 18, 1999

Note 9: Approval Letter from the Securities and Futures Commission of the Ministry of Finance under (89) Tai-Cai-Zhen-(1)-Zi No. 61462 dated July 17, 2000

Note 10: Approval Letter from the Ministry of Finance under Tai-Cai-Rong-(4)-Zi No. 89451711 dated January 16, 2001

Note 11: Approval Letter from the Financial Supervisory Commission of Executive Yuan under Jin-Kuan-Zhen-Fa-Zi No. 0980069085 dated January 6, 2010

Units: 1000 shares
Record date: March 19, 2019

Types of share	Authorized capital stock			Remarks
	Outstanding shares	Unissued shares	Total	
Common stock (at par value of NT\$10 per share)	1,342,960	335,740	1,678,700	Stock issued by the listed bills finance corporation

II. Shareholder structure

Record date: March 19, 2019

Shareholder structure Quantity	Government agencies	Financial institutions	Other institutions	Individuals	Foreign Institute and foreigners	Total
Number of persons	2	10	275	72,856	204	73,347
Shares held (shares)	738	384,960,000	262,213,066	539,769,125	156,017,071	1,342,960,000
Shareholding ratio	0.00%	28.67%	19.53%	40.18%	11.62%	100%

III. Distribution of equity

(1) Common stock

Par value at \$10 per share
Record date: March 19, 2019

Shareholding category	Number of shareholders	Shares held (shares)	Shareholding ratio
1 to 999	29,556	5,627,710	0.42%
1,000 to 5,000	25,989	62,086,809	4.62%
5,001 to 10,000	7,805	63,258,945	4.71%
10,001 to 15,000	2,707	34,093,981	2.54%
15,001 to 20,000	2,139	39,277,797	2.92%
20,001 to 30,000	1,810	46,489,877	3.46%
30,001 to 40,000	813	29,326,983	2.18%
40,001 to 50,000	655	30,693,202	2.29%
50,001 to 100,000	1,122	83,022,172	6.18%
100,001 to 200,000	427	61,488,835	4.58%
200,001 to 400,000	177	51,405,067	3.83%
400,001 to 600,000	60	30,058,176	2.24%
600,001 to 800,000	22	15,357,219	1.14%
800,001 to 1,000,000	16	14,657,273	1.09%
Above 1,000,001	49	776,115,954	57.80%
Total	73,347	1,342,960,000	100.00%

(II) Preferred stock: None.

IV. List of major shareholders

Record date: March 19, 2019

Name of major shareholder (Note)	Shares held (shares)	Shareholding ratio
O-Bank	380,981,600	28.37%
PJ Asset Management Co., Ltd.	140,627,000	10.47%
He Zhu Investment Co., Ltd.	76,284,000	5.68%
Yuan Tong Investment Co., Ltd.	34,490,000	2.57%
Citibank (Taiwan) as Trustee of Norges Bank Investment Account	17,062,800	1.27%
J.P. Morgan Chase Bank N.A., Taipei Branch as Trustee of Vanguard Emerging Markets Stock Index Fund, a Series of Vanguard International Equity Index Funds Investment Account	15,833,000	1.18%

Note 1: Said information is based on the Company's roster available on the date of suspension of share transfer, July 6, 2018.

Note 2: To expressly state the shareholders who hold the equity more than 1%.

Note 3: The information about the Company's major shareholders who hold 10% or more of the Company's shares, individually or jointly, discloses their actual shareholdings available until March 19. Record date: March 19, 2019

V. Market value, net worth, earnings, stock dividend and related information during the most recent two years

Item \ Year			2018	2017	Ending March 19, 2019 (Note 8)
Market value per share (Note 1)	Highest		16.00	15.90	14.55
	Lowest		12.80	12.95	14.50
	Average		14.23	14.68	14.50
Net worth per share (Note 2)	Before distribution		17.35	17.14	N/A
	After distribution		(Note 3)	16.43	N/A
EPS	Weighted average number of shares		1,342,960,000	1,342,960,000	1,342,960,000
	EPS		0.99	1.01	N/A
Stock dividend per share	Cash dividend		0.79 (Note 3)	0.71	N/A
	Bonus dividends	Dividend from retained earnings	None	None	None
		Dividend from capital surplus	None	None	None
	Accumulated unpaid dividends (Note 4)		None	None	None
ROI analysis	P/E ratio(Note 5)		14.37	14.53	N/A
	P/D ratio(Note 6)		18.01	20.68	N/A
	Cash dividend yield (Note 7)		5.55%	4.84%	N/A

Note 1: Please identify the highest and lowest market value per share of common stock for each fiscal year and calculate each fiscal year's average market value.

Note 2: Please apply the number of the outstanding issued shares at year-end as the basis and specify it based on the distribution resolved by the shareholders' meeting in next year.

Note 3: Distribution of earnings in 2018 has not yet been resolved by the shareholders' meeting 2018 up to the date of publication of this annual report.

Note 4: If the terms and conditions for issuance of the equity securities provide that the stock dividend unappropriated in then year may be accumulated until the year in which there are retained earnings available for the allocation of dividend, please disclose the unpaid stock dividend accumulated until the then year.

Note 5: P/E ratio = Average closing price per share for the year/Earnings per share.

Note 6: P/D ratio = Average closing price per share during the current fiscal year/Cash dividend per share.

Note 7: Cash dividend yield = Cash dividend per share/Average closing price per share for the current year.

Note 8: To specify the information available for the then year ending on the date of publication of the annual report.

VI. Dividend policy and implementation thereof

(I) Dividend policy

The company shall, after its losses have been covered and all taxes and dues have been paid by the earnings upon the annual final accounting, first set aside 30% of the balance, if any, as a legal reserve, provided that when the legal reserve amounts to the company's paid-in capital, this shall not apply. Then, the company shall make contributions to the special reserve pursuant to laws, plus the reversal of special reserve and the earnings unappropriated in the previous years. The company may provide special reserve additionally for any specific purpose. The balance, if any, together with the accumulated unappropriated earnings may be allocated to shareholders as stock dividends.

The allocation of earnings referred to in the preceding paragraph shall be proposed by the board of directors and approved by the shareholders' meeting.

The allocation of stock dividends to shareholders referred to in paragraph 1 herein shall be carried out in the following manners resolved by a shareholders' meeting:

1. The company may allocate the reserve, in whole or in part, pursuant to laws. Notwithstanding, when the company retains no earnings, no stock dividends shall be allocated to shareholders.
2. As the company engages in the business in a highly competitive financial industry, of which the growth is slowing down. Therefore, the cash dividend will be the first priority when the company shall allocate dividends to shareholders. Alternatively, the dividends may be also allocated in the form of stock, provided that the cash dividend shall be no less than 40% of the total stock dividends in then year.
3. The company may adjust said shareholders' dividend policy upon resolution by the shareholders' meeting held in then year, if necessary, subject to the economic condition, industrial development and funding needs.

(II) Status of implementation thereof:

The company's earning after tax was NT\$1,335,419,013 in 2018. According to the act governing bills finance business, the company contributed 30% of the earnings as the legal reserve, plus the unappropriated earnings, NT\$6,260,434, at the beginning of the year, the adjustment NT\$31,092,133 under IFRS9, and “other comprehensive income directly carried forward to retained earnings”, NT\$97,814,903, the allocable earnings totaled NT\$1,069,960,779 this year. The cash dividend to be allocated was NT\$0.79 per share. The unappropriated earnings at the end of the year were NT\$9,022,379.

(III) STATUS OF THE ALLOCATION of dividends and remuneration to shareholders in the previous year:

The company's earning after tax was NT\$1,351,064,465 in 2017. According to the act governing bills finance business, the company contributed 30% of the earnings as the legal reserve, plus the unappropriated earnings, NT\$8,608,788, at the beginning of the year, and “other

comprehensive income directly carried forward to retained earnings”, NT\$5,408,121, the allocable earnings totaled NT\$959,762,034. The cash dividend to be allocated was NT\$0.71 per share. The unappropriated earnings at the end of the year were NT\$6,260,434.

VII. The effects of bonus dividend proposed at this shareholders’ meeting on business performance and EPS: None.

VIII. Employee and directors’ remuneration

- (I) The percentages or ranges with respect to remuneration to employees and directors, as set forth in the Company’s Articles of Incorporation:

According to the Company's Articles of Incorporation, if the Company has profit upon annual final accounting, it shall allocate the remuneration to employees and directors in the following manners, subject to a resolution adopted by a majority votes at a directors' meeting attended by more than two-thirds of the total number of directors. Notwithstanding, if the Company has accumulated losses, it shall retain the amount to cover such losses in advance, and the balance, if any, shall be allocated as the remuneration to employees and directors in said manners:

1. Remuneration to employees: 1.00%~2.50% of the profit.
2. Remuneration to directors: No more than 2.50% of the profit. Notwithstanding, the independent directors shall be excluded from the allocation of remuneration.

The profit referred to in the preceding paragraph shall mean the “The gains before the income before tax less the remuneration to employees and directors”.

The remuneration to employees may be paid in the form of stock or in cash, provided that the remuneration to directors may be paid in cash only. The motions for allocation of remuneration to employees and directors and method of allocation shall be submitted to a shareholders' meeting upon resolution by a directors' meeting in the manner referred to in Paragraph 1.

- (II) The basis for estimating the amount of remuneration to employees and directors, for calculating the number of shares to be distributed as the remuneration to employees, and the accounting treatment of the discrepancy, if any, between the actual distributed amount and the estimated figure, for the current period:

The estimated amount of the remuneration to employees and directors in 2018 was NT\$20,900,500, namely the gains before the income before tax less the remuneration to employees and directors, calculated based on the percentage defined in the Company's Articles of Incorporation. The amount allocated actually was based on the resolution by the directors' meeting. The discrepancy between the allocated amount and estimated amount should be stated as a change

in accounting estimation and stated as the expenses for the then year. Meanwhile, the Company waives the allocation of remuneration to employees in the form of stock.

(III) The motion for allocation of remuneration passed by the board of directors:

1. Remuneration to employees and directors allocated in cash or in the form of stock (if there is any discrepancy between that amount and the estimated amount for the fiscal year these expenses are recognized, the discrepancy, its cause, and the status of treatment shall be disclosed)

The Company's 10th meeting of the Board of Directors of 14th term on February 26, 2019 resolved to allocate the remuneration to employees and directors of 2018, NT\$20,900,500, respectively. Meanwhile, the Company waives the allocation of remuneration to employees in the form of stock. The remuneration to employees and directors to be allocated in 2018 subject to the resolution passed by the directors' meeting was identical with that stated in the financial statement 2018, NT\$20,900,500.

2. Proposed distribution of remuneration to employees in the form of stock as a percentage to net profit after tax plus remuneration to employees in the entity or individual financial statement for the current period: None.

(IV) The actual allocation of remuneration to employees and directors in the previous fiscal year (with an indication of the number of shares, monetary amount, and stock price, of the shares distributed), and, if there is any discrepancy between the actual allocated amount and the recognized amount, additionally specify the amount of the discrepancy, the cause, and how it is treated.

1. Remuneration to directors: The remuneration to directors recognized in 2017 was NT\$20,848,000. The remuneration actually allocated in cash were NT\$20,848,000.
2. Remuneration to employees: The remuneration to employees recognized in 2017 was NT\$20,848,000. The remuneration actually allocated in cash were NT\$20,848,000.

VIII. Employee and directors' remuneration

None.

Two. Corporate bond, preferred stock, employee stock options, restricted stock for employees and merger & acquisition or succession to other financial institutions (including merger, acquisition and division)

None.

Three. Implementation of Capital Utilization Plan

I. Contents of the Plan: Analysis on the previous plans for offering or private placement of securities and corporate bonds which have not yet completed, or the plans which have been completed within the most recent three years but have not yet produced any significant effects.

None.

II. Implementation of Capital Utilization Plan

None.

Overview of Operations

One. Operations

I. Business Overview

(I) Scope of business

The Company's scope of business is stated as following:

- 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.

(II) Each business assets and income as a proportion of total assets and income, and development and changes

1. Assets

Unit: NT\$ Thousand	12/31/2018		12/31/2017		Comparison with 12/31/2017	
	Amount	As a proportion of total assets(%)	Amount	As a proportion of total assets(%)	Increase (Decrease)	%
Commercial papers	90,713,095	45.47	104,307,126	47.33	(13,594,031)	(13.03)
Bonds	105,399,725	52.82	110,457,010	50.11	(5,057,285)	(4.58)
Equity investment	1,464,931	0.73	1,274,004	0.58	190,927	14.99
Derivative financial products	1,598	0.00	156,151	0.07	(154,553)	(98.98)
Others	1,951,682	0.98	4,218,113	1.91	(2,266,431)	(53.73)
Total Assets	199,531,031	100.00	220,412,404	100.00	(20,881,373)	(9.47)

2. Revenue

Unit: NT\$ Thousand	2018		2017		Comparison with 2017	
	Amount	As a proportion of total revenue(%)	Amount	As a proportion of total revenue(%)	Increase (Decrease)	%
Commercial papers	1,213,522	58.62	1,295,030	61.82	(81,508)	(6.29)
Bonds	865,551	41.81	948,254	45.26	(82,703)	(8.72)
Equity investment	108,900	5.26	13,881	0.66	95,019	684.53
Derivative financial products	(10,075)	(0.49)	(4,707)	(0.22)	(5,368)	(114.04)
Others	(107,557)	(5.20)	(157,512)	(7.52)	49,954	31.71
Total Revenue	2,070,341	100.00	2,094,946	100.00	(24,606)	(1.17)

Note: The 2018 equity investment included the gain or loss from disposition of the equity at fair value through other comprehensive income.

(III) Business Performance

1. Short-term Bills

(1) NTD Short-term Bills Primary Market—Underwriting and Initial Purchase

Unit: NT\$ million	2018		2017		Comparison with 2017	
	Amount	%	Amount	%	Increase (decrease)	%
Commercial papers (CP2)	1,719,138	87.49	1,663,116	84.14	56,022	3.37
Commercial papers (CP1)	172	0.01	177	0.01	(5)	(2.82)
Bank negotiable certificates of deposit	245,730	12.50	313,300	15.85	67,570	(21.57)
Total	1,965,040	100.00	1,976,593	100.00	(11,553)	(0.58)

(2) NTD Short-term Bills Secondary Market--Brokerage and Trading

Unit: NT\$ million	2018		2017		Comparison with 2017	
	Amount	%	Amount	%	Increase (decrease)	%
Commercial papers	4,047,393	97.79	3,924,477	94.22	122,916	3.13
Bank negotiable certificates of deposit	91,300	2.21	233,564	5.61	(142,264)	(60.91)
Municipal Treasury Bills	0	0	7,410	0.17	(7,410)	(100.00)
Total	4,138,693	100.00	4,165,451	100.00	(26,758)	(0.64)

Note: The secondary market transactions excluded said primary market transactions.

2. Bonds

(1) NTD Government Bonds

Unit: NT\$ million	2018		2017		Comparison with 2017	
	Amount	%	Amount	%	Increase (decrease)	%
Repo trading	874,796	95.81	974,591	91.25	(99,795)	(10.24)
Outright purchases/sales	38,300	4.19	93,450	8.75	(55,150)	(59.02)
Total	913,096	100.00	1,068,041	100.00	(154,945)	(14.51)

(2) NTD Bank Debentures

Unit: NT\$ million	2018		2017		Comparison with 2017	
	Amount	%	Amount	%	Increase (decrease)	%
Repo trading	213,172	97.09	230,279	98.82	(17,107)	(7.43)
Outright purchases/sales	6,400	2.91	2,740	1.18	3,660	133.58
Total	219,572	100.00	233,019	100.00	(13,447)	(5.77)

(3) NTD Corporate Bonds

Unit: NT\$ million	2018		2017		Comparison with 2017	
	Amount	%	Amount	%	Increase (decrease)	%
Repo trading	1,485,388	97.93	1,605,414	97.47	(120,026)	(7.48)
Outright purchases/sales	31,373	2.07	41,716	2.53	(10,343)	(24.79)
Total	1,516,761	100.00	1,647,130	100.00	(130,369)	(7.91)

(4) Foreign Currency Bonds

A. USD International Bonds

Unit: million	2018		2017		Comparison with 2017	
	Amount	%	Amount	%	Increase (decrease)	%
Repo trading	264	94.29	2	11.11	262	13,100.00
Outright purchases/sales	16	5.71	16	88.89	0	0.00
Total	280	100.00	18	100.00	262	1,455.560

B. USD Foreign Bonds (including US Government Bonds)

Unit: USD million	2018		2017		Comparison with 2017	
	Amount	%	Amount	%	Increase (decrease)	%
Repo trading	7,845	96.51	7,465	96.29	380	5.09
Outright purchases/sales	284	3.49	288	3.71	(4)	(1.39)
Total	8,129	100.00	7,753	100.00	376	4.85

3. Equity Investment

Unit: NT\$ thousand	2018		2017		Comparison with 2017	
	market value	%	market value	%	Increase (decrease)	%
stock	1,171,239	79.95	1,183,452	92.89	(12,213)	(1.03)
Beneficiary certificate	0	0.00	75,183	5.90	(75,183)	(100.00)
Convertible Bond	293,692	20.05	15,369	1.21	278,323	1,810.94
Total	1,464,931	100.00	1,274,004	100.00	190,927	14.99

4. Guarantee Business

Unit: NT\$ million	2018		2017		Comparison with 2017	
	Amount	%	Amount	%	Increase (decrease)	%
Balance of guarantees						
secured	52,892	50.65	48,812	48.94	4,080	8.36
unsecured	51,543	49.35	50,930	51.06	613	1.20
Total	104,435	100.00	99,742	100.00	4,693	4.71
Endorsement securities	0	-	0	-	0	-

II. 2018 Operating Plan

(I) Short-term Bills

1. Satisfy customers' diversified needs, continue to enhance the operation in FRCP and UCCP and seek the opportunity for joint underwriting.
2. Intensify the channels for the circulation of bills and the operation of bills by trade volume to access stable and low cost capital and upgrade the performance of capital utilization.

(II) Bonds

1. Advance the breadth and depth of the analysis on fundamental, technical and chip factors to improve operation performance.
2. Expand the foreign currency bond RP customers actively and diversify the sources of funding to reduce the capital cost.

(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. Exercise keen judgement 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 valuable assets are the top priority for guarantee business.
2. The market circumstances of the real estate is obscure. Cautiously select the construction companies as well as the collateral targets and 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.

III. Market Analysis

(I) Business Area

As of the end of 2018, 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. Short-term Bills

In terms of the supply, looking forward to the year 2019, the global economy may become sluggish. It is expected that the issuance volume and market scale will remain stable. In terms of the demand, the global political and economic situation still has been unpredictable, which caused increasing uncertainty to the financial market. The liquidity of monetary market instruments is good, while the credit risk thereof is low relatively, thereby attracting and satisfying financial institutions' and enterprises' need for asset allocation. It is expected that the trade volume and market scale will remain stable too.

2. Bond business

Regarding the supply of bonds, the issuance volume of government bonds in 2019 will be somewhat higher than that of last year, as more government bonds will expire in the same year. Further, it is expected that the issuance volume of corporate bonds might remain the same as last year. Regarding the demand for bonds, since the overall financial system is full of funds, the financial institutions will keep a primary demand for supplementary bonds.

3. Equity Investment

Looking at the stock market of 2019, Brexit, continuing Sino-US trade dispute, and interest escalation by the Fed still make the market unpredictable inevitably. Given the sluggish global economic outlook in 2019, especially the potential significant declination in the second half of the year, it is necessary to note the effect produced to the financial market therefor and control the investment operations 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 2019 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.

(III) Key performance indicator (KPI)

Unit: NT\$ million/%

Item	Business target in 2018	Result of implementation	Proportion of implementation
Guaranteed yearly average balance of commercial paper	101,200	104,058	103%
Yearly average balance of underwriting and repurchase of bills	269,400	250,935	93%
Yearly average balance of Repo trading of bills and bonds	176,600	171,111	97%
Own capital adequacy ratio (%)	12.50	12.88	103%

(IV) Advantageous and disadvantageous factors with regard to developmental outlook

1. Advantageous factors

- (1) The competent authority has been admitting new business lines successively and, therefore, the business lines to be provided by the bills finance business tend to be more and more diversified. This helps disperse business risk and increases sources of profit.
- (2) The economic and inflation outlook appears to be mild and, therefore, relieves the pressure to be produced by rapid escalation of short-term interest rate.
- (3) Despite the poor global economic outlook, adequate responses to the relevant indicators are seen, and political policies dedicated to expounding benefits are expectable.

2. Disadvantageous factors

- (1) Given the out-of-balance supply and demand in terms of the chips factor, it is hard to gain higher yield rate for bonds. The short-term interest rate has been raised due to the USD interest escalation and thereby cut the yielding interest rate. This is disadvantageous to building of the bond positions and yielding income.
- (2) Given the intensive competition in the bills market, banks strive for the underwriting business with low-cost funds and, therefore, the interest spread and income are reduced accordingly.
- (3) Despite abundant capital, the demand for capital becomes weak because enterprises act hesitant to make investments. The guarantee business has to deal with the intensive competition from banks and peer companies. As a result, the interest spread of excellent customers keeps declining.
- (4) Given the increasing capital tightening all over the world and the sluggish economic growth strength, changes in the political condition in Europe and the Sino-US trade dispute, the investment risk increases accordingly.

3. Responsive measures

(1) Commercial papers

①.General guaranteed/guarantee-free bills —

- a. Adopt the business strategy weighing flow and stock to stable the underwriting volume and upgrade income.
- b. Strictly control the credit risk and optimize the capital utilization.

②.FRCP and UCCP

- a. Plan the products per customers' needs to create business opportunities.
- b. Underwrite FRCP/UCCP in a timely manner, subject to the interest rate development.

③.Secondary market transactions —

- a. Diversify the financing channels, continue to strengthen the width of customer base, and reduce the liquidity risk.
- b. Maintain the positions and durations at appropriate level to reduce the interest rate risk.

(2) Bonds

①.Outright purchases/sales —

- a. Control the fundamental, technical and chips factors to upgrade the profitability.
- b. Upgrade the sensitivity toward market information and changes to control the movement of purchase/sale orders.

②.Yielding —

- a. Subscribe for bonds with excellent credit rating to control the credit risk effectively.
- b. Adjust the foreign bond and asset allocation, develop the channels for RP for foreign bonds, diversify the sources of foreign currency capital, and strictly control the interest rate risk and liquidity risk.

(3) Equity investment

①.Equity products —

- a. Increase the frequency of operation to have the research and market trends kept in line with each other better, and strengthen the operation of the positions at fair trade through other comprehensive income to seek stable performance.

- b. Exchange with securities firms and peer companies actively, and attend more industrial forums and investors' conferences organized by securities firms to remedy the deficiencies in research resources.
- ②. Convertible Bonds (CB) and Convertible Bond Asset Swap (CBAS)
 - a. Select the portfolio to be underwritten with care to strictly control the credit risk.
 - b. Continue to adjust the positions and structures, and optimize asset allocation.
- (4) Guarantee business
 - ①. Enhance the interaction with large-scale groups, strive for priority drawdown, upgrade the drawdown of facility, stabilize the business foundation, and make minor adjustment on the interest spread timely.
 - ②. Replace low-yielding customers timely, and strive for syndicated loan projects to upgrade the spread.
 - ③. Upgrade the frequency of visits to factories of medium-sized and small-sized customers to mitigate the guarantee risk.
 - ④. Select the guaranteed counterparts and portfolio of the real estate business with care, and control the proportion of guarantee granted to the real estate business.

IV. Overview of financial product research and business development

- (I) Principal financial products and any new business departments added in the most recent two years until the date of publication of the annual report, and their scale and profitability
 - 1. For the scale and profitability of the principal financial products available in the most recent two years, please see "Business Overview" on Pages 98~101.
 - 2. The Company has never added any new business departments in the most recent two years until the date of publication of the annual report.
- (II) R&D expenditure and results for the most recent two years, and future R&D development plan
 - 1. R&D expenditure and results for the most recent two years
 - (1) R&D expenditure

For the related expenditure, please see "Status of Employees' Continuing Education and Training" on Page 110~112.
 - (2) R&D results
 - ①. 2017
 - a. In response to the fintech trend in the financial industry and evolving financial innovations, plan the financial innovations in line with the characteristics of bills and bonds, research the feasibility of electronic bond transactions, and investigate into the customers' intention at the same time, in hopes of offering innovative financial services which may satisfy the customers' needs.

- b. Global Reporting Initiative (GRI) released the “GRI Standards” in Chinese on June 6, 2017. The Company prepared its CSR report in accordance with the “GRI Standards” compulsorily as of January 1, 2019. In 2017, the Company retained the professional advisor to conduct research about the “GRI Standards”. The 2017 CSR report to be published in June 2018 was expected to be prepared in accordance with the “GRI Standards”.

②.2018

- a. Continue to research and plan the issue about fintech in the same trade, and research the feasibility of CP2CP.
- b. The Company's 2017 CSR report published in June 2018 was prepared in accordance with the “GRI Standards”. In 2019, the Company will continue to prepare its 2018 CSR report in accordance with the “GRI Standards”.

2. Future R&D plan

- (1) Continue to research the feasibility of various financial innovations in the bond business.
- (2) The Company established the Corporate Social Responsibility Committee on February 4, 2015. The Company will continue to enhance the operations and functions of the Committee and prepare the CSR report for the previous year on a yearly basis.
- (3) In order to deal with said R&D plans, the Company will implement the same via its existing personnel and resources, and will also retain professional advisors at the cost of NT\$600,000 (including the confirmation by an external organization).

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

(I) Short-term Business Development Plan

1. Short-term Bills and Bonds

- (1) Strictly control the positions and durations, balance the income and risk, strengthen the strength of outright purchases/sales of bills, and control the interest rate risk and liquidity risk effectively.
- (2) Develop customers with excellent credit rating and strive for the opportunities for underwriting business; select the bond portfolio to be purchased and control credit risk effectively.
- (3) Upgrade the weight of customers from private sectors in the secondary market and develop the sources of capital to reduce the capital cost.
- (4) Actively develop the customers for RP of foreign bonds.

2. 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.

3. 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. Short-term Bills and Bonds

- (1) Strictly control risk and flexibly adjust financial assets and liabilities operational direction in response to the significant changes in the economy.
- (2) Study new kinds of interest rate businesses and actively seek opportunities to participate in the market.
- (3) Enhance the employees' trading skills and upgrade the trading performance.

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

Two. Employees

I. Information about employees for the most recent two years until the date of publication of the annual report

Year		2018	2017	Ending March 19, 2019
Number of employees (Note)	Staff	145	142	145
	Employees	2	2	2
	Student employees	1	5	0
	Total	148	149	147
Average age (years old)		44.48	44.27	44.91
Average years of service (years)		14.62	14.61	14.94
Academic background	Doctorate	0.00%	0.00%	0.00%
	Master degree	32.43%	28.86%	32.65%
	University/ college	63.51%	64.43%	63.95%
	Senior high school	4.05%	6.04%	3.40%
	Less than senior high school	0.00%	0.67%	0.00%
Note: The number of employees excludes directors.				

II. Professional certificate and license held by employees for the most recent two years until the date of publication of the annual report, and title of the professional qualification and number of such employees

Year	2018	2017	Ending March 19, 2019
Bill finance specialist	140	139	140
Senior securities specialist	95	99	94
Securities representative	69	65	69
Securities investment analyst	2	1	2
Financial Risk Manager (FRM)	1	1	1
Bond specialist	48	52	48
Basic personnel engaged in guarantee business	76	77	76
Advanced personnel engaged in guarantee business	6	6	6
Assets securitization	7	8	7

Year	2018	2017	Ending March 19, 2019
Bank internal controller	92	96	92
Corporate internal controller	5	6	5
Trust operations personnel	64	67	66
Financial planner	49	51	50
Securities investment trust and consulting professional	42	43	44
Futures representative	58	59	58
Life insurance representative	18	20	18
Property insurance representative	8	8	8
Personal risk manager	2	2	2
Basic international banking personnel	17	18	17
International banking specialist	5	5	5
Shareholders service personnel	8	9	8

III. Status of employees' continuing education and training for the most recent two years

1. In order to train the employees, the Company has established the continuing education subsidy system for certificates/licenses. The Company will also send its employees to attend the training programs organized by domestic professional financial training organizations every year, and organize the various training programs on its own, including the orientation training and professional training.

	Number of trainees	Training hours	Training expenses
2018	2,882 persons	5,963 hours	NT\$ 619 thousand
2017	2,316 persons	6,235 hours	NT\$ 1,013 thousand
Ending March 19, 2019	1,010 persons	1,494 hour	NT\$ 124 thousand

2. Managers' participation in training and education programs related to corporate governance for the most recent year:

Name	Course	Training organization	Hours
Cheng-Ching Wu	Case Study on "Economic Felony" in Enterprises and Discussion on Relevant Legal Liability	Taiwan Corporate Governance Association	3
	Corporate Innovation, Information Technology and Competitive Strength to be Understood by Directors/Supervisors	The Chinese National Association of Industry and Commerce, Taiwan (CNAIC)	3
	Enterprises' Response to and Challenge with Anti-Money Laundering	The Chinese National Association of Industry and Commerce, Taiwan (CNAIC)	3
	Domestic and foreign laws & regulations on anti-money laundering/countering of terrorism financing	Taiwan Securities Association	3
Chih-Ming Chien	Summit forum for new corporate governance roadmap for TWSE-listed companies	Taiwan Stock Exchange Corporation (TWSE)	3
	Domestic and foreign laws & regulations on anti-money laundering/countering of terrorism financing	Taiwan Securities Association	3
Alex Tu	Domestic and foreign laws & regulations on anti-money laundering/countering of terrorism financing	Taiwan Securities Association	3
Chao-Ku Wang	2018 Presentation for promotion of legal compliance by insiders' equity exchange of listed and unlisted public companies	Securities and Futures Institute	3
	Domestic and foreign laws & regulations on anti-money laundering/countering of terrorism financing	Taiwan Securities Association	3
Yi-Ting Chen	2018 Presentation for promotion of legal compliance by insiders' equity exchange of listed and unlisted public companies	Securities and Futures Institute	3
	Domestic and foreign laws & regulations on anti-money laundering/countering of terrorism financing	Taiwan Securities Association	3
Wen-Zong Chen	2018 Presentation for promotion of legal compliance by insiders' equity exchange of listed and unlisted public companies	Securities and Futures Institute	3

Name	Course	Training organization	Hours
Yi-Zhang Kang	2018 Presentation for promotion of legal compliance by insiders' equity exchange of listed and unlisted public companies	Securities and Futures Institute	3
	Domestic and foreign laws & regulations on anti-money laundering/countering of terrorism financing	Taiwan Securities Association	3
Hung-Ta Chou	2018 Presentation for promotion of legal compliance by insiders' equity exchange of listed and unlisted public companies	Securities and Futures Institute	3
	Domestic and foreign laws & regulations on anti-money laundering/countering of terrorism financing	Taiwan Securities Association	3
Jen-Chien Chen	2018 Presentation for promotion of legal compliance by insiders' equity exchange of listed and unlisted public companies	Securities and Futures Institute	3
Hou-Sheng Yu	Taiwan ESG Index Presentation and Sustainable Investment Forum	Taiwan Stock Exchange Corporation (TWSE)	3.5
	2018 Presentation for promotion of legal compliance by insiders' equity exchange of listed and unlisted public companies	Securities and Futures Institute	3
	Domestic and foreign laws & regulations on anti-money laundering/countering of terrorism financing	Taiwan Securities Association	3
	Listed Companies' Business Promotion Conference	Taiwan Stock Exchange Corporation (TWSE)	3
	Preparation of 2018 CSR Report by Listed Companies in accordance with GRI Standards	Taiwan Stock Exchange Corporation (TWSE)	4
Chen-Cheng Hsieh	2018 Insider trading prevention promotion conference	Securities and Futures Institute	3
	2018 Presentation for promotion of legal compliance by insiders' equity exchange of listed and unlisted public companies	Securities and Futures Institute	3
	Domestic and foreign laws & regulations on anti-money laundering/countering of terrorism financing	Taiwan Securities Association	3
Min-Mei Huang	2018 Presentation for promotion of legal compliance by insiders' equity exchange of listed and unlisted public companies	Securities and Futures Institute	3
	Domestic and foreign laws & regulations on anti-money laundering/countering of terrorism financing	Taiwan Securities Association	3

Three. Corporate Social Responsibilities and Ethics

The Company takes the following corporate social responsibilities and performs the following ethical conducts, after taking into consideration its own ability and also balancing the inside and external related parties' interests. Meanwhile, the Company establishes the "Corporate Social Responsibility Best-Practice Principles" as its policy and management rules. The plans implemented by the Company and the results of the implementation are

I Preserving Public Welfare and Responsibility of Justice

For public welfare, the Company uses its best efforts to respect the elderly and help the young. In 2018, the Company visited ten elderly centers in Taipei City, New Taipei City, Taoyuan City, Yilan County, Changhua County and Nantou County, respectively. The Company donated supplies and gifts, or the charity fund contributed by the Company's employees to care the elderly and extend the heartwarming and physical assistance to them. In 2018, the Company also initiated the activity of respect for the elderly, "Give Love in Time", and donated the gifts to the elderly in the employees' families on the eve of Moon Festival and Double Ninth Festival and had the employees share their pictures taken with the elderly in their families to show their love for their family members. The Company participated in the winter relief activity organized by Gongliao Township Office In January 2019, and the meal party with the elderly organized by Shuangxi District Office in March 2019. The Company donated a batch of thermal food jar at both activities to extend the Company's care for them. In order to help eliminate hunger and aid children from poor families, the Company initiated the charity donation by its employees to adopt the elective-care students of elementary schools and junior high schools in Taitung. As a result, NT\$300,000 was raised to support the budget of dinner for the elective-care students of 11 schools attending the tutorship program. In 2018, the Company continued to sponsor Andrew Charity Association and Harmony House in Wenshan District for public welfare, including the supplies donated by the Company, fund and invoice donated by the employees, and the volunteers' participation in the volunteer service, in order to help Andrew Charity Association pack the food and supplies and also to help the Association feed and take care of babies.

The Company takes the satisfaction with social needs and physical participation for charity as the first priority when organizing any public welfare activity. As of 2015, the Company has organized the blood donation activity for twice each year (in summer and winter) to relieve the blood shortage. As of 2016, the Company has organized the clothes donation activity for twice each year (in spring and fall) to raise the second-hand clothes which the employees seldom wore and donate the same to Taipei City Association for Psychosocial Rehabilitation, so that the Association

may help the mentally disordered with rehabilitation and earn money by sorting out old clothes. Meanwhile, the Company will sort out old computers and equipment every year, and donate the same to the organizations providing tutorship programs to poor children without charge in rural areas to fulfill the philosophy about treasuring, environmental protection and public welfare. In 2016, the Company established a volunteer society and led the Company's employees to engage in public welfare services and care for ecology and historical relics. The Company also organized such diversified activities as beach cleanup, mountain cleanup, donation of books, and volunteers engaged in sorting out books to fulfill the environmental protection and help the disadvantaged groups. The Company also carries out the procurement projects for public welfare from time to time each year to support social welfare groups, peasants or disadvantaged groups. The Company subscribed for the New Year's dishes from Seed Charity Association in 2015 and 2016 to help the child students in Hualien and Taitung. In 2018, the Company initiated the procurement by the employees of pineapples planted by teachers and students of Shan Dao Student Yard in Pingtung and Yuherbau Litchis planted in Dashu Township, Kaohsiung.

In order to promote arts and cultures, the Company continues to support excellent arts and cultural groups, such as the Asian Youth Orchestra (AYO) and the National Symphony Orchestra (NSO). In 2017, the Company organized the guided tour to National Concert Hall. In 2017 and 2018, the Company also organized musical concerts. The Volunteer Society also organized the guided tour to historical relics to care the activation of historical relics and cultural development.

The Company has donated fund to aid the victims of Kaohsiung Explosions in 2014 and Tainan Earthquake in 2016. In order to promote economical and financial development, the Company continues to actively participate in financial education and training in colleges and universities, promote modern financial philosophy and professional knowledge, and also support B-Type enterprises' development and encourage innovation and entrepreneurship.

In the meantime, the Company fulfills its corporate responsibility for taking care of its employees and continues to build the health workplace. In 2016, the Company passed the certification of "Health Promotion Mark" of Ministry of Health and Welfare, and won 2nd place in the excellent health workplace competition in Taipei City and the "Teamwork and Health Award" for the national excellent health workplaces. In 2017, the Company held the Chinese medicine weight-loss program and free influenza vaccine injection. In 2017, in consideration of the Company's excellent performance in promoting health workplace, Department of Health, Taipei City Government invited the Company to share its promotional results with the public and the Company was selected as the model enterprise of the "Taipei City Smart and Health Workplace Program" of Ministry of Health and Welfare. In 2018, the Company organized the free healthy lunch box

program and employees' physical fitness test, and promoted the four major health programs, such as the smart lobby with health station, stair walking competition, smart lift desk and smart water bottle, encouraged the employees to measure blood pressure daily and utilize the smart mats in the lobby, blue tooth bikes and treadmills, and also drink more water, reduce the time when seated and walk stairs more. In consideration of the fair promotional result, due to good results, in December 2018, the Company was invited by Health Promotion Administration, Ministry of Health and Welfare to attend its press conference to share its implementation results and experience.

For customers' service, the various financial services provided by the Company to its customers would balance the safety and fairness, and the Company is used to settling the customers' complaints or disputes in good faith and rapidly. Meanwhile, the Company's managers all perform their duties with due diligence as a good administrator, uphold the spirit of self-love and self-regulation, strictly supervise the employees' business conduct, professional ethics and professional service quality, and disclose the complete information about the Company's corporate governance, asset allocation and operating results to the investors honestly.

II Responsibility for Environmental Protection

The Company believes that an enterprise should be identified as one member of the global village and, therefore, all of them should work together to love the earth, save energy and reduce carbon, and practice the environmental sustainability. The Company uses its best efforts to reduce paper, save water, save energy and reduce carbon to render less impact to the environment. Meanwhile, the Company demands that the suppliers should also follow the relevant regulations on environmental protection, safety or sanitation to practice the environmental sustainability together.

The Company believes that the most critical contribution which the financial service industry may make should be reduction of paper consumption. Therefore, it uses its best efforts to reduce paper consumption. For the most recent three years, it has cut its paper consumption gradually. Its paper consumption was 1,170 cases in 2016, 1,160 cases in 2017 and 1,155 cases in 2018. In order to save energy and reduce carbon, the Company's annual power consumption in 2016, 2017 and 2018 was 681,000 degrees, 609,600 degrees and 488,760 degrees, the water consumption 1,195 degrees, 1,190 degrees and 1,199 degrees, and the carbon dioxide emissions 429,030 kg, 384,048 kg, and 307,918kg, respectively. Apparently, the Company's paper, power and water consumption and carbon dioxide emissions for the most recent three years have decreased. Therefore, the Company should be held having fulfilled its environmental sustainability policy.

In order to fulfill the environmental sustainability, the Company adopts the supplier policy. The Company uses the office equipment and supplies, computers and peripheral equipment bearing

the environmental protection mark, and also demands that the suppliers should comply with the relevant regulations on such issues as environmental protection, safety or sanitation, provide toxic-free products, and work with the Company to upgrade the corporate social responsibility. For example, when purchasing the toner for copy machine, the Company will ask the relevant supplier to show the environmental protection mark. The Company's main supplier refers to the one who engages in printing the Company's annual report in Chinese and English languages each year. The Company's annual report printing supplier is the only one leading printing plant which is awarded the accreditation of golden environmental protection mark by Environmental Protection Administration throughout the nation. The Company is engaged in the financial business, instead of manufacturing. Therefore, the Company has no factories engaged in production of goods and no ISO 14001 or similar environmental management system certification is applicable to the Company.

Further, as of the August 2018, the Company has particularly ordered the meal held in the container made of iron for workers who work overtime at the end of each month, in order to respond to the policy for prohibition of disposable and melamine tableware adopted by Department of Environmental Protection, Taipei City Government. On March 12, 2019, the Company was awarded the certificate of gratitude by Taipei City Government publicly.

1. Policy for reduction of paper consumption

- (1) Input of various personnel receipts and customer interview records into the computer system to save paper.
- (2) Posting of meeting minutes on computer or engagement in discussion on a decision-making supporting system.
- (3) Adoption of video conference to cut the business traveling expenses for the personnel.
- (4) Completion of the electronic archive system to achieve the paperless operation completely.
- (5) Adoption of the online review on vouchers and archiving in electronic form to reduce paper consumption.
- (6) Strongly recommending presentation of the meeting minutes in an electronic form, and communication of interest rate report and guarantee review results via email.
- (7) Active promotion of the paperless policy to all levels. In 2013, the Company consumed about 1,600 packs of paper for the copy machine. In 2014, the consumption declined to 1,200 packs, and 1,180 packs in 2015. For the most recent three years, the consumption has declined successively from 1,170 packs in 2016 and 1,160 packs in 2017 until 1,155 packs in 2018. The consumption for the past six years has reduced by about 28%. The Company will continue to use its best efforts to reduce the paper consumption by 10% after the next three years

2. Policy for saving energy and reducing carbon

- (1) Ask the employees to turn off the light at lunch break time and shut down their PCs absolutely after work.
- (2) Reduce the quantity of the light bulbs and tubes in public zones, and replace them with LED lights.
- (3) Set the air conditioner temperature at 26°C permanently in summertime.
- (4) Turn off the lighting power supply at lunch break time comprehensively.
- (5) Replace the fluorescent tubes in the parking lots at the basement with LED tubes.
- (6) Conduct the investigation into air quality in offices every day to maintain the fair air quality in offices; install one indoor air quality monitor in each of the left and right areas of the Company dedicated to monitoring the air quality in offices for 24 hours a day, so that the central control room of the building will notify the Company to make correction of any abnormality detected by the monitor at any time.
- (7) Clean up the air conditioners at office premises periodically.
- (8) Replace the filter cartridge periodically to ensure the sanitation of drinking water.
- (9) Practice the sorting of solid waste and recycling.
- (10) Save gasoline: Rent PHEV vehicles as company vehicles to reduce the gasoline consumption substantially and also carbon dioxide emissions.

3. Policy for saving water consumption

- (1) Adopt inductive faucets in rest rooms.
- (2) Cut the water consumption of the toilets for gentlemen.
- (3) Cut the water consumption of the kitchen counter to save water.

4. Adoption of video conference to cut the business traveling expenses for the personnel.

- (1) Financial asset and liability management committee meeting (once per month)
- (2) Business review meeting (once per week)
- (3) Morning conference between Fixed Income Products Department of the Company and the five branch companies (three times per week)
- (4) Compliance training course of Legal & Compliance Department with the five branch companies (once per six months)
- (5) Lunar New Year greeting of the headquarters and branch companies via video
- (6) Farewell party for the management's retirement.

Four. Number of employees in non-managerial positions, annual average employee benefit expenses, and difference in comparison with those of the preceding year

Item	2018	2017
Number of full-time employees in non-managerial positions (persons)	128	127
“Average salary “of full-time employees in non-managerial positions (NT\$ thousand)	1,455	1,417

Five. Information Technology and Facilities

I. Construction and maintenance of main information system

- (I) Business trading system (including NTD/foreign currency bills system, NTD/foreign currency bonds system, NTD/foreign currency capita system, NTD/foreign currency financial derivatives system, fund and stock system, guarantee system, NTD/foreign currency accounting system, NTD/foreign currency risk management system, payroll system, anti-money laundering system and CRS system, etc.) installed on the AIX RS6000 host, which was self-developed and self-maintained.
- (II) Intranet, HR system (including employees’ application for business travels, online sign-in/sign-off and related OA e-form), electronic official document system, electronic report system, CRM system, credit investigation procedure system, BI decision-making supporting system, safe deposit access system and money laundering control KYC audit system installed on the Windows host, which was self-developed and self-maintained.
- (III) The inter-bank remittance system and CB system were developed by the suppliers contracted by the Company, which are installed on the AIX RS6000 host, to be self-administered, but maintained by contractors.
- (IV) The security information-related systems and network equipment, including next-generation firewall, spam interception system, anti-virus system, resource management system, DLP system, network security web browsing and filtering system, endpoint control system, HDPS Commvault backup system, privileged account management system and network Switch device, etc., are self-administered but maintained by contractors.

II. Major information system disaster backup and security protection policy

- (I) The business trading system data would be backed up immediately, and after 15 minutes remotely. The data center and data storage device at the same site are equipped with HA backup mechanism. Upon outbreak of failure in the data center, the HA backup mechanism will be automatically activated and switched to the backup host or data storage device at the same site to ensure that the business trading may keep operating to mitigate the impact rendered against the business therefor.
- (II) OA-related system (including intranet, HR system, electronic official document system, electronic report system, CRM system, credit investigation procedure system, BI decision-making supporting system, safe deposit access system and money laundering control KYC audit system) is installed on the VMWare virtual platform. Upon outbreak of failure in the VMWare system host, the HA backup mechanism will be automatically activated and switch the online system to the backup VMWare system host at the same site to upgrade the availability and safety of the system.
- (III) Set up a remote backup data center in Taoyuan, and use the HDPS Commvault backup system to perform the backup of the business trading system and OA-related system at the same site and remotely: In order to ensure that the remote backup data center in Taoyuan can meet the information system backup function, the Company will organize the remote backup stimulation drill with respect to the business trading system and OA-related system on a yearly basis, and will also organize the remote on-site stimulation drill for once per two years. Upon outbreak of a failure in the formal and backup equipment in the same data center, the business trading system and OA-related system may be switched to the remote backup environment manually to keep operating and also keep the Company's operation uninterrupted.
- (IV) In consideration of the information security, the Company adopts the following security protection policies:
 - 1. Construction of the information security protection system:
Build the next-generation firewall, spam interception system, anti-virus system, resource management system, DLP system, network security web browsing and filtering system, endpoint control system and privileged account management system to provide the Company with a safer network access environment.
 - 2. Implementation of weakness scanning and penetration testing:
The Company will retain the information suppliers to conduct weakness scanning on

the information equipment throughout the Company periodically each year, and will fix and update the bugs in the systems or strengthen the protection in a feasible manner with respect to the weakness and bugs identified according to the scanning results to mitigate the entire information security risk. The Company will also retain the information suppliers to conduct the penetration testing on the Company's servers, hosts and website periodically each year to discover and fix the weakness exposed externally as early as possible.

3. Organization of social engineering exercise via emails:

The Company will organize the social engineering exercise via email for the whole employees and explain the exercise results for twice per year, in order to enable the employees to understand the risk over access to emails and raise their awareness toward the crisis from the social engineering attacks. Meanwhile, the Company will organize the information security promotional education and training for 3 hours each year to raise the employees' awareness toward information security.

4. Restrictions on installation of software and account management:

Withdraw the employees' highest authority of access to their PCs, restrict the employees from installing software privately, prevent the employees' PCs from being installed with the software containing malicious programs to reduce the possibility of the Company's information system being hacked; set the password of each information system administrator and employee login ID as controlled via systems in accordance with the relevant password policy. The privileged account management system constructed in 2018 engages in administering the important information system administrators' accounts to reduce the misuse of the system administrators' accounts and prevent the important data from being disclosed or prevent the system from being hacked if the administrators' accounts are stolen.

- (V) In order to ensure the security of the information system physically, the main information systems will be placed in the data centers, and the systems' host power will be supplied by the UPS system to prevent the system from immediate shutdown caused by temporary power outages. Meanwhile, in order to maintain the environment and equipment safety in the data centers, the Company installs the environmental monitoring system, central control system for the air conditioners, automatic air-jet fire protection system, access control system and monitoring system, etc. If any power failure, water leakage, temperature/humidity abnormality and fire, etc. are detected, the dedicated personnel will receive the automatic phone call, and the fire extinguisher will be activated automatically to deal with the abnormalities as early as possible lest the damage should be expanded.

III. Future development or procurement projects

- (I) Email APT mail is an attack means adopted by most hackers for the time being. In order to strengthen the Company's security protection capabilities continuously, prevent hackers from attacking the Company via email maliciously, and reduce the risk over the Company's information security problems, the Company plans to build an Email APT attack defense system in 2019.
- (II) In order to control the needs and execution of education and training of the Company's employees and follow up the results of education and training, the Company plans to construct the digital learning system in 2019, in hopes of upgrading the existing employees' education & training management operation efficiency through the digital learning and integrated education & training management platform, and also enhancing the Company's cultivation and development of talents under the training plan.

Six. Relations between laborers and employer

I. Current major labor agreements and status of implementation

(I) Employee benefit measures

The Company's employee benefit measures consist of those provided by the Company and Employee Benefits Committee respectively, which are stated as following:

1. Provided by the Company

- (1) Insurance: In addition to the labor insurance and national health insurance, the Company also maintains the term group life insurance for the employees and their parents, spouses and underage children.
- (2) Meal allowance.
- (3) Team bonding activities and health checkup for employees.

2. Provided by the Employee Benefits Committee

The Employee Benefits Committee was established in December 1978, which provides various benefits, allowances, and subsidies to employees' clubs, and organizes various activities subject to the status of budget. The subsidies consist of gifts for three major festivals, birthday, marriage, childbirth, funeral, retirement, social clubs, arts appreciation, and critical diseases and injuries, etc..

(II) Working environment and employee personal safety protection measures

- 1. Execute the visitors' access registration and control, designate dedicated personnel to clean up the environment at the office premises, replace the filter cartridge per quarter, and conduct water

quality inspection periodically.

2. Elevators and fire extinguishers will be maintained periodically, and fire protection equipment including sprinklers, stair lighting and emergency exits are inspected on a monthly basis. A qualified fire protection company will be entrusted to declare the maintenance status of various equipments each year, and the public safety inspection of the building will be conducted once per two years. The same are approved upon re-examination by the competent authority.
3. Organize the employees' fire protection drill once per six months.
4. Clean up and disinfect the environment periodically per two months.

(III) Pension system

The Company establishes the employee pension regulations. The pension shall be payable to the employees pursuant to the regulations when the employees apply for retirement.

The general employees have contributed 7.52% of the total salary paid to them on a monthly basis as the "reserve for pension" from July 1999 to December 2004. Since 2005, the employees have contributed 7% of the total salary paid to them on a monthly basis as the reserve for pension to the Pension Fund Supervisory Committee for custody, and the same were deposited into Bank of Taiwan in the name of the Committee, and the interest accruing thereon were used to pay the pension payable under the old system. Further, for the employees who selected the new labor pension system as of July 2005, the Company would contribute 6% of their monthly salary on a monthly basis and deposit the same into the account maintained at Bureau of Labor Insurance in their personal name.

Appoint the employees to contribute the "pension fund" on a monthly basis, and state the pension expenses, and have the same utilized by the Pension Fund Supervisory Committee.

(IV) Employees' code of conduct and ethics

According to the Labor Standards Act and related laws, the Company establishes its work rules, instructions to employees' service, Code of Ethics, Procedure for Ethical Management and Guidelines for Conduct, and principles to be followed by the sales personnel remuneration system requiring that the employees should comply with the Company's regulations and rules and abide by the management's reasonable direction. The management shall direct employees friendly and perform the performance assessment in line with the work objectives strictly. The management and subordinates or co-workers shall respect each other, uphold honesty and integrity, act rigorously, work diligently, abandon bad habits, maintain the Company's corporate identity, and perform their duties with due diligence; comply with labor laws and the Company's regulations to maintain the safety and sanitation of the workplace and its surrounding environments and prevent theft, fire or

other natural calamities. The Company upholds the core management philosophy for “Gratitude, Cherishment and Improvement”, and all of the employees shall follow the self-discipline principles and value the business ethics.

(V) Other important agreements

The Company established the labor-management council in accordance with the Regulations Governing Implementation of Labor-Management Council Meetings on September 17, 2015. The management and labors delegate five representatives respectively to negotiate with each other in the spirit of teamwork and cooperation at the labor-management meeting to strengthen the management-labor relationship, promote the management-labor cooperation, and also discuss about such motions as employment terms and conditions, employees’ benefits and upgrading of work efficiency.

II. Losses as a result of labor disputes for the most recent year

None.

Seven. Important Contracts

The Company is a bills finance company engaged in transactions with its customers in accordance with related laws and the Company's internal regulations. Other than the guarantee, certification and underwriting contracts related to its operations, the Company never concludes any supply contracts or technical cooperation contracts, and has no engineering contracts still surviving. All of the important contracts of the Company refer to lease contracts which are excluded from any restrictive clauses and render no material adverse effect to the Company's business.

Contract type	Counterpart	Contract beginning and ending date	Main contents	Restrictive clauses
Lease	Lessor: O-Bank (formerly known as Industrial Bank of Taiwan) (Note) Lessee: Headquarters of China Bills Finance Corporation	January 1, 2015 to December 31, 2019	1. Scope: 4F, No. 99, Sec. 2, Tiding Blvd., Neihu Dist., Taipei City, occupying an area totaling 679.85 pings. 2. The monthly rent is NT\$1,070,764.	None
Lease	Lessor: Mingtai Insurance CO., LTD. Lessee: Banqiao Branch of China Bills Finance Corporation	October 16, 2016 to October 15, 2021	1. Scope: 3F, No. 51, Sec. 1, Wenhua Rd., Banqiao District, New Taipei City, occupying an area totaling 108.16 pings. 2. The monthly rent is NT\$147,000.	None

Financial Status

One. Summary Five-Year Balance Sheets and Consolidated Income Statement

I. Condensed balance sheet

Unit: NT\$ thousand

Item	Year	Financial information for the most recent five years				
		2018	2017	2016	2015	2014
Cash and cash equivalents						
Due from the central bank and call loans to banks		261,832	307,501	1,357,590	294,198	292,419
Financial assets at fair value through profit or loss		97,455,257	111,377,286	107,982,899	116,358,172	93,589,437
Financial assets at fair value through other comprehensive income		98,395,152	None	None	None	None
Available-for-sale financial assets		None	98,011,594	90,637,886	83,810,345	71,347,272
Securities purchased under resell agreements		991,363	5,682,864	200,092	4,100,000	1,750,739
Receivables, net		1,291,700	1,249,639	1,276,545	1,221,950	1,012,275
Current tax assets		286,330	246,136	119,050	155,041	176,543
Financial assets held to maturity		None	None	None	None	385,208
Other financial assets, net		548,988	173,478	177,924	178,805	178,798
Property and equipment, net		150,208	155,116	157,643	157,921	163,367
Deferred tax assets		101,386	109,557	105,326	113,228	108,664
Other assets, net		48,815	3,099,233	1,324,136	1,192,495	912,297
Total Assets		199,531,031	220,412,404	203,339,091	207,582,155	169,917,019
Call loans from banks and overdrafts on banks		26,544,504	18,137,720	14,822,790	11,010,000	12,240,000
Commercial paper issued, net		499,881	2,999,557	2,499,824	None	None
Financial liabilities at fair value through profit or loss		5,885	8,624	27,883	7,284	153,196
Securities sold under repurchase agreements		147,046,457	173,976,038	161,213,032	171,238,096	134,133,003
Accounts payable		451,695	475,561	689,356	1,381,783	385,646
Current tax liabilities		None	None	None	None	None
Other financial liabilities		None	None	None	None	None
Provisions		1,396,246	1,524,181	1,530,697	1,469,907	1,448,181
Deferred tax liabilities		4,898	93	5,645	13,970	6,027
Other liabilities		282,972	265,698	112,806	75,778	83,935
Total Liabilities	Before distribution	176,232,538	197,387,472	180,902,033	185,196,818	148,449,988
	After distribution	Note 1	198,340,974	182,030,119	186,311,475	149,416,919
Equity attributable to the parent		23,298,493	23,024,932	22,437,058	22,385,337	21,467,031
Capital	Before distribution	13,429,600	13,429,600	13,429,600	13,429,600	13,429,600

Item \ Year		Financial information for the most recent five years				
		2018	2017	2016	2015	2014
stock	After distribution	Note 1	13,429,600	13,429,600	13,429,600	13,429,600
Capital surplus		4,113	2,474	2,474	2,474	2,474
Retained earnings	Before distribution	9,520,568	9,009,745	8,781,359	8,277,678	7,647,550
	After distribution	Note 1	8,056,243	7,653,273	7,163,021	6,680,619
Other equity		344,212	583,113	223,625	675,585	387,407
Treasury stock		None	None	None	None	None
Non-controlling interests		None	None	None	None	None
Total equity	Before distribution	23,298,493	23,024,932	22,437,058	22,385,337	21,467,031
	After distribution	Note 1	22,071,430	21,308,972	21,270,680	20,500,100

Note 1: The motion for distribution of earnings in 2018 has been approved by the Board of Directors but has not yet been resolved by the shareholders' meeting by the date of publication of this annual report.

Note 2: Said financial information has been audited and certified by independent auditors.

II. Condensed income statement

Unit: NT\$ thousand

Item \ Year		Financial information for the most recent five years				
		2018	2017	2016	2015	2014
Interest revenue		1,920,107	1,980,066	1,962,670	1,981,815	1,914,862
Less: interest expenses		(948,419)	(821,148)	(683,459)	(901,156)	(947,189)
Net interest income		971,688	1,158,918	1,279,211	1,080,659	967,673
Net income other than interest		1,005,520	936,028	1,033,284	1,144,013	907,536
Net revenue		1,977,208	2,094,946	2,312,495	2,224,672	1,875,209
Provisions		131,603	7,283	184,790	180,401	234,907
Operating expenses		(478,583)	(476,026)	(497,284)	(487,809)	(451,916)
Income before income tax from continuing operations		1,630,228	1,626,203	2,000,001	1,917,264	1,658,200
Income tax gains (expenses)		(294,809)	(275,139)	(366,483)	(307,568)	(272,857)
Net income from continuing operations		1,335,419	1,351,064	1,633,518	1,609,696	1,385,343
Income (loss) from discontinued operations		None	None	None	None	None
Net profit (net loss) - current period		1,335,419	1,351,064	1,633,518	1,609,696	1,385,343
Other comprehensive income (net after tax) - current period		(236,507)	364,896	(467,140)	275,541	73,434
Total comprehensive income – current period		1,098,912	1,715,960	1,166,378	1,885,237	1,458,777
Net profit attributable to the owner of parent		1,335,419	1,351,064	1,633,518	1,609,696	1,385,343
Net profit attributable to the non-controlling interest		None	None	None	None	None
Net profit from total comprehensive income attributable to the owner of parent		1,098,912	1,715,960	1,166,378	1,885,237	1,458,777
Total comprehensive income attributable to the non-controlling equity		None	None	None	None	None
Earnings per share (NT\$)		0.99	1.01	1.22	1.20	1.03

Note: Said financial information has been audited and certified by the independent auditors.

III. Independent auditors over the past five years and their audit opinions

Year	CPA Firm	Independent auditor		Audit opinion
2018	Deloitte Taiwan	Jui-Chan Huang	Chen-Hsiu Yang	Unqualified opinions
2017	Deloitte Taiwan	Jui-Chan Huang	Chen-Hsiu Yang	Unqualified opinions
2016	Deloitte Taiwan	Jui-Chan Huang	Chen-Hsiu Yang	Unqualified opinions
2015	Deloitte Taiwan	Jui-Chan Huang	Chen-Hsiu Yang	Unqualified opinions
2014	Deloitte Taiwan	Jui-Chan Huang	Chen-Hsiu Yang	Unqualified opinions

Two. Financial analysis for the most recent five years

Analysis Item (Note 2)		Financial analysis for the most recent five years (Note 1)				
		2018	2017	2016	2015	2014
Operational ability	Average days of the holding period of bills/bonds	8.12	7.91	7.52	6.81	7.08
	Non-performing guarantee ratio (%)	0	0	0	0	0
	Total asset turnover (counts)	0.01	0.01	0.01	0.01	0.01
	Average revenues per employee (NT\$1,000)	13,360	14,060	15,315	15,449	13,491
	Average earnings per employee (NT\$1,000)	9,023	9,068	10,818	11,178	9,966
Profitability	Return on assets (%)	0.64	0.64	0.80	0.85	0.77
	Return on shareholders' equity (%)	5.77	5.94	7.29	7.34	6.53
	Profit margin (%)	67.54	64.49	70.64	72.36	73.88
	Earnings per share (NT\$)	0.99	1.01	1.22	1.20	1.03
Financial structure	Ratio of liabilities to assets (%)	87.67	88.91	88.26	88.55	86.55
	Property and equipment to equity (%)	0.64	0.67	0.70	0.71	0.76
Growth rate	Asset growth rate (%)	-9.47	8.40	-2.04	22.17	-9.78
	Profit growth rate (%)	0.25	-18.69	4.32	15.62	-1.53
Cash flow (Note 7)	Cash flow ratio (%)	NA	NA	NA	1.35	1.93
	Cash flow adequacy ratio (%)	NA	NA	NA	NA	24.19
Total balance of guarantee secured by stakeholders (NT\$1,000)		0	0	0	0	0
Total balance of guarantee secured by stakeholders to total balance of guarantee (%)		0	0	0	0	0
Operating scale (Note 8)	Asset market share (%)	19.70	21.35	20.65	22.17	20.80
	Net-worth market share (%)	18.83	18.81	19.15	19.13	19.17
	Market share of guarantee and endorsement of bills (%)	19.08	18.90	19.12	18.14	18.65
	Market share of issuance of and initial subscription for bills/bonds (%)	17.83	19.36	20.29	21.38	19.92
	Market share of bills/bonds transactions (%)	15.63	15.91	17.60	19.14	17.97

Analysis Item (Note 2)		Financial analysis for the most recent five years (Note 1)				
		2018	2017	2016	2015	2014
Capital adequacy	Capital adequacy ratio (%)	12.88	13.19	13.48	13.70	12.91
	Eligible regulatory capital (NT\$1,000)	22,938,478	22,185,185	22,551,610	21,984,364	20,616,128
	Total risk-weighted assets (NT\$1,000)	178,050,233	168,237,587	167,356,987	160,492,875	159,642,639
	Tier 1 capital to total risk-weighted assets (%)	12.80	13.02	13.26	13.38	12.79
Please explain the reasons for changes in each financial ratio during the most recent two years. (Analysis is not required if the magnitude of increase or decrease is less than 20%).						
1. The asset growth rate decreasing by 213%: Primarily because of the price war caused by the concurrent operation of bills finance business resulting in the Company's decrease in the bills. 2. Profit growth rate increasing by 101%: Primarily because of the drastic declination of the profit in 2017 from 2016.						

Note 1: The figures applied by the financial analysis for said years have been audited and certified by the independent auditors.

Note 2: The following calculation formulas must be listed at the end of the foregoing table:

1. Operational ability
 - (1) Average days of the holding period of bills/bonds=365/turnover of bills/bonds (Note 3)
 - (2) Non-performing guarantee ratio=Non-performing guarantee (including overdue receivables)/total guarantee (including overdue receivables)
 - (3) Total asset turnover=Revenue (Note 4)/Average total assets
 - (4) Average revenues per employee = Revenue (Note 4)/Total number of employees (exclusive of directors)
 - (5) Average earnings per employee = Net earnings after tax/Total number of employees (exclusive of directors)
2. Profitability
 - (1) Return on assets = Income (loss) after tax/Average total assets
 - (2) Return on shareholders' equity = Income (loss) after tax/Average total equity
 - (3) Net profit margin = Income (loss) after tax/Revenue (Note 4)
 - (4) Earnings per share = (Income (loss) attributable to the owner of parent-Preferred stock dividend)/Weighted average number of outstanding shares (Note 5)
3. Financial structure
 - (1) Ratio of liabilities to total assets = Total liabilities (Note 6)/Total assets
 - (2) Property and equipment to equity=Property and equipment, net/Total equity
4. Growth rate
 - (1) Asset growth rate = (total assets during the current year - total assets during the previous year)/total assets during the previous year
 - (2) Profit growth rate = (Income (loss) before tax during the current year - Income (loss) before tax during the previous year)/Income (loss) before tax during the previous year
5. Cash flow
 - (1) Cash flow ratio = Net cash flow from operating activities/(Call loans from banks and overdrafts on banks + commercial paper issued + financial liabilities at fair value through profit or loss + Securities sold under repurchase agreements + Accounts payable-current portion)
 - (2) Cash flow adequacy ratio = Net cash flow from operating activities during the most recent five years/(capital expenditures + cash dividends) during the most recent five years

6. Operating scale

- (1) Asset market share = Total assets/Total assets of all bills finance companies
- (2) Net-worth market share = Net worth/Total net worth of all bills finance companies
- (3) Market share of guarantee and endorsement of bills=Balance of guarantee and endorsement of bills/Total balance of guarantee and endorsement of bills by all bills finance companies
- (4) Market share of issuance of and initial subscription for bills/bonds=Amount of issuance of and initial subscription for bills/bonds / Total amount of issuance of and initial subscription for bills/bonds by all bills finance companies
- (5) Market share of bills/bonds transactions=Amount of bills/bonds transactions/Total amount of bills/bonds transactions by all bills finance companies

7. Capital adequacy

- (1) Capital adequacy ratio = Eligible regulatory capital/Risk-weighted assets
- (2) Eligible regulatory capital=Tier 1 capital+Eligible Tier 2 capital+Eligible and Authorized Tier 3 capital
- (3) Total risk-weighted assets=Credit risk-weighted assets=(Operation risk capital requirement+Market risk capital requirement)x12.5
- (4) Tier 1 capital to total risk-weighted assets=Tier 1 capital/Total risk-weighted assets

Note 3: Turnover of bills/bonds=Amount of bills/bonds transactions/Average balance of bills/bonds

Note 4: The revenue means the total of interest income and non-interest income.

Note 5: When calculating the earnings per share referred to in the preceding paragraph, please note that:

1. The weighted average number of common shares shall apply, instead of the number of outstanding shares at the end of the year.
2. In the case of capital increase or treasury stock transactions, the calculation shall take the weighted average number of outstanding shares.
3. In the case of recapitalization from earnings or recapitalization from capital surplus, the calculation of earnings per share for the previous year and for a half of year shall make adjustment retroactively subject to the proportion of capital increase, irrelevant with the issuance period for the capital increase.
4. If the preferred stock refers to non-convertible cumulative preferred stock, the stock dividend for the current year (whether allocated or not) shall be deducted from the net income after tax or add the net loss after tax.
5. If the preferred stock is not cumulative one, the preferred stock dividend shall be deducted from the net income after tax, if any. Notwithstanding, no adjustment is required, in the case of loss.

Note 6: The total liabilities exclude the guarantee liability provision.

Note 7: Not applicable, in the case of net cash outflow from operating activities.

Note 8: The source of data refers to the "Financial Statistics Abstract" issued by Banking Bureau of FSC.

Three. Audit Committee's Report on the 2018 Financial Statements

See Page 131.

Four. 2018 Financial Statements

See Pages 132~206.

Five. The 2018 Entity Financial Statement Audited and Certified by Independent Auditors

The Company has no subsidiaries and, therefore, the entity financial statement is as same as the financial statement. Please see Pages132~208.

Six. Any Financing Problems Encountered by the Company or Its Affiliates Which Might Affect the Company's Financial Status

None.

Audit Committee's Report

The Company's 2018 financial statements reviewed by the Audit Committee and resolved by the Board of Directors meeting have been audited and certified by Jui-Chan Huang, CPA & Chen-Hsiu Yang, CPA of Deloitte & Touche, who gave an unqualified opinion on the audit report. Meanwhile, after completing the audit on the Company's 2018 business report, substantial property catalogue and motion of distribution of earnings, the Audit Committee believes that they are free of material misstatement, and thus produces this report according to Article 14-4 of the Securities and Exchange Act whereunder Article 219 of the Company Act may apply mutatis mutandis.

To: 2019 General Shareholders' Meeting of China Bills Finance Corporation

Audit Committee of China Bills Finance Corporation

Convener: Chung-Ho Chen

February 27, 2019

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, 2018 and 2017, 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, 2018 and 2017, 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 Publicly Held Bills Finance Companies, 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, 2018. 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 Losses on Guarantee

Description:

As of December 31, 2018, the Company's estimated reserve for losses on guarantee for the Company's financial guarantee contracts entered into with credit clients was \$1,310,077 thousand. In accordance with the requirements of IFRS 9, "Financial Instruments", the Company recognized the reserve for guarantee liabilities based on the assessed and estimated occurrence of expected losses on financial guarantee contracts. In addition, the reserve for guarantee liabilities was calculated and classified 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 Debts" (Regulations Governing the Procedures for Bad Debts) and related regulations. The aforementioned assessments of the possibility of occurrences of guarantee obligation from financial guarantee contracts and of possible losses involve subjective judgment, estimates (e.g. Probability of default and Loss given default), classification of credit assets and provision according to "Regulations Governing the Procedures for Bad Debts", which will directly affect related accrued amounts. Thus, the assessment of the estimated impairment for financial guarantee contracts is deemed to be a key audit matter.

Please refer to Notes 4, 5, 20 and 38 (f) for relevant information and accounting policy for financial guarantee contracts.

The procedures we performed in the audit of the impairment of financial guarantee contracts are summarized as follows:

1. We understood the internal controls about the estimated impairment of reserve for guarantee liabilities of financial guarantee contracts and we tested the effectiveness of the operation of the controls.
2. We tested the accuracy of the loss reserves evaluation report of credit assets:
 - We obtained the loss reserves evaluation report of credit assets on the balance sheet date and we verified the accuracy of credit amount.
 - We understood and tested the assumption of expected losses on the balance sheet date and major parameters (probability of default and loss given default) which reflects actual situation.
 - We calculated the adequacy and accuracy of loss amount.
3. We tested the classification and provision which complied with the laws:
 - We evaluated the completeness of the balance of commercial paper exposed to guarantee liabilities relative 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 Publicly Held Bills Finance Companies, 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, 2018 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, 2019

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, 2018 AND 2017 (In Thousands of New Taiwan Dollars)

ASSETS	2018		2017	
	Amount	%	Amount	%
CASH AND CASH EQUIVALENTS (Notes 4 and 6)	\$ 261,832	-	\$ 307,501	-
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (Notes 4, 7, 33 and 34)	97,455,257	49	111,377,286	51
FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (Notes 4, 5, 8, 9 and 34)	98,395,152	49	-	-
SECURITIES PURCHASED UNDER RESALE AGREEMENTS (Notes 4, 10 and 33)	991,363	1	5,682,864	3
RECEIVABLES, NET (Notes 4, 5 and 11)	1,291,700	1	1,249,639	1
CURRENT TAX ASSETS (Note 4)	286,330	-	246,136	-
AVAILABLE-FOR-SALE FINANCIAL ASSETS (Notes 4 and 12)	-	-	98,011,594	44
OTHER FINANCIAL ASSETS, NET (Notes 4, 13 and 34)	548,988	-	173,478	-
PROPERTY AND EQUIPMENT, NET (Notes 4 and 14)	150,208	-	155,116	-
DEFERRED TAX ASSETS (Note 4 and 31)	101,386	-	109,557	-
OTHER ASSETS, NET (Notes 4, 15 and 34)	<u>48,815</u>	-	<u>3,099,233</u>	<u>1</u>
TOTAL	<u>\$ 199,531,031</u>	<u>100</u>	<u>\$ 220,412,404</u>	<u>100</u>
LIABILITIES AND EQUITY				
CALL LOANS FROM BANKS AND OVERDRAFTS ON BANKS (Note 16)	\$ 26,544,504	13	\$ 18,137,720	8
FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS (Notes 4 and 7)	5,885	-	8,624	-
SECURITIES SOLD UNDER REPURCHASE AGREEMENTS (Notes 4, 17 and 33)	147,046,457	74	173,976,038	79
ACCOUNTS PAYABLE (Note 18)	451,695	-	475,561	-
COMMERCIAL PAPER ISSUED, NET (Note 19)	499,881	-	2,999,557	2
PROVISIONS (Notes 4, 5 and 20)	1,396,246	1	1,524,181	1
DEFERRED TAX LIABILITIES (Note 4 and 31)	4,898	-	93	-
OTHER LIABILITIES	<u>282,972</u>	-	<u>265,698</u>	-
Total liabilities	<u>176,232,538</u>	<u>88</u>	<u>197,387,472</u>	<u>90</u>
EQUITY (Notes 4 and 22)				
Ordinary share capital	<u>13,429,600</u>	<u>7</u>	<u>13,429,600</u>	<u>6</u>
Capital surplus	<u>4,113</u>	-	<u>2,474</u>	-
Retained earnings				
Legal reserve	7,280,862	4	6,875,543	3
Special reserve	769,120	-	769,120	-
Unappropriated earnings	<u>1,470,586</u>	<u>1</u>	<u>1,365,082</u>	<u>1</u>
Total retained earnings	<u>9,520,568</u>	<u>5</u>	<u>9,009,745</u>	<u>4</u>
Other equity	<u>344,212</u>	-	<u>583,113</u>	-
Total equity	<u>23,298,493</u>	<u>12</u>	<u>23,024,932</u>	<u>10</u>
TOTAL	<u>\$ 199,531,031</u>	<u>100</u>	<u>\$ 220,412,404</u>	<u>100</u>

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, 2018 AND 2017 (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2018		2017	
	Amount	%	Amount	%
NET INTEREST				
Interest revenues (Notes 4 and 23)	\$ 1,920,107	97	\$ 1,980,066	94
Deduct: Interest expenses (Notes 4, 23 and 33)	<u>(948,419)</u>	<u>(48)</u>	<u>(821,148)</u>	<u>(39)</u>
Net interest	971,688	49	1,158,918	55
NET REVENUES OTHER THAN INTEREST				
Commissions and fee revenues, net (Notes 4 and 24)	873,548	44	887,351	42
Gains on financial assets and liabilities at fair value through profit or loss (Notes 4, 7, 25 and 33)	51,257	3	101,707	5
Realized gain or loss on available-for-sale financial assets (Notes 4 and 26)	-	-	(3,785)	-
Realized gains or losses on financial assets at fair value through other comprehensive income (Notes 4 and 27)	57,259	3	-	-
Foreign exchange gains or losses, net (Note 4 and 28)	14,498	1	(59,955)	(3)
Unrealized gains or losses on investments in debt instruments at fair value through comprehensive income (Notes 4, 5 and 9)	6,699	-	-	-
Impairment loss recognize on financial assets measured at cost, net (Note 4)	-	-	(4,448)	-
Other non-interest gains, net (Note 4)	<u>2,259</u>	<u>-</u>	<u>15,158</u>	<u>1</u>
TOTAL NET REVENUES	<u>1,977,208</u>	<u>100</u>	<u>2,094,946</u>	<u>100</u>
PROVISIONS (Notes 4 and 20)	<u>131,603</u>	<u>7</u>	<u>7,283</u>	<u>1</u>
OPERATING EXPENSES (Notes 29, 30 and 33)				
Personnel expenses	(336,068)	(17)	(340,570)	(16)
Depreciation and amortization	(8,426)	-	(8,697)	(1)
Others	<u>(134,089)</u>	<u>(7)</u>	<u>(126,759)</u>	<u>(6)</u>
Total operating expenses	<u>(478,583)</u>	<u>(24)</u>	<u>(476,026)</u>	<u>(23)</u>
INCOME BEFORE INCOME TAX	1,630,228	83	1,626,203	78
INCOME TAX EXPENSE (Notes 4 and 31)	<u>(294,809)</u>	<u>(15)</u>	<u>(275,139)</u>	<u>(13)</u>
NET INCOME FOR THE YEAR	<u>1,335,419</u>	<u>68</u>	<u>1,351,064</u>	<u>65</u>

(Continued)

CHINA BILLS FINANCE CORPORATION

STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017 (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2018		2017	
	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)	2,301	-	6,516	-
Unrealized gains or losses on investments in equity instruments designated as at fair value through other comprehensive income (Notes 4 and 22)	35,964	2	-	-
Income tax relating to items that will not be reclassified subsequently to profit or loss (Notes 4, 22 and 31)	<u>2,381</u>	<u>-</u>	<u>(1,108)</u>	<u>-</u>
	<u>40,646</u>	<u>2</u>	<u>5,408</u>	<u>-</u>
Items that may be reclassified subsequently to profit or loss:				
Unrealized gains on available-for-sale financial assets (Notes 4 and 22)	-	-	349,899	17
Unrealized gains or losses on investments in debt instruments at fair value through other comprehensive income (Notes 4 and 22)	(294,462)	(15)	-	-
Income tax relating to items that may be reclassified subsequently to profit or loss (Notes 4 and 31)	<u>17,309</u>	<u>1</u>	<u>9,589</u>	<u>-</u>
Items that will be reclassified subsequently to profit or loss for period, net of income tax	<u>(277,153)</u>	<u>(14)</u>	<u>359,488</u>	<u>17</u>
Other comprehensive income (loss) for the year, net of income tax	<u>(236,507)</u>	<u>(12)</u>	<u>364,896</u>	<u>17</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>\$ 1,098,912</u>	<u>56</u>	<u>\$ 1,715,960</u>	<u>82</u>
EARNINGS PER SHARE (NEW TAIWAN DOLLARS; Note 32)				
Basic	<u>\$ 0.99</u>		<u>\$ 1.01</u>	
Diluted	<u>\$ 0.99</u>		<u>\$ 1.01</u>	

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, 2018 AND 2017
(In Thousands of New Taiwan Dollars)

	Share Capital (Notes 4 and 22)	Capital Surplus (Notes 4 and 22)	Retained Earnings (Notes 4 and 22)			Other Equity		Total Equity
			Legal Reserve	Special Reserve	Unappropriated Earnings	Unrealized Gain (Loss) on Available-for-sale Financial Assets (Notes 4 and 22)	Unrealized Gain (Loss) on Financial Assets at Fair Value Through Comprehensive Income	
BALANCE AT JANUARY 1, 2017	\$ 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
Effect of retrospective application and retrospective restatement	-	-	-	-	31,091	(583,113)	678,534	126,512
Total comprehensive income for the year ended December 31, 2017	-	-	-	-	1,387,563	(223,625)	678,534	1,842,472
BALANCE AT DECEMBER 31, 2017	13,429,600	2,474	6,875,543	769,120	1,396,173	-	678,534	23,151,444
Legal reserve	-	-	405,319	-	(405,319)	-	-	-
Cash dividends distributed	-	-	-	-	(953,502)	-	-	(953,502)
Donation from shareholders	-	1,639	-	-	-	-	-	1,639
Net income for the year ended December 31, 2018	-	-	-	-	1,335,419	-	-	1,335,419
Other comprehensive income for the year ended December 31, 2018	-	-	-	-	4,682	-	(241,189)	(236,507)
Total comprehensive income for the year ended December 31, 2018	-	-	-	-	1,340,101	-	(241,189)	1,098,912
Disposals of investments in equity instruments designated as at fair value through other comprehensive income	-	-	-	-	93,133	-	(93,133)	-
BALANCE AT DECEMBER 31, 2018	\$ 13,429,600	\$ 4,113	\$ 7,280,862	\$ 769,120	\$ 1,470,586	\$ -	\$ 344,212	\$ 23,298,493

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, 2018 AND 2017

(In Thousands of New Taiwan Dollars)

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	\$ 1,630,228	\$ 1,626,203
Adjustments for:		
Reversal of provisions and bad debt expense	(126,099)	-
Valuation of financial assets and liabilities at fair value through profit or loss	(27,896)	21,235
Depreciation expenses	6,215	6,768
Amortization expenses	2,211	1,929
Interest expenses	948,419	821,148
Interest revenues	(1,920,107)	(1,980,066)
(Gain) Loss on disposal of property and equipment	203	(74)
Impairment loss recognized on financial assets measured at cost, net	-	4,448
Changes in operating assets and liabilities		
Decrease (increase) in financial assets at fair value through profit or loss	16,347,186	(3,434,881)
Increase in financial assets at fair value through other comprehensive income	(196,577)	-
Decrease (increase) in securities purchased under resale agreements	4,691,501	(5,482,772)
(Increase) decrease in interest and bond receivables	(116,431)	42,984
Increase in available-for-sale financial assets	-	(7,013,434)
Increase in other financial assets	(19,304)	(2)
Increase in other assets	(754)	(80)
(Decrease) increase in securities sold under repurchase agreements	(26,929,581)	12,763,006
Decrease in accounts payable	(27,500)	(223,896)
Decrease in provision for employee benefits	(6,234)	-
Increase in other liabilities	17,274	152,892
Interest received	1,994,477	1,963,988
Interest paid	(942,822)	(811,314)
Income tax paid	(319,646)	(413,116)
Net cash used in operating activities	(4,995,237)	(1,955,034)
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments for property and equipment	(1,998)	(4,550)
Proceeds from disposal of property and equipment	488	383
Decrease (increase) in refundable deposits	89	(1,775,644)
Increase in other assets	(2,293)	(2,088)
Net cash used in investing activities	(3,714)	(1,781,899)
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in call loans from banks and overdrafts on banks	8,406,784	3,314,930
Increase (decrease) in commercial paper payable	(2,500,000)	500,000
Dividends paid	(953,502)	(1,128,086)

(Continued)

CHINA BILLS FINANCE CORPORATION

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017 (In Thousands of New Taiwan Dollars)

	2018	2017
Net cash generated from financing activities	<u>4,953,282</u>	<u>2,686,844</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(45,669)	(1,050,089)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	<u>307,501</u>	<u>1,357,590</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	<u>\$ 261,832</u>	<u>\$ 307,501</u>

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

(Concluded)

CHINA BILLS FINANCE CORPORATION

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

1. GENERAL INFORMATION

In accordance with the Company Law and other related laws, China Bills Finance Corporation (the “Company”) was incorporated in October 1978. The Company’s shares have been listed on the Taiwan Stock Exchange (TSE). As of December 31, 2018, the Company had headquarters located in Taipei and 5 branches located in Banqiao, Taoyuan, Taichung, Tainan and Kaohsiung.

The Company’s main activities are the (a) certifying and underwriting of short-term bills and bank debentures; (b) brokering or doing proprietary trading of short-term bills, bank debentures, government and corporate bonds, and foreign bonds; (c) guaranteeing short-term bills; (d) providing financial consulting services to enterprises; (e) processing interbank call loans; (f) equity investments; (g) fixed-income security trading; (h) foreign-currency bills investment; and (h) doing other businesses as authorized by relevant authorities.

As of December 31, 2018 and 2017, the Company had 157 and 158 employees, respectively.

2. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Company’s board of directors on February 26, 2019.

3. APPLICATION OF NEW, AMENDED AND REVISED STANDARDS AND INTERPRETATIONS

- a. Initial application of the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), Interpretations of IFRS (IFRIC), and Interpretations of IAS (SIC) (collectively the “IFRSs”) endorsed and issued into effect by the FSC

Except for the following, the initial application of the amendments to the Regulations Governing the Preparation of Financial Reports by Publicly Held Bills Finance Companies, the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the IFRSs endorsed and issued into effect by the FSC did not have any material impact on the Company’s accounting policies:

- 1) IFRS 9 “Financial Instruments” and related amendment

IFRS 9 supersedes IAS 39 “Financial Instruments: Recognition and Measurement”, with consequential amendments to IFRS 7 “Financial Instruments: Disclosures” and other standards. IFRS 9 sets out the requirements for classification, measurement and impairment of financial assets and hedge accounting. Refer to Note 4 for information relating to the relevant accounting policies.

The requirements for classification, measurement and impairment of financial assets and hedging cost have been applied retrospectively from January 1, 2018, and the other requirements for hedge accounting have been applied prospectively. IFRS 9 is not applicable to items that have already been derecognized at December 31, 2017.

Classification, measurement and impairment of financial assets

On the basis of the facts and circumstances that existed as at January 1, 2018, the Company has performed an assessment of the classification of recognized financial assets and has elected restate prior reporting periods.

The following table shows the original measurement categories and carrying amount under IAS 39 and the new measurement categories and carrying amount under IFRS 9 for each class of the Company's financial assets and financial liabilities as at January 1, 2018.

Financial Assets	Measurement Category		Carrying Amount		Remark
	IAS 39	IFRS 9	IAS 39	IFRS 9	
Shares	Held-for-trading	Mandatorily at fair value through profit or loss (i.e. FVTPL)	\$ 146,137	\$ 146,137	
	Available-for-sale	At fair value through other comprehensive income (i.e. FVTOCI) - equity instruments	1,037,315	1,037,315	a)
Mutual funds	Financial assets measured at cost	FVTOCI - equity instruments	168,794	295,306	a)
	Held-for-trading	Mandatorily at FVTPL	75,183	75,183	b)
Bonds	Held-for-trading	Mandatorily at FVTPL	15,369	15,369	
	Available-for-sale	FVTOCI - debt instruments	96,974,279	96,974,279	
Derivatives	Held-for-trading	Mandatorily at FVTPL	156,151	156,151	
	Held-for-trading	Mandatorily at FVTPL	6,737,961	6,737,961	c)
Commercial paper	Held-for-trading	Mandatorily at FVTPL	104,220,609	104,220,609	
Fix-rate commercial paper	Held-for-trading	Mandatorily at FVTPL	25,876	25,876	
Refundable deposits	Loans and receivables	Mandatorily at FVTPL	2,400,000	2,400,000	d)
	Loans and receivables	FVTOCI - debt instruments	125,819	125,819	d)
	Loans and receivables	Amortized cost	525,000	525,000	

Financial Assets	IAS 39 Carrying Amount as of January 1, 2018	Reclassifications	Remeasurements	IFRS 9 Carrying Amount as of January 1, 2018	Retained Earnings Effect on January 1, 2018	Other Equity Effect on January 1, 2018	Remark
FVTPL	\$ 113,777,286	\$ -	\$ -	\$ 113,777,286	\$ -	\$ -	
Add: Reclassification from loans and receivables (IAS 39)	-	2,400,000	-	2,400,000	-	-	
	<u>113,777,286</u>	<u>2,400,000</u>	<u>-</u>	<u>116,177,286</u>	<u>-</u>	<u>-</u>	
FVTOCI							
Debt instruments							
Add: Reclassification from available-for-sale (IAS 39)	-	96,974,279	-	96,974,279	(31,344)	31,344	Note 9
Add: Reclassification from loans and receivables (IAS 39)	-	125,819	-	125,819	-	-	
Equity instruments							
Add: Reclassification from available-for-sale (IAS 39)	-	1,037,315	-	1,037,315	-	-	
Add: Reclassification from FVTPL (IAS 39) (including fair value option revoked)	-	168,794	126,512	295,306	62,435	64,077	a)
	<u>-</u>	<u>98,306,207</u>	<u>126,512</u>	<u>98,432,719</u>	<u>31,091</u>	<u>95,421</u>	
	<u>\$ 113,777,286</u>	<u>\$ 100,706,207</u>	<u>\$ 126,512</u>	<u>\$ 214,610,005</u>	<u>\$ 31,091</u>	<u>\$ 95,421</u>	

- a) The Company elected to designate all its investments in equity securities previously classified as available-for-sale under IAS 39 as at FVTOCI under IFRS 9. As a result, the related other equity - unrealized gains (losses) on available-for-sale financial assets was reclassified to other equity - unrealized gains (losses) on financial assets at FVTOCI.

Investments in unlisted shares previously measured at cost under IAS 39 have been designated as at FVTOCI under IFRS 9 and were remeasured at fair value. Consequently, an increase of \$126,512 thousand was recognized in financial assets at FVTOCI and an increase of \$64,077 thousand was recognized in other equity - unrealized gains (losses) on financial assets at FVTOCI, respectively on January 1, 2018.

The Company recognized under IAS 39 impairment loss on certain investments in equity securities previously measured at cost and the loss was accumulated in retained earnings. Since those investments were designated as at FVTOCI under IFRS 9 and no impairment assessment is required, an adjustment was made that resulted in an increase of \$62,435 thousand in retained earnings on January 1, 2018.

- b) Mutual funds previously classified as held-for-trading under IAS 39 were classified mandatorily as at FVTPL under IFRS 9, because the contractual cash flows are not solely payments of principal and interest on the principal outstanding and they are not equity instruments.
- c) Financial assets designated as at fair value through profit or loss are hybrid instruments i.e., derivatives embedded in non-derivative host contracts. The Company recognized these hybrid instruments as financial assets designated as at fair value through profit or loss instead of separating embedded derivatives and non-derivative host contracts even if the economic characteristic and risks are not closely related. The non-derivative host contracts of hybrid instruments are regulated under IFRS 9, and the hybrid instruments were classified as at FVTPL under IFRS 9, consequently.
- d) Refundable deposits were designated as loans and receivables under IAS 39. The Company elected to designate refundable deposits as Mandatorily at FVTPL, FVTOCI and amortized cost under IFRS 9.

2) IFRS 15 “Revenue from Contracts with Customers” and related amendment

IFRS 15 establishes principles for recognizing revenue that apply to all contracts with customers, and supersedes IAS 18 “Revenue”, IAS 11 “Construction Contracts” and a number of revenue-related interpretations. Refer to Note 4 for related accounting policies.

3) Amendments to IAS 12 “Recognition of Deferred Tax Assets for Unrealized Losses”

The amendments clarify that the difference between the carrying amount of the debt instrument measured at fair value and its tax base gives rise to a temporary difference, even though there are unrealized losses on that asset, irrespective of whether the Company expects to recover the carrying amount of the debt instrument by sale or by holding it and collecting contractual cash flows.

In addition, in determining whether to recognize a deferred tax asset, the Company should assess a deductible temporary difference in combination with all of its other deductible temporary differences, unless the tax law restricts the utilization of losses as deduction against income of a specific type, in which case, a deductible temporary difference is assessed in combination only with other deductible temporary differences of the appropriate type. The amendments also stipulate that, when determining whether to recognize a deferred tax asset, the estimate of probable future taxable profit may include some of the Company’s assets for more than their carrying amount if there is sufficient evidence that it is probable that the Company will achieve the higher amount and that the estimate for future taxable profit should exclude tax deductions resulting from the reversal of deductible temporary differences.

Prior to the amendment, in assessing a deferred tax asset, the Company assumed that future taxable profit will be available to recover the asset at its carrying amount. The amendments were applied retrospectively effective in 2018.

4) IFRIC 22 “Foreign Currency Transactions and Advance Consideration”

IAS 21 stipulated that a foreign currency transaction shall be recorded on initial recognition in the functional currency by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction. IFRIC 22 further explains that the date of the transaction is the date on which an entity recognizes a non-monetary asset or non-monetary liability from payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the entity shall determine the date of the transaction for each payment or receipt of advance consideration.

The Company applied IFRIC 22 prospectively to all assets, expenses and income recognized on or after January 1, 2018 within the scope of the Interpretation.

- b. Amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), Interpretations of IFRS (IFRIC), and Interpretations of IAS (SIC) (collectively, the “IFRSs”) endorsed by the FSC for application starting from 2019

New IFRSs	Effective Date Announced by IASB (Note 1)
Annual Improvements to IFRSs 2015-2017 Cycle	January 1, 2019
Amendments to IFRS 9 “Prepayment Features with Negative Compensation”	January 1, 2019 (Note 2)
IFRS 16 “Leases”	January 1, 2019
Amendments to IAS 19 “Plan Amendment, Curtailment or Settlement”	January 1, 2019 (Note 3)
Amendments to IAS 28 “Long-term Interests in Associates and Joint Ventures”	January 1, 2019
IFRIC 23 “Uncertainty over Income Tax Treatments”	January 1, 2019

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

Note 2: The FSC permits the election for early adoption of the amendments starting from 2018.

Note 3: The Company shall apply these amendments to plan amendments, curtailments or settlements occurring on or after January 1, 2019.

1) IFRS 16 “Leases”

IFRS 16, set out the accounting standards for leases that will supersede IAS 17 and a number of related interpretations.

Definition of a lease

Upon initial application of IFRS 16, the Company will elect to apply IFRS 16 only to contracts entered into (or changed) on or after January 1, 2019 in order to determine whether those contracts are, or contain, a lease. Contracts identified as containing a lease under IAS 17 and IFRIC 4 will not be reassessed and will be accounted for in accordance with the transitional provisions under IFRS 16.

The Company as lessee

Upon initial application of IFRS 16, the Company will recognize right-of-use assets, and lease liabilities for all leases on the consolidated balance sheets except for those whose payments under low-value and short-term leases will be recognized as expenses on a straight-line basis. On the consolidated statements of comprehensive income, the Company will present the depreciation expense charged on right-of-use assets separately from the interest expense accrued on lease liabilities; interest is computed using the effective interest method. On the consolidated statements of cash flows, cash payments for the principal portion of lease liabilities will be classified within financing activities; cash payments for the interest portion will be classified within operating activities.

The Company anticipates applying IFRS 16 retrospectively with the cumulative effect of the initial application of this standard recognized on January 1, 2019. Comparative information will not be restated.

The Company expects to apply the following practical expedients:

- a) The Company will apply a single discount rate to a portfolio of leases with reasonably similar characteristics to measure lease liabilities.
- b) The Company will account for those leases for which the lease term ends on or before December 31, 2019 as short-term leases.

The Company as lessor

Except for sublease transactions, the Company will not make any adjustments for leases in which it is a lessor and will account for those leases with the application of IFRS 16 starting from January 1, 2019.

Anticipated impact on assets, liabilities and equity

	Carrying Amount as of December 31, 2018	Adjustments Arising from Initial Application	Adjusted Carrying Amount as of January 1, 2019
Right-of-use assets	\$ -	\$ 19,050	\$ 19,050
Total effect on assets	\$ -	\$ 19,050	\$ 19,050
Lease liabilities	\$ -	\$ 19,050	\$ 19,050
Total effect on liabilities	\$ -	\$ 19,050	\$ 19,050

2) IFRIC 23 “Uncertainty Over Income Tax Treatments”

IFRIC 23 clarifies that when there is uncertainty over income tax treatments, the Company should assume that the taxation authority will have full knowledge of all related information when making related examinations. If the Company concludes that it is probable that the taxation authority will accept an uncertain tax treatment, the Company should determine the taxable profit, tax bases, unused tax losses, unused tax credits or tax rates consistently with the tax treatments used or planned to be used in its income tax filings. If it is not probable that the taxation authority will accept an uncertain tax treatment, the Company should make estimates using either the most likely amount or the expected value of the tax treatment, depending on which method the entity expects to better predict the resolution of the uncertainty. The Company has to reassess its judgments and estimates if facts and circumstances change.

Upon initial application of IFRIC 23, the Company will recognize the cumulative effect of retrospective application in retained earnings on January 1, 2019.

3) Amendments to IFRS 9 “Prepayment Features with Negative Compensation”

IFRS 9 stipulated that if a contractual term of a financial asset permits the issuer (i.e. the debtor) to prepay a debt instrument or permits the holder (i.e. the creditor) to put a debt instrument back to the issuer before maturity and the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable compensation for early termination, the financial asset has contractual cash flows that are solely payments of principal and interest on the principal amount outstanding. The amendments further explained that reasonable compensation may be paid or received by either of the parties, i.e. a party may receive reasonable compensation when it chooses to terminate the contract early.

Upon initial application of the above amendments, the Company will recognize the cumulative effect of retrospective application in retained earnings on January 1, 2019.

4) Amendments to IAS 19 “Plan Amendment, Curtailment or Settlement”

The amendments stipulate that, if a plan amendment, curtailment or settlement occurs, the current service cost and the net interest for the remainder of the annual reporting period are determined using the actuarial assumptions used for the remeasurement of the net defined benefit liabilities (assets). In addition, the amendments clarify the effect of a plan amendment, curtailment or settlement on the requirements regarding the asset ceiling. The Company will apply the above amendments prospectively.

c. New IFRSs in issue but not yet endorsed and issued into effect by the FSC

New IFRSs	Effective Date Announced by IASB (Note 1)
Amendments to IFRS 3 “Definition of a Business”	January 1, 2020 (Note 2)
Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets between An Investor and Its Associate or Joint Venture”	To be determined by IASB
IFRS 17 “Insurance Contracts”	January 1, 2021
Amendments to IAS 1 and IAS 8 “Definition of Material”	January 1, 2020 (Note 3)

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

Note 2: The Company shall apply these amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2020 and to asset acquisitions that occur on or after the beginning of that period.

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

- Amendments to IFRS 3 “Definition of a Business”

The amendments clarify that, to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process applied to the input that together significantly contribute to the ability to create outputs. The amendments narrow the definitions of outputs by focusing on goods and services provided to customers, and the reference to an ability to reduce costs is removed. Moreover, the amendments remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs. In addition, the amendments introduce an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business.

Except for the above impact, as of the date the consolidated financial statements were authorized for issue, the Company is continuously assessing the possible impact that the application of other standards and interpretations will have on the Company’s financial position and financial performance and will disclose the relevant impact when the assessment is completed.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

The financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Publicly Held Bills Finance Companies, the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the IFRSs endorsed and issued into effect by the FSC.

Basis of Preparation

The financial statements have been prepared on the historical cost basis except for financial instruments that are measured at fair value.

The fair value measurements are grouped into the following Levels 1 to 3 based on the degree at which the fair value measurement inputs are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- a. Level 1 inputs are quoted prices (unadjusted) in active markets;
- b. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and
- c. Level 3 inputs are unobservable inputs for the asset or liability.

Classification of Current and Non-current Assets and Liabilities

The operating cycle in the bills finance industry cannot be clearly identified; thus, accounts included in the financial statements of the Company were not classified as current or noncurrent. Nevertheless, accounts are properly categorized by the nature of each account and are sequenced by their liquidity.

Foreign Currencies

Monetary transactions in foreign currencies are recognized at the spot exchange rates at the dates of the transactions. On the settlement of the transactions, the gain or loss resulting from the application of exchange rates different from those used on initial recognition are recognized in profit or loss in the settlement period.

Cash and Cash Equivalents

Cash and cash equivalents include demand deposits and time deposits with original maturities less than three months. In terms of statements of cash flows, cash and cash equivalents include due from the Central Bank and call loans to banks that meet the definition of cash and cash equivalents in IAS 7 as endorsed by the FSC.

Securities Purchased/Sold Under Resale/Repurchase Agreements

Securities purchased under resale agreements and securities sold under repurchase agreements are treated as collateralized financing transactions. Interest earned on resale agreements or interest incurred on repurchase agreements is recognized as interest revenue or interest expense over the life of each agreement.

Financial Instruments

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

a. Financial assets

All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis.

1) Measurement category

2018

Financial assets are classified into the following categories: Financial assets at FVTPL, investments in debt instruments and equity instruments at FVTOCI, and financial assets at amortized cost.

a) Financial asset at FVTPL

Financial asset is classified as at FVTPL when the financial asset is mandatorily classified or it is designated as at FVTPL. Financial assets mandatorily classified as at FVTPL include investments in equity instruments which are not designated as at FVTOCI and debt instruments that do not meet the amortized cost criteria or the FVTOCI criteria.

Financial assets at FVTPL are subsequently measured at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividend or interest earned on the financial asset. Fair value is determined in the manner described in Note 37.

b) Investments in debt instruments at FVTOCI

Debt instruments that meet the following conditions are subsequently measured at FVTOCI:

- i. The financial asset is held within a business model whose objective is achieved by both the collecting of contractual cash flows and the selling of the financial assets; and
- ii. The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Investments in debt instruments at FVTOCI are subsequently measured at fair value. Changes in the carrying amounts of these debt instruments relating to changes in foreign currency exchange rates, interest income calculated using the effective interest method and impairment losses or reversals are recognized in profit or loss. Other changes in the carrying amount of these debt instruments are recognized in other comprehensive income and will be reclassified to profit or loss when the investment is disposed of.

c) Investments in equity instruments at FVTOCI

On initial recognition, the Company may make an irrevocable election to designate investments in equity instruments as at FVTOCI. Designation at FVTOCI is not permitted if the equity investment is held for trading or if it is contingent consideration recognized by an acquirer in a business combination.

Investments in equity instruments at FVTOCI are subsequently measured at fair value with gains and losses arising from changes in fair value recognized in other comprehensive income and accumulated in other equity. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, instead, they will be transferred to retained earnings.

d) Financial assets at amortized cost

Financial assets that meet the following conditions are subsequently measured at amortized cost:

- i. The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- ii. The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Subsequent to initial recognition, financial assets at amortized cost, including cash and cash equivalents, trade receivables at amortized cost and other, are measured at amortized cost, which equals to gross carrying amount determined by the effective interest method less any impairment loss. Exchange differences are recognized in profit or loss.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for:

- i. Purchased or originated credit-impaired financial asset, for which interest income is calculated by applying the credit-adjusted effective interest rate to the amortized cost of the financial asset; and
- ii. Financial assets that are not credit-impaired on purchase or origination but have subsequently become credit-impaired, for which interest income is calculated by applying the effective interest rate to the amortized cost of such financial assets in subsequent reporting periods.

Cash equivalents include time deposits with original maturities within 3 months from the date of acquisition, which are highly liquid, readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These cash equivalents are held for the purpose of meeting short-term cash commitments.

2017

Financial assets are classified into financial assets at fair value through profit or loss, available-for-sale financial assets, and loans and receivables.

a) Financial assets at fair value through profit or loss

A financial asset is classified as at fair value through profit or loss when the financial it is either held for trading or designated as at fair value through profit or loss.

A financial asset may be designated as at fair value through profit or loss upon initial recognition if:

- i. This designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

- ii. The financial asset forms part of a group of financial assets or financial liabilities or both, and this group is managed and its performance evaluated on a fair value basis in accordance with the Company's documented risk management or investment strategy, and information on the grouping is provided internally on that basis; or
- iii. The contract contains one or more embedded derivatives so that the entire hybrid (combined) contract can be designated as at fair value through profit or loss.

Financial assets at fair value through profit or loss are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividend earned on the financial asset.

Valuation techniques for the purpose of measuring the fair values refer to Note 37.

b) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that either are designated as available-for-sale or are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss.

Available-for-sale financial assets are measured at fair value. Changes in the carrying amounts of available-for-sale monetary financial assets due to exchange rate fluctuations, interest income calculated using the effective interest method, and dividends on available-for-sale equity investments are recognized in profit or loss. Other changes in the carrying amount of available-for-sale financial assets are recognized in other comprehensive income and will be reclassified to profit or loss when the investment is disposed of or is determined to be impaired.

Dividends on available-for-sale equity instruments are recognized in profit or loss when the Company's right to receive the dividends is established.

Available-for-sale equity investments with no quoted market prices in an active market and with fair values that cannot be reliably measured and derivatives that are linked to and must be settled by the delivery of these unquoted equity investments are measured at cost less any identified impairment loss at the end of each reporting period and are presented in a separate line item as financial assets carried at cost. If, subsequently, the fair value of the financial assets can be reliably measured, the financial assets are remeasured at fair value. The difference between carrying amount and fair value is recognized in other comprehensive income on financial assets. Any impairment losses are recognized in profit and loss.

c) Loans and receivables

Loans and receivables (including cash and cash equivalents, due from the Central Bank and call loans to banks, receivables and debt investments with no active market) are measured at amortized cost using the effective interest method, less any impairment.

Cash equivalents include time deposits that have original maturities within three months from the date of acquisition and are highly liquid, readily convertible to a known amount of cash, and be subject to an insignificant risk of changes in value. These cash equivalents are held for the purpose of meeting short-term cash commitments.

2) Impairment of financial assets and contract assets

2018

The Company recognizes a loss allowance for expected credit losses on financial assets at amortized cost (including trade receivables), investments in debt instruments that are measured at FVTOCI, as well as contract assets.

The Company always recognizes lifetime Expected Credit Loss (i.e. ECL) for trade receivables. For all other financial instruments, the Company recognizes lifetime ECL when there has been a significant increase in credit risk since initial recognition. If, on the other hand, the credit risk on the financial instrument has not increased significantly since initial recognition, the Company measures the loss allowance for that financial instrument at an amount equal to 12-month ECL.

Expected credit losses reflect the weighted average of credit losses with the respective risks of a default occurring as the weights. Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

In addition to valuating impairment loss of receivables and recognizing allowance or bad debts under IFRS 9, the Company will evaluate impairment loss, under 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” issued by the authorities and the Company’s provision procedures, and recognize the higher of allowance of and debts between the above regulations expect.

The Company recognizes an impairment loss and reversal of impairment in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt instruments that are measured at FVTOCI, for which the loss allowance is recognized in other comprehensive income and does not reduce the carrying amount of the financial asset.

2017

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

Financial assets carried at amortized cost, such as non-accrual loans and receivables, are assessed for impairment collectively even if they had been assessed as not impaired individually. Objective evidence of impairment for a portfolio of receivables could include the Company’s past experience in collecting payments and an increase in the number of delayed payments, as well as observable changes in national or local economic conditions that correlate with default on receivables. Impairment loss recognized is the difference between the asset’s carrying amount and the present value of estimated future cash flows (with these cash flows reflecting the impact of collaterals or guarantees), discounted at the financial asset’s original effective interest rate. If the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows which have been reflecting the impact of collateral or guarantees, discounted at the financial asset's original effective interest rate.

For financial assets measured at amortized cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

For available-for-sale equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered an objective evidence of impairment.

When an available-for-sale financial asset is considered impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss in the impairment period.

For available-for-sale equity securities, impairment loss previously recognized in profit or loss is not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized in other comprehensive income. For available-for-sale debt securities, the impairment loss is subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

For financial assets that are carried at cost, impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. This impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of non-accrual loans and receivables where the carrying amount is reduced through the use of an allowance account. When a non-accrual loans and receivables are considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss except for uncollectible non-accrual loans and receivables that are written off against the allowance account.

Under 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" issued by the authorities and the Company's provision procedures, when the Company evaluates its on- and off-balance sheet credit assets, it should classify normal credit assets as Class 1. The remaining credit assets should be classified on the basis of the status of the loan collaterals and the length of time the assets are past due, and the allowance for doubtful accounts are at the following percentages of the carrying values of the past-due assets: Class 2 - "special mention," 2%; Class 3 - "substandard," 10%; Class 4 - "doubtful," 50%; and Class 5 - "losses," 100%.

Credits deemed uncollectible may be written off upon approval by the board of directors.

3) Derecognition of financial assets

The Company derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party.

On derecognition of a financial asset at amortized cost in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss. On derecognition of an investment in a debt instrument at FVTOCI, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income is recognized in profit or loss. However, on derecognition of an investment in an equity instrument at FVTOCI, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss, and the cumulative gain or loss that had been recognized in other comprehensive income is transferred directly to retained earnings, without recycling through profit or loss.

On the full derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income is recognized in profit or loss.

b. Financial liabilities

1) Subsequent measurement

Except the following situations, all the financial liabilities are measured at amortized cost using the effective interest method:

a) Financial liabilities at fair value through profit or loss

Financial liabilities are classified as at fair value through profit or loss when the financial liability is either held for trading or it is designated as at fair value through profit or loss.

Financial liabilities at fair value through profit or loss are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividend paid on the financial liability. Fair value is determined in the manner described in Note 37.

b) Financial guarantee contracts

2018

The Company measures financial guarantee contract issued at the higher of:

- i. The amount of the loss allowance determined in accordance with IFRS 9; and
- ii. The amount initially recognized less, where appropriate, cumulative amount of income recognized in accordance with IFRS 15.

Besides subsequently measuring financial guarantee contracts at the higher of the abovementioned amounts, assessment is also performed under 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" issued by the authorities, and the higher adequacy provision between the above regulations is recognized.

Financial guarantee contracts issued by the Company are measured at their fair values and, if not designated as at fair value through profit or loss, are subsequently measured at the higher of the amount of the expected credit loss allowance or the amount initially recognized less cumulative amortization recognized.

2017

Financial guarantee contracts issued by the Company are initially measured at their fair values and, if not designated as at fair value through profit or loss, are subsequently measured at the higher of the best estimate of the obligation under the contract or the amount initially recognized less cumulative amortization recognized.

2) Derecognition of financial liabilities

The difference between the carrying amount of the financial liability derecognized and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

c. Derivative financial instruments

The Company enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risks, including foreign exchange swap contracts, interest rate swaps and convertible bond asset swap contracts.

Derivatives are initially recognized at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognized in profit or loss immediately. When the fair value of derivative financial instruments is positive, the derivative is recognized as a financial asset; otherwise, the derivative is recognized as a financial liability.

Before 2018, derivatives embedded in non-derivative host contracts were treated as separate derivatives when they met the definition of a derivative; their risks and characteristics were not closely related to those of the host contracts; and the contracts were not measured at FVTPL. From 2018, derivatives embedded in hybrid contracts that contain financial asset hosts within the scope of IFRS 9 are not separated; instead, the classification is determined in accordance with the entire hybrid contract. Derivatives embedded in non-derivative host contracts that are not financial assets within the scope of IFRS 9 (e.g. financial liabilities) are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL.

Non-accrual Loans

Under the “Regulation 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” issued by the Financial Supervisory Commission, receivables and the balances of guaranteed and endorsed credits that are unpaid within six months after maturity are transferred to non-accrual loans.

Property and Equipment

Property and equipment are stated at cost, less accumulated depreciation and accumulated impairment loss.

Depreciation of property and equipment is recognized using the straight-line method. Each significant part is depreciated separately. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

Impairment of Tangible and Intangible Assets Other Than Goodwill

At the end of each reporting period, the Company reviews the carrying amounts of its tangible and intangible assets, excluding goodwill, for any indication of impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss.

The recoverable amount is the higher of fair value less costs to sell and value in use. If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount.

When an impairment loss is subsequently reversed, the carrying amount of the corresponding asset, cash-generating unit or assets related to contract costs is increased to the revised estimate of its recoverable amount, but only to the extent of the carrying amount that would have been determined had no impairment loss been recognized for the asset, cash-generating unit or assets related to contract costs in prior years. A reversal of an impairment loss is recognized in profit or loss.

Provisions

Provisions are measured at the best estimate of the discounted cash flows of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation.

If the Company is under a contract for which the unavoidable costs of meeting contract obligations exceed the economic benefits expected to be received from the contract, the contract is considered onerous. The present obligations arising under this onerous contract are recognized and related provisions are set made.

Revenue Recognition

Commission and fee revenues are recognized when a major part of the earnings process has been completed and cash has been collected. Interest revenues are recorded on an accrual basis.

Dividend income from investments is recognized when the shareholder's right to receive payment has been established and if it is probable that the economic benefits will flow to the Company and the amount of income can be measured reliably.

Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Company and the amount of income can be measured reliably. Interest income is accrued on a time basis by reference to the principal outstanding and at the effective interest rate applicable.

Retirement Benefit Costs

a. Short-term employee benefits

Liabilities recognized on short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.

b. Retirement benefit cost

Payments to defined contribution retirement benefit plans are recognized as an expense when employees have rendered services entitling them to the contributions.

Defined benefit costs (including service cost, net interest and remeasurement) under the retirement benefit plans are determined using the projected unit credit method. Service cost (including current service cost) and net interest on the net defined benefit liability (asset) are recognized as employee benefit expenses in the period they occur. Remeasurement, comprising actuarial gains and losses, the effect of the changes to the asset ceiling and the return on plan assets (excluding interest), is recognized in other comprehensive income in the period in which they occur. Remeasurement recognized in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss.

Net defined benefit liability (asset) represents the actual deficit (surplus) in the Company's defined benefit plan. Any surplus resulting from this calculation is limited to the present value of any refunds from the plans or reductions in future contributions to the plans.

Pension cost for an interim period is calculated on a year-to-date basis by using the actuarially determined pension cost rate at the end of the prior financial year, adjusted for significant market fluctuations since that time and for significant plan amendments, settlements, or other significant one-off events.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

a. Current tax

Based on the Income Tax Law, an additional tax at 10% of unappropriated earnings is provided for as income tax in the year the shareholders approve to retain these earnings.

Adjustments of prior years' tax liabilities are added to or deducted from the current year's tax provision.

b. Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities and the corresponding tax bases used in the computation of taxable profit.

Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be used.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. A previously unrecognized deferred tax asset is also reviewed at the end of each reporting period and recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax liabilities and assets are measured using applicable tax rates and laws that have been enacted or substantially enacted by the end of the reporting period in which the liability is settled or the asset realized. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

c. Current and deferred taxes

Current and deferred taxes are recognized in profit or loss, but when these taxes relate to items that are recognized in other comprehensive income or directly in equity, the current and deferred taxes are also recognized in other comprehensive income or directly in equity respectively.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Company's accounting policies, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

2018

Estimated impairment of financial assets and financial guarantee contracts

The provision for impairment of trade receivables, investments in debt instruments and financial guarantee contracts is based on assumptions about risk of default and expected loss rates. The Company uses judgement in making these assumptions and in selecting the inputs to the impairment calculation, based on the Company's past history, existing market conditions as well as forward looking estimates at the end of each reporting period. For details of the key assumptions and inputs used, see Notes 9 and 38(6). Where the actual future cash inflows are less than expected, a material impairment loss may arise.

2017

The assessment on reserve of guarantee liabilities

Unless otherwise prescribed by 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", when deciding whether to assess the adequacy for reserve of guarantee liabilities, the Company focus on if the reserve of guarantee liabilities was likely to occur and the possible cash inflow that may arise after the resulting guaranty obligation. Evidences for making such judgement include observable data indicating adverse movement in payment status of the debtor or industry news relevant to back payments. The Company periodically reviews judgement factors assumptions in order to reduce the difference between estimated loss and actual loss.

6. CASH AND CASH EQUIVALENTS

	December 31	
	2018	2017
Checking accounts and demand deposits	\$ 261,832	\$ 258,138
Time deposits with original maturities of less than three months	-	49,332
Post-dated checks for clearance	-	31
	<u>\$ 261,832</u>	<u>\$ 307,501</u>

7. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	December 31	
	2018	2017
<u>Financial assets designated as at fair value through profit or loss</u>	\$ -	\$ 6,737,961
<u>Financial assets held for trading</u>		
Derivative financial instruments		
Convertible bond asset swap contracts	-	153,396
Foreign exchange swap contracts	-	2,755
Non-derivative financial instruments		
Investment in short-term commercial paper	-	104,220,609
Domestic quoted shares	-	146,137
Bond investments	-	15,369
Foreign bond investment	-	-
Fixed-rate commercial paper	-	25,876
Beneficial certificates	-	75,183
	-	111,377,286
<u>Financial assets mandatorily classified as at fair value through profit or loss</u>		
Derivative financial instruments		
Foreign exchange swap contracts	1,598	-
Non-derivative financial instruments		
Investment in short-term commercial paper	90,620,652	-
Bond investments	293,692	-
Fixed-rate commercial paper	40,920	-
Hybrid financial assets		
Convertible bond asset swap contracts	6,498,395	-
	<u>\$ 97,455,257</u>	<u>\$ 111,377,286</u>
<u>Financial liabilities held for trading</u>		
Derivative financial instruments		
Purchase commitment contracts	\$ 961	\$ 1,378
Foreign exchange swap contracts	-	1
Non-derivative financial instruments		
Index rate commercial paper	4,924	6,686
Fix-rate commercial paper	-	559
	-	-
<u>Financial liabilities at fair value through profit or loss</u>	<u>\$ 5,885</u>	<u>\$ 8,624</u>

Financial assets designated as at fair value through profit or loss are hybrid instruments i.e., derivatives embedded in non-derivative host contracts. The Company recognizes these hybrid instruments as financial assets designated as at fair value through profit or loss instead of separating embedded derivatives and non-derivative host contracts while the economic characteristics and risks are not closely related.

The contract amounts (or notional amounts) of outstanding derivative transactions as of December 31, 2018 and 2017 were as follows:

	December 31	
	2018	2017
Convertible bond assets swap contracts	\$ 6,504,500	\$ 6,905,000
Purchase commitment contracts	700,000	500,000
Foreign exchange swap contracts	614,660	1,193,920

The Company used derivative contracts to acquire fixed returns and manage the cash flow risk arising from interest rate and exchange rate fluctuations.

As of December 31, 2018 and 2017, the face value of financial instruments at fair value through profit or loss under repurchase agreements was \$62,414,535 thousand and \$74,676,800 thousand, respectively.

Note 34 shows the investments in commercial paper at FVTPL that were classified as pledged assets.

The profit and loss arising from financial assets and liabilities at fair value through profit and loss of 2018 and 2017 were as follows:

	For the Year Ended December 31	
	2018	2017
<u>Financial assets at fair value through profit or loss</u>		
Realized profit	\$ 39,173	\$ 127,510
Valuation profit (loss)	<u>25,157</u>	<u>(40,494)</u>
	<u>\$ 64,330</u>	<u>\$ 87,016</u>
<u>Financial liabilities at fair value through profit or loss</u>		
Realized loss	\$ (15,812)	\$ (4,568)
Valuation profit	<u>2,739</u>	<u>19,259</u>
	<u>\$ (13,073)</u>	<u>\$ 14,691</u>

Note 34 shows the investment in short-term commercial paper at FVTPL that were classified as pledged assets.

8. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	December 31, 2018
Investments in equity instruments at FVTOCI	\$ 1,465,852
Investments in debt instruments at FVTOCI	<u>96,929,300</u>
	<u>\$ 98,395,152</u>

a. Investments in equity instruments at FVTOCI

	December 31, 2018
Domestic investments	
Listed shares and emerging market shares	\$ 1,042,839
Unlisted shares	294,613
Real estate investment trust	<u>128,400</u>
	<u>\$ 1,465,852</u>

As of December 31, 2018 domestic unlisted shares were as follows:

	December 31, 2018
<u>Domestic unlisted shares</u>	
Taiwan Depository and Clearing Corporation	\$ 103,031
Taiwan Futures Exchange Corporation	84,575
Taiwan Asset Management Corporation	66,939
Core Pacific City Corporation	<u>40,068</u>
	<u>\$ 294,613</u>

These investments in equity instruments are not held for trading. Instead, they are held for medium to long-term strategic purposes. Accordingly, the management elected to designate these investments in equity instruments as at FVTOCI. These investments in equity instruments were classified as available-for-sale and measured at cost under IAS 39. Refer to Note 3, Note 12 and Note 13 for information relating to their reclassification and comparative information for 2017.

b. Investments in debt instruments at FVTOCI

	December 31, 2018
<u>Domestic investments</u>	
Government bonds	\$ 25,887,990
Corporate bonds	48,925,826
Bank debentures	9,264,657
<u>Foreign investments</u>	
Foreign Corporate bonds	2,968,239
Foreign Bank debentures	<u>9,882,588</u>
	<u>\$ 96,929,300</u>

These investments in debt instruments were classified as available-for-sale under IAS 39. Refer to Note 3 and Note 12 for information relating to their reclassification and comparative information for 2017.

Refer to Note 9 for information relating to the credit risk and impairment assessment about these investments in debt instruments at FVTOCI.

Note 34 shows the investments in debt instruments at FVTOCI that were classified as pledged assets.

As of December 31, 2018, the face value of financial instruments at FVTOCI under repurchase agreements was \$80,163,136 thousand.

9. CREDIT RISK MANAGEMENT FOR INVESTMENTS IN DEBT INSTRUMENTS - 2018

The Company only invests in debt instruments that are rated the equivalent of investment grade or higher and have low credit risk for the purpose of impairment assessment. The credit rating information is supplied by independent rating agencies. The Company's exposure and the external credit ratings are continuously monitored and the Company reviews other public information and makes an assessment whether there has been a significant increase in credit risk since the last period to the reporting date.

In order to minimize credit risk, the Company has tasked its credit management committee to develop and maintain a credit risk grading framework to categorize exposures according to degree of risk of default. The credit rating information for use in the grading framework may be obtained from independent rating agencies.

The Company considers the historical default rates of each credit rating supplied by external rating agencies, the current financial condition of debtors, and industry forecast in estimating 12-month or lifetime expected credit losses. The Company's current credit risk grading framework comprises the following categories:

Category	Description	Basis for Recognizing Expected Credit Losses	Expected Loss Rate	Gross Carrying Amount at December 31, 2018
Performing	The counterparty has a low risk of default and a strong capacity to meet contractual cash flows	12m ECL	0.0014%-0.405%	\$ 96,929,300
Doubtful	There has been a significant increase in credit risk since initial recognition	Lifetime ECL - not credit-impaired	-	-
In default	There is evidence indicating the asset is credit-impaired	Lifetime ECL - credit-impaired	-	-

The allowance for impairment loss of investments in debt instruments at FVTOCI and at amortized cost for the year ended December 31, 2018 grouped by credit rating is reconciled as follows:

Allowance for Impairment Loss	Credit Rating		
	Performing (12-month ECL)	Doubtful (Lifetime ECL - Not Credit-impaired)	In default (Lifetime ECL - Credit-impaired)
Balance at January 1, 2018 per IAS 39	\$ -	\$ -	\$ -
Adjustment on initial application of IFRS 9	31,344	-	-
Balance at January 1, 2018 per IFRS 9	31,344	-	-
Reversal	(6,699)	-	-
Balance at December 31, 2018	<u>\$ 24,645</u>	<u>\$ -</u>	<u>\$ -</u>

10. SECURITIES PURCHASED UNDER RESALE AGREEMENTS

As of December 31, 2018 and 2017, bonds purchased were under resale agreements in the amount of \$991,720 thousand and \$5,684,543 thousand before January 2019 and February 2018, respectively.

As of December 31, 2018 and 2017, bonds purchased under resale agreements were sold under repurchase agreements in the face value amount of \$990,000 thousand and \$5,680,000 thousand, respectively.

11. RECEIVABLES, NET

	December 31	
	2018	2017
Interest receivable	\$ 1,032,199	\$ 1,122,647
Bond receivable	249,634	117,187
Others	<u>9,867</u>	<u>9,805</u>
	<u>\$ 1,291,700</u>	<u>\$ 1,249,639</u>

12. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	December 31, 2017
Government bonds	\$ 28,076,293
Corporate bonds	48,275,728
Bank debentures	7,461,643
Foreign corporate bonds	3,588,233
Foreign bank debentures	9,572,382
Quoted stocks	<u>1,037,315</u>
	<u>\$ 98,011,594</u>

As of December 31, 2017, available-for-sale financial assets were sold under agreement to repurchase in the face value amount of \$88,678,727 thousand.

13. OTHER FINANCIAL ASSETS, NET

	December 31	
	2018	2017
Financial assets measured at cost, net	\$ -	\$ 168,794
Deposits placed with authorities for bank clearing	525,000	-
Futures margins	<u>23,988</u>	<u>4,684</u>
	<u>\$ 548,988</u>	<u>\$ 173,478</u>

As of December 31, 2017, financial assets measured at cost, net were as follows:

**December 31,
2017**

Domestic unlisted shares

Taiwan Asset Management Corporation	\$ 75,000
Core Pacific City Corporation	57,564
Taiwan Depository And Clearing Corporation	27,230
Taiwan Futures Exchange Corporation	<u>9,000</u>
	<u>\$ 168,794</u>

The above unlisted equity investments held by the Company had fair values that could not be reliably measured because the range of reasonable fair value estimates was so significant; thus, they were measured at cost less impairment at the end of reporting period.

14. PROPERTY AND EQUIPMENT, NET

	Land	Buildings	Transportation Equipment	Machinery and Computer Equipment	Office and Other Equipment	Lease Improvement	Total
<u>Cost</u>							
Balance at January 1, 2017	\$ 83,337	\$ 94,088	\$ 11,170	\$ 47,775	\$ 17,816	\$ 6,678	\$ 260,864
Additions	-	-	1,067	3,268	68	147	4,550
Disposals	-	-	(958)	(557)	(161)	-	(1,676)
Balance at December 31, 2017	<u>\$ 83,337</u>	<u>\$ 94,088</u>	<u>\$ 11,279</u>	<u>\$ 50,486</u>	<u>\$ 17,723</u>	<u>\$ 6,825</u>	<u>\$ 263,738</u>
<u>Accumulated depreciation</u>							
Balance at January 1, 2017	\$ -	\$ 44,496	\$ 6,769	\$ 32,346	\$ 14,109	\$ 5,501	\$ 103,221
Disposals	-	-	(787)	(439)	(141)	-	(1,367)
Depreciation expense	-	2,055	1,063	2,971	602	77	6,768
Balance at December 31, 2017	<u>\$ -</u>	<u>\$ 46,551</u>	<u>\$ 7,045</u>	<u>\$ 34,878</u>	<u>\$ 14,570</u>	<u>\$ 5,578</u>	<u>\$ 108,622</u>
Net amount at December 31, 2017	<u>\$ 83,337</u>	<u>\$ 47,537</u>	<u>\$ 4,234</u>	<u>\$ 15,608</u>	<u>\$ 3,153</u>	<u>\$ 1,247</u>	<u>\$ 155,116</u>
<u>Cost</u>							
Balance at January 1, 2018	\$ 83,337	\$ 94,088	\$ 11,279	\$ 50,486	\$ 17,723	\$ 6,825	\$ 263,738
Additions	-	-	690	836	472	-	1,998
Disposals	-	-	(1,594)	(1,621)	(375)	-	(3,590)
Balance at December 31, 2018	<u>\$ 83,337</u>	<u>\$ 94,088</u>	<u>\$ 10,375</u>	<u>\$ 49,701</u>	<u>\$ 17,820</u>	<u>\$ 6,825</u>	<u>\$ 262,146</u>
<u>Accumulated depreciation</u>							
Balance at January 1, 2018	\$ -	\$ 46,551	\$ 7,045	\$ 34,878	\$ 14,570	\$ 5,578	\$ 108,622
Disposals	-	-	(1,323)	(1,249)	(327)	-	(2,899)
Depreciation expense	-	1,966	1,088	2,652	493	16	6,215
Balance at December 31, 2018	<u>\$ -</u>	<u>\$ 48,517</u>	<u>\$ 6,810</u>	<u>\$ 36,281</u>	<u>\$ 14,736</u>	<u>\$ 5,594</u>	<u>\$ 111,938</u>
Net amount at December 31, 2018	<u>\$ 83,337</u>	<u>\$ 45,571</u>	<u>\$ 3,565</u>	<u>\$ 13,420</u>	<u>\$ 3,084</u>	<u>\$ 1,231</u>	<u>\$ 150,208</u>

The above items of property and equipment are depreciated on a straight-line basis over the estimated useful life of the asset:

Buildings	5-55 years
Transportation equipment	3-5 years
Machinery and computer equipment	3-8 years
Office and other equipment	3-8 years
Lease improvement	5 years

There were no property and equipment pledged by the Company to secure its borrowing or its issued guarantees.

15. OTHER ASSETS, NET

	December 31	
	2018	2017
Refundable deposits	\$ 39,853	\$ 3,091,107
Long-term prepaid expenses	3,756	3,674
Prepaid expenses	3,284	4,424
Others	<u>1,922</u>	<u>28</u>
	<u>\$ 48,815</u>	<u>\$ 3,099,233</u>

As of December 31, 2018 and 2017, the refundable deposits were as follows:

	December 31	
	2018	2017
Deposits placed with authorities for bank clearing	\$ -	\$ 2,225,000
Deposits placed with authorities to carry out bills finance businesses	-	700,000
Deposits placed with the OTC exchange for OTC transactions	5,000	95,590
Deposits placed with authorities to operate as a security dealer	-	35,229
Others	<u>34,853</u>	<u>35,288</u>
	<u>\$ 39,853</u>	<u>\$ 3,091,107</u>

The refundable deposits above were deposited in cash, time deposit, negotiable certificate of deposits and government bonds.

16. CALL LOANS FROM BANKS AND OVERDRAFTS ON BANKS

As of December 31, 2018 and 2017, the balance of call loans from banks and overdrafts on banks was \$26,544,504 thousand and \$18,137,720 thousand, interest rate was 0.60%-4.80% and 0.26%-3.10%, and the latest due date was January 2019 and 2018, respectively.

As of December 31, 2018 and 2017, the credit balance of call loans from banks and overdrafts on banks was \$131,278,643 thousand and \$126,637,840 thousand, respectively.

17. SECURITIES SOLD UNDER REPURCHASE AGREEMENTS

As of December 31, 2018 and 2017, bonds and commercial papers in the amounts of \$147,046,457 thousand and \$173,976,038 thousand were sold under repurchase agreements for \$147,142,872 thousand and \$174,073,575 thousand before the due date in June 2019 and August 2018, respectively.

18. ACCOUNTS PAYABLE

	December 31	
	2018	2017
Employee awards payable	\$ 134,679	\$ 124,481
Interest tax payable before hand	93,605	103,290
Interest payable	59,006	52,995
Payable for shares purchased	44,656	14,579
Remuneration to directors and compensation to employees	41,801	41,696
Payable for custody	33,795	44,003
Payable for bonds purchased	11,300	58,219
Others	<u>32,853</u>	<u>36,298</u>
	<u>\$ 451,695</u>	<u>\$ 475,561</u>

19. COMMERCIAL PAPER ISSUED, NET

	December 31	
	2018	2017
Commercial paper issued	\$ 500,000	\$ 3,000,000
Loss: Discount on commercial paper issued	<u>(119)</u>	<u>(443)</u>
	<u>\$ 499,881</u>	<u>\$ 2,999,557</u>

As of December 31, 2018 and 2017, the latest due date was January 14, 2019 and January 17, 2018 with interest rate of 0.65% and 0.49%-0.52%, respectively.

20. PROVISIONS

	December 31	
	2018	2017
Reserve for losses on guarantees	\$ 1,310,077	\$ 1,429,477
Provision for employee benefits	<u>86,169</u>	<u>94,704</u>
	<u>\$ 1,396,246</u>	<u>\$ 1,524,181</u>

Provisions (reversal) were as follows:

	For the Year Ended December 31	
	2018	2017
Amounts collected from prior years' write-off	\$ 12,203	\$ 7,283
Amounts reserved for loss on guarantees	<u>119,400</u>	<u>-</u>
	<u>\$ 131,603</u>	<u>\$ 7,283</u>

21. RETIREMENT BENEFITS PLANS

a. Defined contribution plans

The Company adopted a pension plan under the Labor Pension Act (LPA), which is a state-managed defined contribution plan. Under the LPA, the Company makes monthly contributions to employees' individual pension accounts at 6% of monthly salaries and wages.

b. Defined benefit plans

The Company adopted the defined benefit plan under the Labor Standard Law, under which pension benefits are calculated on the basis of the length of service and average monthly salaries of the six months before retirement. The Company contribute amounts within the range of 15% of total monthly salaries and wages to a pension fund administered by the pension fund monitoring committee. Pension contributions are deposited in the Bank of Taiwan in the committee's name. Before the end of each year, the Company assesses the balance in the pension fund. If the pension fund balance is inadequate for the payment of the retirement benefits of employees who will qualify for retirement in the next year, the Company is required to fund the difference through an appropriation that should be made by the end of March of the next year. The pension fund is managed by the Bureau of Labor (the "Bureau") under Ministry of Labor; the Company has no right to influence the Bureau's fund investment policy and strategy.

The amount included in the balance sheet arising from the Company's obligation in respect of its defined benefit plans was as follows:

	December 31	
	2018	2017
Present value of funded defined benefit obligation	\$ 250,064	\$ 268,163
Fair value of plan assets	<u>(163,895)</u>	<u>(173,459)</u>
Net liability arising from defined benefit obligation	<u>\$ 86,169</u>	<u>\$ 94,704</u>

Movements of the net defined benefit liability (asset) were as follows:

	Present Value of the Defined Benefit Obligation	Fair Value of the Plan Assets	Net Defined Benefit Liability (Asset)
Balance at January 1, 2017	<u>\$ 268,908</u>	<u>\$ 167,688</u>	<u>\$ 101,220</u>
Service cost			
Current service cost	2,874	-	2,874
Net interest expense	<u>2,937</u>	<u>(987)</u>	<u>3,924</u>
Recognized in profit or loss	<u>5,811</u>	<u>(987)</u>	<u>6,798</u>
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	2,013	(2,013)
Actuarial loss - changes in demographic assumptions	2,329	-	2,329
Actuarial loss - changes in financial assumptions	(6,683)	-	(6,683)
Actuarial loss - experience adjustments	146	-	146
Others	<u>-</u>	<u>295</u>	<u>(295)</u>
Recognized in other comprehensive income	<u>(4,208)</u>	<u>2,308</u>	<u>(6,516)</u>

(Continued)

	Present Value of the Defined Benefit Obligation	Fair Value of the Plan Assets	Net Defined Benefit Liability (Asset)
Contributions from the employer	\$ -	\$ 6,798	\$ (6,798)
Benefits paid	<u>(2,348)</u>	<u>(2,348)</u>	<u>-</u>
Balance at December 31, 2017	<u>\$ 268,163</u>	<u>\$ 173,459</u>	<u>\$ 94,704</u>
Balance at January 1, 2018	<u>\$ 268,163</u>	<u>\$ 173,459</u>	<u>\$ 94,704</u>
Service cost			
Current service cost	2,686	-	2,686
Net interest expense	<u>2,884</u>	<u>1,821</u>	<u>1,063</u>
Recognized in profit or loss	<u>5,570</u>	<u>1,821</u>	<u>3,749</u>
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	4,707	(4,707)
Actuarial loss - changes in financial assumptions	2,940	-	2,940
Actuarial loss - experience adjustments	<u>(534)</u>	<u>-</u>	<u>(534)</u>
Recognized in other comprehensive income	<u>2,406</u>	<u>4,707</u>	<u>(2,301)</u>
Contributions from the employer	-	9,983	(9,983)
Benefits paid	<u>(26,075)</u>	<u>(26,075)</u>	<u>-</u>
Balance at December 31, 2018	<u>\$ 250,064</u>	<u>\$ 163,895</u>	<u>\$ 86,169</u> (Concluded)

The Company is exposed to the following risks on its defined benefit plan:

- 1) Investment risk: The plan assets are invested in domestic and foreign equity and debt securities, bank deposits, etc. The investment is made at the discretion of the Bureau of Labor (BOL) or the BOL's designated investment manager. However, in accordance with relevant regulations, the return on plan assets should not be below the interest rate for a 2-year time deposit with local banks.
- 2) Interest risk: A decrease in the government/corporate bond interest rate will increase the present value of the defined benefit obligation; however, this will be partially offset by an increase in the return on the plan's debt investments.
- 3) Salary risk: The present value of the defined benefit obligation is calculated by reference to the future salaries of plan participants. Thus, an increase in the salary of the plan participants will increase the present value of the defined benefit obligation.

The actuarial valuations of the present value of the defined benefit obligation were carried out by qualified actuaries. The significant assumptions used for the purposes of the actuarial valuations were as follows:

	December 31	
	2018	2017
Discount rates	1.000%	1.125%
Expected rates of salary increase	2.500%	2.500%

If there is a possible reasonable change in each of the significant actuarial assumptions and all other assumptions remain constant, the present value of the defined benefit obligation would increase (decrease) as follows:

	December 31	
	2018	2017
Discount rates		
0.25% increase	\$ (5,828)	\$ (6,288)
0.25% decrease	\$ 6,040	\$ 6,524
Expected rates of salary increase		
0.25% increase	\$ 5,846	\$ 6,326
0.25% decrease	\$ (5,671)	\$ (6,130)

The sensitivity analysis presented above may not be representative of the actual change in the present value of the defined benefit obligation because it is unlikely that the change in assumptions would occur independently of each other as some of the assumptions may be correlated.

	December 31	
	2018	2017
The expected contributions to the plan for the next year	\$ 11,989	\$ 7,396
The average duration of the defined benefit obligation	9.6 years	9.7 years

22. EQUITY

a. Ordinary share capital

	December 31	
	2018	2017
Number of shares authorized (in thousands)	1,678,700	1,678,700
Shares authorized	\$ 16,787,000	\$ 16,787,000
	1,342,960	1,342,960
Shares issued	\$ 13,429,600	\$ 13,429,600

b. Capital surplus

	December 31	
	2018	2017
May be used to offset a deficit, distributed as cash dividends, or transferred to share capital		
Treasury share transactions	\$ 2,474	\$ 2,474
Donations	1,639	-
	\$ 4,113	\$ 2,474

c. Retained earnings and dividend policy

The proposed consequential amendments to the Company's Articles of Incorporation are approved by the board of shareholders on June 8, 2018 as follows:

Before modification

The Company's Articles of Incorporation provide that the annual net income, less any losses of prior years, should be appropriated as follows:

- 1) Legal reserve, 30%;
- 2) Special reserve, if needed; and
- 3) Dividends.

After modification

The Company's Articles of Incorporation provide that the annual net income, less accumulated losses, should be appropriated as follows:

- 1) Legal reserve, 30%;
- 2) Special reserve, if needed; and
- 3) Dividends.

The Company's dividend policy is as follows:

- 1) The Company distributes a portion of the reserves in accordance with regulations, and the Company cannot distribute dividends if it has no earnings in the current period.
- 2) Dividends are distributed principally in cash and should be at least 40% of the remaining earnings.
- 3) The Company has the right to adjust its dividend policy in accordance with economic conditions, industry developments, and the Company's demand for funds.

Information on the bonus to employees and remuneration to directors proposed by the Company's board of directors is referred in Note 29.

Legal reserve should be appropriated from earnings until the legal reserve equals the Company's paid-in capital. Legal reserve may be used to offset deficit. If the Company has no deficit and the legal reserve has exceeded 25% of the Company's paid-in capital, the excess may be transferred to capital or distributed in cash.

Under Rule No. 1010012865 and Rule No. 1010047490 issued by the FSC and the directive titled "Questions and Answers for Special Reserves Appropriated Following Adoption of IFRSs", the Company should appropriate or reverse to a special reserve. Any special reserve appropriated may be reversed to the extent that the net debit balance reverses and thereafter distributed.

The appropriations of earnings for 2017 and 2016 approved in the shareholders' meetings on June 8, 2018 and May 26, 2017, respectively, were as follows:

	Appropriation of Earnings		Dividends Per Share (NT\$)	
	For the Year Ended		For the Year Ended	
	December 31		December 31	
	2017	2016	2017	2016
Legal reserve	\$ 405,319	\$ 487,155	\$ -	\$ -
Cash dividends	953,502	1,128,086	0.71	0.84

The appropriation of earnings for 2018 had been proposed by the Company's board of directors on February 26, 2019. The appropriation and dividends per share were as follows:

	Appropriation of Earnings	Dividends Per Share (NT\$)
Legal reserve	\$ 400,626	\$ -
Cash dividends	1,060,938	0.79

The appropriation of earnings for 2018 are subject to the resolution of the shareholders' meeting to be held on May 31, 2019.

d. Special reserves appropriated following first-time adoption of IFRSs

The Company had a decrease in retained earnings that resulted from all IFRSs adjustments; therefore, no special reserve was appropriated.

e. Other equity items

1) Unrealized gains (losses) on available-for-sale financial assets - 2017

Balance at January 1, 2017	\$ 223,625
Unrealized gain arising on revaluation of available-for-sale financial assets	343,288
Related income tax	9,589
Cumulative gain reclassified to profit or loss on sale of available-for-sale financial assets	6,611
Balance at December 31, 2017	583,113
Adjustment on initial application of IFRS 9	(583,113)
Balance at January 1, 2018 per IFRS 9	\$ -

2) Unrealized gains (losses) on financial assets at FVTOCI - 2018

	For the Year Ended December 31, 2018
Balance at January 1 per IAS 39	\$ -
Adjustment on initial application of IFRS 9	678,534
Balance at January 1 per IFRS 9	678,534

(Continued)

**For the Year
Ended
December 31,
2018**

Recognized during the period	
Unrealized gain (loss) - debt instruments	\$ (253,204)
Unrealized gain (loss) - equity instruments	35,964
Adjustments of expected credit losses in debt instruments	(6,699)
Reclassification adjustment	
Disposal of investments in debt instruments	<u>(17,250)</u>
Other comprehensive income recognized in the period	<u>(241,189)</u>
Cumulative unrealized loss on equity instruments transferred to retained earnings due to disposal	<u>(93,133)</u>
Balance at December 31	<u>\$ 344,212</u> (Concluded)

The Company adjusted the capital adequacy ratio by disposal of shares classified as at FVTOCI. The fair value of shares classified as at FVTOCI that the accumulated gain related to the sold assets of \$93,133 thousand was transferred from equity to retained earnings.

23. NET INTEREST

For the Year Ended December 31

	2018	2017
Interest revenues		
Bonds	\$ 1,291,829	\$ 1,274,075
Short-term bills	515,685	564,081
Convertible bond assets swaps	97,362	131,957
Securities purchased under resale agreements	13,890	8,174
Others	<u>1,341</u>	<u>1,779</u>
	<u>1,920,107</u>	<u>1,980,066</u>
Interest expenses		
Securities sold under repurchase agreements	(827,777)	(713,709)
Call loans from banks	(110,492)	(89,502)
Convertible bond assets swaps	(1,950)	(4,138)
Others	<u>(8,200)</u>	<u>(13,799)</u>
	<u>(948,419)</u>	<u>(821,148)</u>
	<u>\$ 971,688</u>	<u>\$ 1,158,918</u>

24. COMMISSION AND FEE REVENUES, NET

	For the Year Ended December 31	
	2018	2017
Commission and fee revenues		
Guarantee business	\$ 616,626	\$ 583,963
Underwriting business	245,511	276,127
Certifying business	-	17,636
Others	<u>24,118</u>	<u>28,332</u>
	886,255	906,058
Commission and fee expenses		
Others	<u>(12,707)</u>	<u>(18,707)</u>
	<u>\$ 873,548</u>	<u>\$ 887,351</u>

25. GAINS ON FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT LOSS

	For the Year Ended December 31	
	2018	2017
Gains on financial assets and liabilities at fair value through profit or loss		
Short-term bills	\$ 88,676	\$ 98,082
Dividend revenue	12,034	1,433
Bonds	2,745	10,293
Shares and mutual funds	(42,539)	(2,554)
Derivative financial instruments	<u>(9,659)</u>	<u>(5,547)</u>
	<u>\$ 51,257</u>	<u>\$ 101,707</u>

26. REALIZED GAIN ON AVAILABLE-FOR-SALE FINANCIAL ASSETS - 2017

	For the Year Ended December 31, 2017
Shares	\$ 2,806
Dividend revenue	2,826
Government bonds	461
Bank debentures	<u>(9,878)</u>
	<u>\$ (3,785)</u>

27. REALIZED GAINS/(LOSSES) ON FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME - 2018

	For the Year Ended December 31, 2018
Government bonds	\$ 63,676
Corporate bonds	(4,907)
Bank debentures	(41,519)
Dividend revenue	<u>40,009</u>
	<u>\$ 57,259</u>

28. EXCHANGE DIFFERENCE, NET

	For the Year Ended December 31 2018	2017
Gross amount of foreign currency exchange gains	\$ 52,239	\$ 7,913
Gross amount of foreign currency exchange losses	<u>(37,741)</u>	<u>(67,868)</u>
Net exchange gain or loss	<u>\$ 14,498</u>	<u>\$ (59,955)</u>

29. PERSONNEL EXPENSES, DEPRECIATION AND AMORTIZATION

	For the Year Ended December 31 2018	2017
Personnel expenses		
Salaries and wages (Note)	\$ 258,414	\$ 261,179
Labor insurance and national health insurance	13,182	13,254
Remuneration to directors	29,498	29,212
Pension (Note 21)	13,351	14,964
Others	21,623	21,961
Depreciation	6,215	6,768
Amortization	2,211	1,929

Note: Include compensation to employees.

In accordance with the May 2015 amendments to the Company Act and the June 2016 amendments to the Company Articles which were approved by the shareholders in their meeting;

If the Company has profit in the year, the profit shall be reserved as employees' and the directors' compensation and resolved with the consent of the majority of the directors present at the meeting attended by more than two-thirds of the total directors. However, in case of accumulated losses, profit shall first be reserved to cover the losses.

The Company's compensation policy is as follows:

- a. Employees: 1% to 2.5% of the profit;
- b. Directors: 2.5% of the profit as limit, excluding independent directors.

The profit mentioned above is net profit before income tax without the employees' and directors' compensation.

The employees' compensation may be distributed by shares or cash. The directors' compensation should only be distributed by cash. The appropriations of earnings for employees' and the directors' compensation should be approved by the Company's board of directors and reported to the shareholders in their meeting.

For the years ended December 31, 2018 and 2017, the accrual rates and amounts of employees' and the directors' compensation were as follows:

Accrual rate

	For the Year Ended December 31	
	2018	2017
Remuneration of employees	1.25%	1.25%
Remuneration of directors	1.25%	1.25%

Amount

	For the Year Ended December 31	
	2018	2017
Remuneration of employees	\$ 20,901	\$ 20,848
Remuneration of directors	\$ 20,901	\$ 20,848

If there is a change in the amounts after the annual consolidated financial statements were authorized for issue, the differences are recorded as a change in the accounting estimate.

The appropriations of remuneration of employees and directors for 2017 and 2016 resolved by the Company's board of directors on March 20, 2018 and February 21, 2017, respectively, were as below:

	For the Year Ended December 31	
	2017	2016
Remuneration of employees	\$ 20,848	\$ 25,486
Remuneration of directors	\$ 20,848	\$ 25,486

There was no significant difference between the actual amounts of remuneration of employees and directors paid and the amounts recognized in the consolidated financial statements for the years ended December 31, 2017 and 2016.

Information on the remuneration of employees and directors resolved by the Company's board of directors in 2018 and 2017 is available at the Market Observation Post System website of the Taiwan Stock Exchange.

30. OTHER OPERATING EXPENSES

	For the Year Ended December 31	
	2018	2017
Taxation	\$ 37,361	\$ 36,957
Rental	28,893	29,049
Shares service fee	18,070	6,024
Others	<u>49,765</u>	<u>54,729</u>
	<u>\$ 134,089</u>	<u>\$ 126,759</u>

31. INCOME TAXES

a. Income tax recognized in profit or loss

The major components of tax expense were as follows:

	For the Year Ended December 31	
	2018	2017
Current tax		
In respect of the current year	\$ 264,438	\$ 280,442
Income tax on unappropriated earnings	-	310
Adjustments for prior periods	<u>(2,295)</u>	<u>(4,311)</u>
	<u>262,143</u>	<u>276,441</u>
Deferred tax		
In respect of the current year	47,450	(1,302)
Adjustments to deferred tax attributable to changes in tax rates and laws	<u>(14,784)</u>	<u>-</u>
	<u>32,666</u>	<u>(1,302)</u>
Income tax expense recognized in profit or loss	<u>\$ 294,809</u>	<u>\$ 275,139</u>

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

	For the Year Ended December 31	
	2018	2017
Profit before tax	<u>\$ 1,630,228</u>	<u>\$ 1,626,203</u>
Income tax expense calculated at the statutory rate (as of December 31, 2018 and 2017, the tax rate is 20% and 17%, respectively)	\$ 326,046	\$ 276,454
Nondeductible expenses in determining taxable income	(12,468)	5,694
Unrecognized deductible temporary differences	(1,690)	(2,698)
Adjustments to deferred tax attributable to changes in tax rates and laws	(14,784)	-
Adjustments for prior years' tax	<u>(2,295)</u>	<u>(4,311)</u>
Income tax expense recognized in profit or loss	<u>\$ 294,809</u>	<u>\$ 275,139</u>

In 2017, the applicable corporate income tax rate used by the Company in the ROC is 17%. However, the Income Tax Act in the ROC was amended in 2018 and the corporate income tax rate was adjusted from 17% to 20% effective in 2018. In addition, the rate of the corporate surtax applicable to 2018 unappropriated earnings will be reduced from 10% to 5%.

b. Income tax recognized directly in other comprehensive income

	For the Year Ended December 31	
	2018	2017
<u>Deferred tax</u>		
Effect of change in tax rate	\$ (4,533)	\$ -
Current period		
Unrealized gains or losses of available-for-sale financial assets	-	(9,589)
Fair value changes of financial assets at FVTOCI	(15,617)	-
Defined benefit obligation	<u>460</u>	<u>1,108</u>
	<u>\$ (19,690)</u>	<u>\$ (8,481)</u>

c. Current tax assets and liabilities

	December 31	
	2018	2017
Current tax assets		
Tax refund receivable	<u>\$ 286,330</u>	<u>\$ 246,136</u>

d. Deferred tax assets and liabilities

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

For the year ended December 31, 2018

	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Closing Balance
<u>Deferred tax assets</u>				
Temporary differences				
Reserve for losses on guarantees	\$ 73,253	\$ (20,339)	\$ -	\$ 52,914
Defined benefit obligation	16,101	(1,247)	2,381	17,235
Asset impairment	10,614	(6,275)	-	4,339
Fair value of financial assets at FVTOCI	<u>9,589</u>	<u>-</u>	<u>17,309</u>	<u>26,898</u>
	<u>\$ 109,557</u>	<u>\$ (27,861)</u>	<u>\$ 19,690</u>	<u>\$ 101,386</u>
<u>Deferred tax liabilities</u>				
Temporary differences				
FVTPL financial assets	<u>\$ 93</u>	<u>\$ 4,805</u>	<u>\$ -</u>	<u>\$ 4,898</u>

For the year ended December 31, 2017

	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Closing Balance
<u>Deferred tax assets</u>				
Temporary differences				
Reserve for losses on guarantees	\$ 78,260	\$ (5,007)	\$ -	\$ 73,253
Defined benefit obligation	17,209	-	(1,108)	16,101
Asset impairment	9,857	757	-	10,614
Available-for-sale financial assets	<u>-</u>	<u>-</u>	<u>9,589</u>	<u>9,589</u>
	<u>\$ 105,326</u>	<u>\$ (4,250)</u>	<u>\$ 8,481</u>	<u>\$ 109,557</u>
<u>Deferred tax liabilities</u>				
Temporary differences				
FVTPL financial assets	<u>\$ 5,645</u>	<u>\$ (5,552)</u>	<u>\$ -</u>	<u>\$ 93</u>

e. Income tax assessments

The tax returns through 2016, except for 2015, have been examined by the tax authorities. The Company's 2010 tax return which applied for a re-examination had been examined and accepted by the tax authorities, and there was no major impact on the Company's tax calculations.

32. EARNINGS PER SHARE

Earnings and weighted average number of ordinary shares used in calculating earnings per share were as follows:

	For the Year Ended December 31	
	2018	2017
Earnings used in the computation of basic earnings per share	<u>\$ 1,335,419</u>	<u>\$ 1,351,064</u>

Weighted average number of ordinary shares outstanding (in thousand shares):

	For the Year Ended December 31	
	2018	2017
Weighted average number of ordinary shares in the computation of basic earnings per share	1,342,960	1,342,960
Effect of potentially dilutive ordinary shares:		
Employees' compensation or bonuses issued to employees	<u>1,520</u>	<u>1,354</u>
Weighted average number of ordinary shares used in the computation of diluted earnings per share	<u>1,344,480</u>	<u>1,344,314</u>

Unit: NT\$ Per Share

	For the Year Ended December 31	
	2018	2017
Basic earnings per share	\$ 0.99	\$ 1.01
Diluted earnings per share	\$ 0.99	\$ 1.01

If the Company offered to settle compensation or bonuses paid to employees in cash or shares, the Company assumed the entire amount of the compensation or bonuses will be settled in shares, and the resulting potential shares were included in the weighted average number of shares outstanding used in the computation of diluted earnings per share, as the effect is dilutive. Such dilutive effect of the potential shares is included in the computation of diluted earnings per share until the number of shares to be distributed to employees is resolved in the following year.

33. RELATED PARTY TRANSACTIONS

- a. The related parties and their relationship with the Company are summarized as follows:

Related Party	Relationship with the Company
O-Bank (O-Bank, formerly Industrial Bank of Taiwan)	Parent of the Company
O-Bank Education Foundation (OBTEF, formerly IBT Education Foundation)	O-Bank is the major donor of the foundation
Others	Individuals and close relatives of the Company's major management

- b. The significant transactions and balances with the related parties are summarized as follows:

- 1) Security transactions under repurchase agreements

For the year ended December 31, 2018

Related Party	Securities Sold Under Repurchase Agreements	December 31, 2018	Intervals of Interest Rate	Interest Expense
Others	\$ 675,497	\$ 29,333	0.31%-2.55%	\$ 463

For the year ended December 31, 2017

Related Party	Securities Sold Under Repurchase Agreements	December 31, 2017	Intervals of Interest Rate	Interest Expense
Others	\$ 546,698	\$ 14,788	0.29%-1.65%	\$ 109

2) Bonds and short-term bills acquired

For the year ended December 31, 2018

Related Party	Bonds	Short-term Bills	Total
Parent company: O-Bank	\$ <u> -</u>	\$ <u> 449,787 </u>	\$ <u> 449,787 </u>

For the year ended December 31, 2017

Related Party	Bonds	Short-term Bills	Total
Parent company: O-Bank	\$ <u> 8,500,000 </u>	\$ <u> 1,151,208 </u>	\$ <u> 9,651,208 </u>

3) Bonds and short-term bills sold

For the year ended December 31, 2018

Related Party	Amounts	Gain (Loss) on Disposal of Financial Assets at Fair Value Through Profit or Loss
Parent company: O-Bank	\$ <u> 399,234 </u>	\$ <u> (175) </u>

For the year ended December 31, 2017

Related Party	Amounts	Gain (Loss) on Disposal of Financial Assets at Fair Value Through Profit or Loss
Parent company: O-Bank	\$ <u> 2,058,275 </u>	\$ <u> 485 </u>

- 4) The Company entered into operating lease agreements with O-Bank for the use of O-Bank's building and parking lots, respectively. The lease agreements are ended on December 31, 2019 and the rental per month was \$1,099 thousand.

As of December 31, 2018, future rental payable is as follows:

Year	Amounts
2019	\$ <u> 13,188 </u>

For the years ended December 31, 2018 and 2017, the Company's rental expense (recorded under other operating expense) was both \$13,188 thousand.

5) Donation

For the years ended December 31, 2018 and 2017, the Company's donation expense (recorded under other operating expense) to O-Bank Education Foundation for supporting national academic and cultural activities were \$800 thousand and \$980 thousand, respectively.

c. Compensation of key management personnel

	For the Year Ended December 31	
	2018	2017
Short-term employee benefits	\$ 69,017	\$ 63,521
Post-employment benefits	<u>5,250</u>	<u>1,260</u>
	<u>\$ 74,267</u>	<u>\$ 64,781</u>

The remuneration of directors and key executives was determined by the remuneration committee based on the performance of individuals and market trends.

34. PLEDGED ASSETS

The following assets were provided as collaterals for call loans from banks and overdrafts:

	December 31		Purposes
	2018	2017	
Financial assets at fair value through profit or loss			
Negotiable certificate of deposits	\$ 1,600,010	\$ 1,600,020	Credits for loans
Negotiable certificate of deposits	700,000	-	Deposits placed with authorities to carry out bills finance businesses
Negotiable certificate of deposits	1,700,000		Deposits placed with bank overdrafts
Financial assets at fair value through other comprehensive income			
Government bonds	90,059	-	OTC online deposits refund
Government bonds	35,023	-	Deposits placed with authorities to operate as a security dealer
Other financial assets			
Certificate of deposits	525,000	-	Deposits placed with bank overdrafts
Refundable deposits (recorded under other assets, net)			
Negotiable certificate of deposits	-	700,000	Deposits placed with authorities to carry out bills finance businesses
Negotiable certificate of deposits	-	1,700,000	Deposits placed with bank overdrafts
Pledged certificate of deposits	-	525,000	Deposits placed with bank overdrafts
Government bonds	-	90,490	OTC online deposits refund
Government bonds	-	35,229	Deposits placed with authorities to operate as a security dealer

35. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

In addition to those disclosed in other notes, significant commitments and contingencies of the Company as of December 31, 2018 were as follows:

Bonds and commercial paper sold under repurchase agreements (at repurchase price)	\$ 147,142,872
Bonds and commercial paper purchased under resale agreements (at resale price)	991,720
Guaranteed commercial paper	104,434,900
Fixed-rate commercial paper commitments	12,400,000
Benchmark interest rate commercial paper commitments	31,265,000
Purchase commitment contracts	700,000

36. CAPITAL RISK MANAGEMENT

a. Overview

The basic goal of the Company's capital risk management is to maintain the regulatory capital and the capital adequacy ratio based on the minimum requirements of the authorities and the Basel Accords framework. For enhanced risk taking and an efficient and effective resource allocation, the Company evaluates its capital requirement in consideration of the nature of its risks and various risk scenarios.

b. Capital management process

The Company maintains a capital adequacy ratio based on the requirements of the authorities, which is reported to the Company's president of the assets and liabilities committee monthly and to the authorities quarterly.

c. Capital adequacy rate

(Unit: In Thousands of New Taiwan Dollars, %)

Items		Year	December 31, 2018	December 31, 2017
Eligible capital	Tier 1 capital		\$ 22,793,703	\$ 21,908,716
	Tier 2 capital		-	-
	Tier 3 capital		144,775	276,469
	Eligible capital		22,938,478	22,185,185
Risk-weighted assets	Credit risk		114,285,372	105,688,495
	Operational risk		4,145,623	4,008,287
	Market risk		59,619,238	58,540,805
	Total risk-weighted assets		178,050,233	168,237,587
Capital adequacy ratio (Note)			12.88	13.19
Ratio of Tier 1 capital to risk-weighted assets (Note)			12.80	13.02
Ratio of Tier 2 capital to risk-weighted assets (Note)			-	-
Ratio of Tier 3 capital to risk-weighted assets (Note)			0.08	0.17
Ratio of common shareholders' equity to total assets (Note)			6.73	6.09

Note: Formulas used were as follows:

- 1) Capital adequacy ratio = Eligible capital ÷ Risk-weighted assets.
- 2) The amount of total assets mentioned above is calculated by summarizing all assets on the balance sheet.

- 3) The capital adequacy ratios (CARs) should be computed at the end of June and December. In the reports of the first-quarter and the third-quarter the CARs disclosed are based on the data of the last preceding period, i.e., the end of December and the end of June, respectively.
- 4) Eligible capital and risk-weighted assets are calculated under the “Regulations Governing the Capital Adequacy Ratio of Bills Finance Firms” and “Explanation of Methods for Calculating the Eligible Capital and Risk-weighted Assets of Bills Finance Firms.”

37. FINANCIAL INSTRUMENTS

a. Fair value of financial instruments that are not measured at fair value

For financial assets and financial liabilities that are not measured at fair value (e.g., cash and cash equivalents, receivables, other financial assets, net and accounts payable), their carrying amounts as recognized in the financial statements approximately reflect their fair values.

b. Definitions of the fair value hierarchy

- 1) Level 1 - inputs are quoted prices in active markets (for identical assets or liabilities that the Company can assess at the measurement date). Active markets feature all of the following conditions: (i) the products traded in the market are homogeneous, (ii) market participants anytime in the market, and (iii) price information that is available to the public. The investment in listed shares, beneficial certificates, convertible bonds and derivative instruments with quoted prices in active markets belong to this level.
- 2) Level 2 - inputs are those other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly (i.e., prices) or indirectly (i.e., derived from prices). The investments in government bonds, corporate bonds, bank debentures and a part of derivative instruments belong to this level.
- 3) Level 3 - inputs are not based on observable market data (i.e., unobservable inputs). The investment in a part of a derivative instrument, a hybrid asset and an equity instrument belong to this level.

c. Valuation techniques and assumptions applied for the purpose of measuring the fair values

Financial instruments refer to quoted market prices for fair value. If quoted market prices are not available, then fair value is determined by using a valuation technique. This valuation methodology is based upon the market parameters to derive the value of the positions and incorporate estimates, as well as assumptions consistent with those generally used by other market participants to price financial instruments.

If the market price quotation from a stock exchange, brokers, underwriters, Industrial Trade Unions, pricing service agencies or competent authorities can be frequently obtained on time, and the price represents the actual and frequent transactions at arm's length, then a financial instrument is deemed to have an active market. If financial instruments do not satisfy the criteria above, they are regarded as not having active market. In general, significant price variance between the purchase price and selling price, or extremely low trading volume are all indicators of an inactive market.

Except for reference to quoted market prices, the fair value of financial instruments may be estimated also through the use of available valuation technique or counterparties. Fair value measured by a valuation technique is estimated by reference to the fair values of other financial instruments with similar terms and characteristics, or by using cash flows discounting method, or using model calculation based on the market information available on the balance sheet date.

Fair values of derivative financial instruments are based on quoted market prices. If quoted market prices are not available, then the fair values are determined by the discounted cash flow method.

- d. The fair value hierarchy of the financial instruments as of December 31, 2018 and 2017 were as follows:

1) The fair value hierarchy

Item	December 31, 2018			
	Total	Level 1	Level 2	Level 3
<u>Non-derivative financial instruments</u>				
Assets				
Financial assets at fair value through profit or loss				
Financial assets mandatorily at FVTPL				
Bonds	\$ 293,692	\$ 293,692	\$ -	\$ -
Commercial paper	90,620,652	-	90,620,652	-
Fix-rate commercial paper	40,920	-	40,920	-
Financial assets at FVTOCI				
Shares	1,337,452	1,042,839	-	294,613
Bonds	96,929,300	-	96,929,300	-
Real estate investment trust	128,400	128,400	-	-
Liabilities				
Financial liabilities at fair value through profit or loss	4,924	-	4,924	-
<u>Derivative financial instruments</u>				
Assets				
Financial assets mandatorily at FVTPL				
Hybrid financial assets	6,499,993	-	1,598	6,498,395
Liabilities				
Financial liabilities at fair value through profit or loss	961	-	961	-
Item	December 31, 2017			
	Total	Level 1	Level 2	Level 3
<u>Non-derivative financial instruments</u>				
Assets				
Financial assets at fair value through profit or loss				
Financial assets held for trading				
Stocks	\$ 146,137	\$ 146,137	\$ -	\$ -
Bonds	15,369	15,369	-	-
Commercial paper	104,220,609	-	104,220,609	-
Fix-rate commercial paper	25,876	-	25,876	-
Beneficial certificates	75,183	75,183	-	-
Financial assets designated as at fair value through profit or loss	6,737,961	-	-	6,737,961
Available-for-sale financial assets				
Stocks	1,037,315	1,037,315	-	-
Bonds	96,974,279	-	96,974,279	-
Refundable deposits				
Commercial paper	2,400,000	-	2,400,000	-
Certificate of deposits	525,000	525,000	-	-
Bonds	125,819	-	125,819	-

(Continued)

Item	December 31, 2017			
	Total	Level 1	Level 2	Level 3
Liabilities				
Financial liabilities at fair value through profit or loss	\$ 7,245	\$ -	\$ 7,245	\$ -
<u>Derivative financial instruments</u>				
Assets				
Financial assets at fair value through profit or loss	156,151	-	2,755	153,396
Liabilities				
Financial liabilities at fair value through profit or loss	1,379	-	1,379	-

(Concluded)

- 2) The Company had no significant transfers between Levels 1 and 2 for the years ended December 31, 2018 and 2017.
- 3) Reconciliation of Level 3 items of financial instruments

For the year ended December 31, 2018

Financial Assets	Financial Assets at Fair Value Through Profit or Loss Derivatives	Financial Assets at Fair Value Through Other Comprehensive Income Equity Instruments	Total
Balance at January 1, 2018	\$ 6,891,357	\$ 295,306	\$ 7,186,663
Recognized in profit or loss (included in other gains and losses)	7,538	-	7,538
Recognized in other comprehensive income (included in unrealized gain on financial assets at FVTOCI)	-	14,307	14,307
Purchases	8,755,000	-	8,755,000
Sales/settlements	(9,155,500)	-	(9,155,500)
Return of capital	-	(15,000)	(15,000)
Balance at December 31, 2018	<u>\$ 6,498,395</u>	<u>\$ 294,613</u>	<u>\$ 6,793,008</u>
Recognized in other gains and losses - unrealized	\$ 7,538	\$ 14,307	\$ 21,845

For the year ended December 31, 2017

(In Thousands of New Taiwan Dollars)

Name	Beginning Balance	Valuation Gain/Loss Recognized in Profit or Loss	Valuation Gain/Loss Recognized in Other Comprehensive Income	Increase		Decrease		Ending Balance
				Purchase/ Issue	Transfer to Level 3	Disposed/ Sold	Transfer Out of Level 3	
Derivative financial instruments								
Financial assets at fair value through profit or loss	\$ 10,602,424	\$ 101,790	\$ -	\$ 9,996,100	\$ -	\$ 13,808,957	\$ -	\$ 6,891,357

Valuation gains and losses on assets recognized in profit or loss were loss \$30,167 thousand for

2017.

4) Quantitative information of Level 3 financial instruments

Level 3 items (those with unobservable inputs) included financial assets at fair value through profit or loss and derivative financial instruments. Level 3 items of the Company contain only one significant unobservable inputs.

The quantitative information of significant unobservable input was as follows:

	Fair Value at December 31, 2018	Valuation Techniques	Significant Unobservable Inputs	Range	Relationship Between Inputs and Fair Value
Financial assets at fair value through profit or loss					
Hybrid financial assets	\$ 6,498,395	Discounted cash flow method	a) Discount rate method b) Liquidity risk premium	0.3317%-0.8378% 39BP-80BP	The higher of discount rate, the lower of fair value. The higher of liquidity risk premium, the lower of fair value.
Financial assets at fair value through other comprehensive income					
Unlisted shares	294,613	Asset method	a) Lack of liquidity discount b) Lack of control discount	10% 10%	The higher of liquidity and control discount, the lower of fair value.

5) Process for valuation of Level 3 items

The team responsible for financial instrument valuation under the risk management division is responsible for determining fair value based on independent information on the market situation. To confirm the valuation result, the Company periodically reviews the valuation model, conducts back testing, updates valuation model parameters and adjusts each parameter, if necessary.

6) The sensitivity analysis of Level 3 items

The method for measuring the fair value of financial instruments is found to be reasonable. However, measurement parameters are subject to fluctuations or movements. The impact on income and other comprehensive income based on parameter movements was as follows:

Items	Inputs	Discount Rate Movement: Upward/ Downward	Effect on Income		Effect on Other Comprehensive Income	
			Advantages	Disadvantages	Advantages	Disadvantages
<u>December 31, 2018</u>						
Assets						
Hybrid financial assets	Discount rate	Upward 1 BP	\$ -	\$ 918	\$ -	\$ -
Unlisted shares	Lack of liquidity and control discount	Upward 10%	-	-	-	36,372

Advantages and disadvantages refer to changes in fair value. The fair value was computed by valuation techniques using unobservable parameters in varying degrees. The table above refers to change in fair value as result of a single input. The correlation and variation of inputs were not considered in the table.

e. Transfers of financial assets

Transferred financial assets not derecognized

Most of the transferred financial assets of the Company that were not fully derecognized were securities sold under repurchase agreements. Under the terms of these transfers, the right to the cash flows of the transferred financial assets would be transferred to other entities, and the associated liabilities of the Company's obligation to repurchase the transferred financial assets at a fixed price in the future would be recognized. Since the Company is restricted from using, selling, or pledging the transferred financial assets within the transaction period, and is still exposed to interest rate risks and credit risks on these assets, the transferred financial assets were not fully derecognized.

The financial assets that were not fully derecognized and the associated financial liabilities were as follows:

December 31, 2018

Category of Financial Assets	Carrying Amount of Transferred Financial Assets	Carrying Amount of Associated Financial Liabilities
Financial assets at fair value through gain or loss		
Securities sold under repurchase agreements	\$ 62,130,724	\$ 62,123,793
Bonds sold under repurchase agreements	209,428	210,087
Available-for-sale financial assets - bonds sold under repurchase agreements	83,606,607	84,712,577

December 31, 2017

Category of Financial Assets	Carrying Amount of Transferred Financial Assets	Carrying Amount of Associated Financial Liabilities
Financial assets at fair value through gain or loss		
Securities sold under repurchase agreements	\$ 73,925,326	\$ 73,913,269
Bonds sold under repurchase agreements	685,322	685,256
Available-for-sale financial assets - bonds sold under repurchase agreements	98,023,282	99,377,513

f. Offsetting financial assets and financial liabilities

Certain transactions of the Company covered by enforceable master netting agreements or similar agreements, or under similar repurchase agreements may not meet all offsetting criteria under IFRSs. However, in these transactions, financial liabilities are allowed to be offset against financial assets when any of the counterparties specifies to settle at net amounts. If no counterparty specifies to settle at net amounts, the transactions will be settled at gross amounts instead. One of the counterparties can decide to settle at net amounts if the other party of the transaction defaults.

The tables below present the quantitative information on the balance sheet financial assets and financial liabilities that have been offset or are covered by enforceable master netting arrangements or similar agreements.

December 31, 2018

Financial Assets	Gross Amounts of Recognized Financial Assets	Gross Amounts of Recognized Financial Liabilities Set Off in the Balance Sheet	Net Amounts of Financial Assets Presented in the Balance Sheet	Related Amounts Not Set Off in the Balance Sheet		Net Amount
				Financial Instruments (Note)	Cash Collateral Received	
Resale agreements	\$ 991,363	\$ -	\$ 991,363	\$ 1,008,003	\$ -	\$ (16,640)
Derivative financial instruments	\$ 1,598	\$ -	\$ 1,598	\$ -	\$ -	\$ 1,598

Financial Liabilities	Gross Amounts of Recognized Financial Liabilities	Gross Amounts of Recognized Financial Assets Set Off in the Balance Sheet	Net Amounts of Financial Liabilities Presented in the Balance Sheet	Related Amounts Not Set Off in the Balance Sheet		Net Amount
				Financial Instruments (Note)	Cash Collateral Pledged	
Repurchase agreements	\$ 147,046,457	\$ -	\$ 147,046,457	\$ 145,946,759	\$ -	\$ 1,099,698

December 31, 2017

Financial Assets	Gross Amounts of Recognized Financial Assets	Gross Amounts of Recognized Financial Liabilities Set Off in the Balance Sheet	Net Amounts of Financial Assets Presented in the Balance Sheet	Related Amounts Not Set Off in the Balance Sheet		Net Amount
				Financial Instruments (Note)	Cash Collateral Received	
Derivative financial instruments	\$ 2,755	\$ -	\$ 2,755	\$ 1	\$ -	\$ 2,754
Resale agreements	\$ 5,682,864	\$ -	\$ 5,682,864	\$ 5,902,430	\$ -	\$ (219,566)

Financial Liabilities	Gross Amounts of Recognized Financial Liabilities	Gross Amounts of Recognized Financial Assets Set Off in the Balance Sheet	Net Amounts of Financial Liabilities Presented in the Balance Sheet	Related Amounts Not Set Off in the Balance Sheet		Net Amount
				Financial Instruments (Note)	Cash Collateral Pledged	
Derivative financial instruments	\$ 1	\$ -	\$ 1	\$ 1	\$ -	\$ -
Repurchase agreements	\$ 173,976,038	\$ -	\$ 173,976,038	\$ 172,633,930	\$ -	\$ 1,342,108

Note: Included non-cash financial collaterals.

38. FINANCIAL RISK MANAGEMENT

a. Overview

The main goals of risk management, besides meeting the requirements of authorities, are to manage risk assets and liabilities systematically, avoid financial crisis and pursue sustainable development. To attain these goals, the Company runs various risk management systems and promotes a culture toward risk management, with the approval of the board of directors and management. The Company's risk management process covers various aspects of its operations and involves the efficient disclosure and control of operating risks through the implementation of procedures for risk identification, measurement, reporting, handling, and supervision.

b. Risk management framework and process

The board of directors occupies the highest level in the Company's risk management framework and supervises the implementation of risk management procedures. The general manager leads the business risk management and financial asset and liability management committee; the business evaluation committee and investment evaluation committee, which are under the president, deal with market, credit, and operational risks; and the internal auditing office supervises risk control.

The Company's risk management process involves the formulation of risk management policies and the implementation of risk management procedures, which consist of identifying, valuating, monitoring and reporting of risks. The board of directors determines the Company's risk threshold and sets authorization levels on risk acceptance, and the risk management department identifies and monitors various kinds of risks and reports these risks to the management for decision making.

c. Financial risk management policy

1) Credit risk

The Company manages credit quality of bills, bonds, equity investments and derivatives to maintain possible losses and liquidity risk arising from credit risk. The Company prepares a variety of report forms focusing on credit conditions, statics of business, risk exposure, risk management and reports to the management and the authority regularly.

2) Market risk

The Company evaluates market risk factors affecting bills, bonds, equity investments and derivatives for the impact of these factors on the Company's net worth and profit and loss and takes measures to control market risk. The management division summarizes stop-loss control report forms and makes daily reports to the management for ongoing risk supervision. It also summarizes value at risk, conclusions of interest rate stress tests and status of profit and loss on financial assets and gives related updates to the financial asset and liability management committee.

3) Operational risk

The operating, financial and information technology divisions conduct thorough self-inspections every six months and general self-inspections every month. The internal auditing office does a routine audit and a special audit at least annually of the operating, financial and information technology divisions and a special audit at least annually of other management divisions, and monitors the improvement of these divisions on the basis of audit results.

4) Liquidity risk

The fixed return division is in charge of financial gap analysis, and the risk management division is responsible for the daily monitoring of total amounts of liabilities and performing liquidity stress tests regularly to control risk.

d. Resource and definition of risk

1) Credit risk

Credit risk refers to a debtor or a counterparty's failure to meet contract terms or to repay principal and interest. It includes (a) the issuer default risk arising from the Company's guaranteeing of bills and from the brokering and trading of bills and bonds, (b) the counterparty default risk on derivatives, and (c) default risk arising from the Company's own equity investments.

2) Market risk

Market risk pertains to the impact on the Company's net worth and profit and loss of changes in market factors affecting bills, bonds, equity investments and derivatives.

3) Operational risk

Operational risk refers to additional costs or expenses due to operating or internal management negligence or other reasons.

4) Liquidity risk

Liquidity risk pertains to losses the Company may suffer because of failure to finance its operations or to liquidate its assets fast enough to meet matured payment obligations or because of adverse changes in market rates. A liquidity gap occurs when liquid assets are not enough to cover any liabilities incurred by the Company.

e. Hedge policy and supervision

1) Credit risk

The "Loan Review System" is used to monitor debt accounts after the loan approval. In addition, the risk management division and relevant divisions determine the credit limit for each frequent borrower, and this limit is approved by the Company president. These divisions provide credit information periodically on the status of issuers of bonds and shares and guarantors as well as the credit-evaluation of counterparties to commodity derivative transactions so that the Company can measure each credit risk.

2) Market risk

The Company makes hedges against cash flow risks and adverse fluctuations of fair value through single or portfolio hedge instruments to offset the effects of negative interest rate and price changes on the financial assets held by the Company. It uses interest rate swap contracts as hedging instruments and makes hedge effectiveness tests on an ongoing basis.

3) Operational risk

Mutual authentication of transactions is applied, i.e., the business division is responsible for authorizing and approving transactions, and the operating division is responsible for processing and recording transactions. In addition, through enhanced employee training, automation of operating processes and establishing standard operating procedures, the Company reduces operational risk effectively.

4) Liquidity risk

The Company has a mechanism for monitoring liquidity. It has also set up a financial gap limit per period, and the fixed return division is responsible for observing this limit. Under an authorized personnel's approval, the Company takes appropriate measures to ensure payment by a counterparty once the financial gap limit is exceeded. For unexpected liquidity risks, the Company has set up an emergency reaction plan.

f. Expected credit losses calculation

In the assessment of impairment and calculation of expected credit losses, the Company considers reasonable and supportable information (that can be obtained without incurring excessive costs or inputs) about past events, current conditions and reasonable and supportable forecasts of future economic conditions. The Company determines at the reporting date whether there has been a significant increase in credit risk since initial recognition or whether credit impairment has occurred, and recognizes expected credit losses according to which stage the asset belongs: No significant increase in credit risk or low credit risk at balance sheet date (Stage 1), significant increase in credit risk (Stage 2), and credit impaired (Stage 3).

The definition of each stage and the recognition of expected credit loss are as follows:

	Stage 1	Stage 2	Stage 3
Definition	Financial asset which has low credit risk at reporting date, or there has not been a significant increase in credit risk since initial recognition.	Credit risk of financial asset has significant increase since initial recognition but not impaired.	The credit of financial asset is impaired at reporting date.
Recognition of expected credit loss	12 months expected credit losses	The lifetime expected credit losses (ECLs)	The lifetime expected credit losses (ECLs)

In calculating expected credit losses under IFRS 9, the Company applies key judgement and assumptions as follows:

1) Determination of a significant increase in credit risk after initial recognition

The Company assesses the changes in default risk over the lifetime of credit assets and bond investments of financial assets at FVTOCI to determine whether there has been a significant increase in credit risk.

a) Credit business

The main indicators of significant increase in credit risk of the Company's credit business:

- i. The repayment of principal and interest has been 1 to 3 months pass due.
- ii. The debtor only pays interest or initiates debt negotiations.
- iii. The debtor was notified as a dishonored account.
- iv. The debtor's loans from other financial institutions have been delayed.
- v. The debtor has other records of bad credit.

b) Bond and commercial paper investments

Indicators that the Company's bond and commercial paper investments have significant increase in credit risk are as follows:

- i. The repayment including interests is over 30 days.

- ii. Domestic currency: Credit rating at reporting date compared to initial recognition, the credit rating has decreased from twA to between twA- and twCCC- or from between twA- and twBBB- to between twBB+ and twCCC-.
- iii. Foreign currency: Credit rating at reporting date compared to initial recognition, the credit rating has decreased from Baa3 to between Ba1 and Caa3 or from between Ba1 and Ba3 to between Ba and Caa3.

2) Definition of default and credit impaired financial assets

a) Credit business

- i. The balance of guarantees and endorsement credits has been 3 months overdue.
- ii. The debtor's loans from other financial institutions have been reclassified as overdue loan or written off as bad debt.
- iii. The debtor has filed for reorganization and bankruptcy.
- iv. The debtor has other records of bad credit.

b) Bond and commercial paper investments

The Company's bond and commercial paper investments with any item below are considered as credit-impaired:

- i. The repayment including interests has been 3 months overdue.
- ii. The credit is rated as in default at reporting date.
- iii. The issuer has filed for the bankruptcy, reorganization or other procedure of debt redemptions.

3) Write-off policy

Under 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 credit shall be written off as bad debt after deduction of the estimated recoverable portion:

- a) All or part of the debt is unrecoverable due to the dissolution, flight, settlement, bankruptcy or other reason of the debtor.
- b) The debt cannot be repaid, or no financial benefit would accrue from execution after deduction of senior mortgages on the collateral and the property of the primary and secondary debtor.
- c) Where there are no buyers for the collateral and the property of the primary and secondary debtor after being auctioned at successively lower prices, and their assumption would bring no financial benefit for the bills finance company.
- d) More than one year have elapsed since the maturity date of the non-performing or non-accrual credit and collection efforts have failed.
- e) Any uncollateralized non-performing or non-accrual credit shall be written off as bad debt within six months after the maturity date, provided that this requirement shall not apply when it can be proven that a claim against the property of the primary or secondary debtor would yield benefit.

4) Measurement of expected credit losses

The model of expected credit losses is composed of probability of default, loss given default, and exposure at default.

a) Credit business

i. Probability of default:

- i) Stage 1: Number of declining client in the current year $\div$ number of client at the beginning of the year. The average of the current evaluation period is the probability of default which evaluation period is current 5 years. If the current evaluation period is 5 years, then the average of the 5 years is the probability of default.
- ii) Stage 2: Number of default client in the current year $\div$ number of Stage 2 client at the beginning of the year. The average of 5 years is the probability of default. However, under the conservative principle, the higher rate between Stage 1 and Stage 2 will be used to calculate the expected credit losses.

ii. Loss given default (1 - recovery rate), the way to calculate recovery rate is as follows:

Since 2008, the default client use the effective interest rate (average of issued interest rate in primary market in the current year) to discount by recycling situation every year to calculate recycling rate in 5 years.

iii. Exposure at default: The amount of self-guarantee, which is off balance sheet and calculated by commercial paper guarantee contracts.

b) Bond and commercial paper investments

i. Probability of default: Adopt data of external credit ratings.

ii. Loss given default: Basel of credit risk of internal ratings, the loss given default based on basic law.

iii. Exposure at default: Total book cost (including interest receivable).

5) Consideration of forward-looking information

a) Credit business

i. Refer to major message of Market Observation Post System and external credit ratings.

ii. The Company's credit contracts are all within a year, which adequately considered the comprehensive forward-looking information of clients' background, financial situation, operation performance, investment performance, repayment ability, peer comparison, and industry development of internal credit process and internal credit rating.

b) Bond and commercial paper investments

The rating is forward-looking according to rating criteria refer to institution of external rating.

g. Material financial risk

1) Credit risk

The financial instruments held by the Company may give rise to losses if counterparties fail to meet their contract obligations. Thus, when guaranteeing commercial paper, the Company makes a careful credit evaluation, and if necessary, requires issuers to offer adequate collaterals. Collaterals are often cash, realty, securities or other assets. If counterparties default, the Company may compulsorily execute its rights to claim the collaterals to lower its credit risks effectively. However, in the disclosure of the maximum exposure to credit risks, the fair value of collaterals is not included.

For commercial paper, the Company may need to pay the paper holders on maturity if the issuers default. Thus, the contractual amounts do not represent actual future cash flows.

Assuming that a credit is completely used and the collaterals lose their values, the credit risk amount equals the contract amount, and a maximum exposure risk may arise.

a) The balances of commercial paper guarantee contracts, amounts used of guarantee contracts and ratios of guarantees with collateral, which are off balance sheet risks the Company has are as follows:

- i. As for December 31, 2018 and 2017, guarantees with collateral account for 50.65% and 48.94%, respectively, of the total guarantees given by the Company.
- ii. As for December 31, 2018 and 2017, balances of commercial paper guarantee contracts, which are off balance sheet risks the Company has are \$187,929 million and \$173,506 million (amounts used of guarantee contracts are \$104,435 million and \$99,742 million).
- iii. The maximum exposures to credit risks on balance-sheet assets, without consideration of the related guarantees, approximate the assets' carrying amounts. Refer to notes for further disclosure.
- iv. The movements of reserve of guarantee liabilities

The movements for reserve of guarantee liabilities were as follows:

	Stage 1 Performing (12-month ECL)	Stage 2 Doubtful (Lifetime ECL- Assessment Collectively)	Stage 3 Doubtful (Lifetime ECL- Assessment Individually)	Recognition of Impairment under IFRS 9	Recognition of Impairment Difference under 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"	Total
Balance at January 1, 2018	\$ 57,979	\$ 244	\$ -	\$ 58,223	\$ 1,371,254	\$ 1,429,477
Changes from credit assets recognized at the beginning of the period						
The impairment allowance for credit assets derecognized in the current period	(10,510)	(107)	-	(10,617)	-	(10,617)
Originated or purchased new credit assets	12,463	-	-	12,463	-	12,463
Recognition of impairment difference under 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"	-	-	-	-	(104,642)	(104,642)
Changes of model/risk parameter	(16,531)	(73)	-	(16,604)	-	(16,604)
Balance at December 31, 2018	<u>\$ 43,401</u>	<u>\$ 64</u>	<u>\$ -</u>	<u>\$ 43,465</u>	<u>\$ 1,266,612</u>	<u>\$ 1,310,077</u>

Reserve of Guarantee Liabilities	Recognition of Impairment Allowance under IAS 39	Reclassification	Remeasurement	Recognition of Impairment Allowance under IFRS 9
Guaranteed commercial paper	\$ -	\$ -	\$ 58,223	\$ 58,223
Recognition of impairment difference under 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”	<u>1,429,477</u>	<u>-</u>	<u>(58,223)</u>	<u>1,371,254</u>
Balance at December 31, 2018	<u>\$ 1,429,477</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,429,477</u>

v. Exposure to credit risk

The amounts of the Company’s maximum exposure to credit risk and impairment allowance were as follows:

	On- and off- Balance Sheet Credit Assets				
	Stage 1 Performing (12-month ECL)	Stage 2 Doubtful (Lifetime ECL)	Stage 3 Doubtful (Lifetime ECL) Credit Impairment of Purchase		Total
Rating level					
Internal rating 1-2	\$ 104,321,788	\$ 155,000	\$ -	\$ -	\$ 104,476,788
Internal rating 3-4	-	-	-	-	-
Defect	-	-	-	-	-
Total book value	<u>\$ 104,321,788</u>	<u>\$ 155,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 104,476,788</u>
Impairment allowance	\$ 43,401	\$ 64	\$ -	\$ -	\$ 43,465
Recognition of impairment under 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”	<u>1,127,226</u>	<u>139,386</u>	<u>-</u>	<u>-</u>	<u>1,266,612</u>
	<u>\$ 1,170,627</u>	<u>\$ 139,450</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,310,077</u>

vi. Financial assets at FVTPL and FVTOCI

**December 31,
2018**

Financial assets designated as at fair value through profit or loss

Derivative financial instrument (not under hedge accounting)	
Foreign exchange swap contracts	\$ 1,598
Non-derivative financial assets	
Investment in short-term commercial paper	90,620,652
Bond investments	293,692
Fixed-rate commercial paper	40,920
Hybrid financial assets	
Convertible bond asset swap contracts	<u>6,498,395</u>
	<u>97,455,257</u>

Financial assets at FVTOCI

Investments in equity instruments	<u>1,465,852</u>
	<u>\$ 98,921,109</u>

b) Concentration of credit risk

Significant concentration of credit risk occurs when counterparties to financial asset transactions are individuals or a group of individuals engaged in similar activities or activities in the same region, which would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. The check for significant concentration of credit risk includes the nature of a counterparty's operating activity. Transactions the Company engaged in do not significantly concentrate on the same counterparty or customer.

As of December 31, 2018 and 2017, the Company's concentrations of credit risk arising from guaranteeing commercial paper were as follows (in millions of New Taiwan dollars):

Credit Risk Profile by Group or Industry	December 31			
	2018		2017	
	Carrying Amounts	Maximum Amounts Exposed to Credit Risk	Carrying Amounts	Maximum Amounts Exposed to Credit Risk
Financial intermediary	\$ 37,759	\$ 37,759	\$ 30,990	\$ 30,990
Real estate	23,956	23,956	25,514	25,514
Manufacturer	23,236	23,236	24,548	24,548
Wholesaling and retailing	9,286	9,286	10,656	10,656
Others	<u>10,198</u>	<u>10,198</u>	<u>8,034</u>	<u>8,034</u>
	<u>\$ 104,435</u>	<u>\$ 104,435</u>	<u>\$ 99,742</u>	<u>\$ 99,742</u>

Credit Risk Profile by Collaterals	December 31			
	2018		2017	
	Carrying Amounts	% to Total	Carrying Amounts	%to Total
Unsecured	\$ 51,543	49.35	\$ 50,930	51.06
Secured				
Real estate	27,357	26.19	22,296	22.35
Stocks	20,673	19.80	19,002	19.05
Debentures	3,819	3.66	6,301	6.32
Bills	1,043	1.00	913	0.92
Property	-	-	300	0.30
	<u>\$ 104,435</u>	<u>100.00</u>	<u>\$ 99,742</u>	<u>100.00</u>

c) Credit quality and impairment assessment

Some financial assets such as cash and cash equivalents, due from Central Bank and call loan to banks, refundable deposits, guaranty bond and clearing and settlement fund are regarded as very low credit risk owing to the good credit rating of counterparties. Except for the above, the risk levels of the Company's financial assets were as follows:

Low risk: Credit quality and contractual capacity is above average.

Medium risk: Credit quality and contractual capacity is average.

High risk: Credit quality and contractual capacity is lower than average.

Where there is a difference in level of risk between the rating corporation and the Company's internal rating, the Company's internal rating dominates:

Risk Level	Rating
Low risk	twAAA to twBBB-
Medium risk	twBB+ to twBB
High risk	twBB- to twC

ii. Financial asset quality is as follows:

As of December 31, 2018, the Company's credit quality and impairment assessment please refer to Note 38 (7).

As of December 31, 2017, credit quality and impairment assessment is as follows:

Financial Assets	December 31, 2017						
	Neither Past Due Nor Impaired			Overdue But Not Impaired	Impaired	Total	Loss Recognized
	Low Risk	Medium Risk	High Risk				
Financial assets at fair value through profit or loss	\$ 104,220,609	\$ -	\$ -	\$ -	-	\$ 104,220,609	\$ -
Commercial paper	-	15,369	-	-	-	15,369	-
Bonds	38,870	96,732	10,535	-	-	146,137	-
Equity investments	75,183	-	-	-	-	75,183	-
Beneficial certificates	25,876	-	-	-	-	25,876	-
Fix-rate commercial paper	-	-	-	-	-	-	-
Financial assets designated as at fair value through profit or loss	5,667,571	1,070,390	-	-	-	6,737,961	-
Securities purchased under resale agreements	5,682,864	-	-	-	-	5,682,864	-
Available-for-sale financial assets	-	-	-	-	-	-	-
Bonds	96,974,279	-	-	-	-	96,974,279	-
Equity investments	1,037,315	-	-	-	-	1,037,315	-
Financial assets measured at cost	111,230	-	-	-	120,000	231,230	62,436
							\$ 104,220,609
							15,369
							146,137
							75,183
							25,876
							6,737,961
							5,682,864
							96,974,279
							1,037,315
							168,794

iii. Analysis of impaired financial assets

Financial Assets	Carrying Amounts Before Impairment Losses	Recognized Impairment Losses	Carrying Amounts After Impairment Losses	Collateral Accessible and Other Credit Enhance Collateral
<u>December 31, 2017</u>				
Financial assets measured at cost	\$ 120,000	\$ 62,436	\$ 57,564	None

2) Market risk

Market risk refers to interest rate risk and fluctuation in shares price risk. The Company weighs market risk mainly by profit and loss analysis, through which profits and losses are evaluated individually on the basis of the nature of financial assets, such as interest rate futures, shares index futures and options. Other financial assets, such as interest rate swaps, convertible bond asset swaps and bond options, are evaluated by their theoretical prices and reference prices published by the authorities. The Company also observes daily the fluctuation of profits and losses on the financial assets. In addition, interest rate risk commodities are reviewed for extra duration, and DV01 and sensitivity analysis tools are used.

The Company enters into interest rate swap contracts to hedge against the future cash flow risk arising from floating interest rate assets and liabilities, which are exposed to market rate fluctuations, and manages risk from changes in fair value by using factor sensitivity measures. For related information, refer to Note 39.

The sensitivity analysis of interest rate-sensitive commodities assuming a 0.01% rise in market rates is as follows:

December 31, 2018			
Financial Asset	Face Value	Average Duration (Year)	Influence to Fair Value Per 0.01 Fluctuation in Market Value
Commercial paper	\$ 90,746,288	0.1281	\$ 1,161
Bonds	102,090,535	2.6480	24,556

3) Liquidity risk

- a) There is no liquidity risk arising from non-performance of contractual obligations because capital and working capital are sufficient to cover all the contractual obligations. In addition, liquidity risk is quite low since cash requirement is not material on the maturity dates of derivative financial instruments.

The basic rule for the Company's operating and management activities is to handle assets and liabilities in the order of their maturity, considering the interest-rate and liquidity gap; however, assets and liabilities cannot be completely matched because of the differences in types and uncertainty of transaction terms, and these differences may affect profits and losses. The Company evaluates liquidity by maturity analysis, which is shown in the following table:

In Thousands of New Taiwan Dollars

December 31, 2018							
	1-30 Days	31-90 Days	91-180 Days	181-365 Days	Over 1 Year-7 Years	Over 7 Years	Total
<u>Assets</u>							
Cash and cash equivalents	\$ 261,832	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 261,832
Financial assets at fair value through profit or loss	78,817,843	12,731,162	573,982	1,323,381	4,008,889	-	97,455,257
Securities purchased under resale agreements	991,363	-	-	-	-	-	991,363
Receivables	526,876	257,811	305,744	140,523	60,746	-	1,291,700
Financial assets at FVTOCI	862,092	1,351,794	4,750,949	4,524,038	86,268,369	637,910	98,395,152
Other financial assets	-	-	-	-	548,988	-	548,988
Refundable deposits	-	-	-	-	-	39,853	39,853
	<u>81,460,006</u>	<u>14,340,767</u>	<u>5,630,675</u>	<u>5,987,942</u>	<u>90,886,992</u>	<u>677,763</u>	<u>198,984,145</u>
<u>Liabilities</u>							
Call loans from banks	26,544,504	-	-	-	-	-	26,544,504
Commercial paper	499,881	-	-	-	-	-	499,881
Financial liabilities at fair value through profit or loss	5,885	-	-	-	-	-	5,885
Securities sold under repurchase agreements	121,063,876	24,799,314	980,470	202,797	-	-	147,046,457
Accounts payable	<u>147,709</u>	<u>138,589</u>	<u>1,469</u>	<u>130,021</u>	<u>33,907</u>	-	<u>451,695</u>
	<u>148,261,855</u>	<u>24,937,903</u>	<u>981,939</u>	<u>332,818</u>	<u>33,907</u>	-	<u>174,548,422</u>
Net liquidity gap	<u>\$ (66,801,849)</u>	<u>\$ (10,597,136)</u>	<u>\$ 4,648,736</u>	<u>\$ 5,655,124</u>	<u>\$ 90,853,085</u>	<u>\$ 677,763</u>	<u>\$ 24,435,723</u>
December 31, 2017							
	1-30 Days	31-90 Days	91-180 Days	181-365 Days	Over 1 Year-7 Years	Over 7 Years	Total
<u>Assets</u>							
Cash and cash equivalents	\$ 307,501	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 307,501
Financial assets at fair value through profit or loss	91,912,619	12,801,760	560,516	1,793,247	4,309,144	-	111,377,286
Securities purchased under resale agreements	4,381,988	1,300,876	-	-	-	-	5,682,864
Receivables	406,128	281,265	345,238	147,986	69,022	-	1,249,639
Available-for-sale financial assets	1,000,241	2,553,234	4,309,265	6,333,312	83,085,108	730,434	98,011,594
Other financial assets	-	-	-	-	4,685	168,793	173,478
Refundable deposits	-	-	-	-	-	3,091,107	3,091,107
	<u>98,008,477</u>	<u>16,937,135</u>	<u>5,215,019</u>	<u>8,274,545</u>	<u>87,467,959</u>	<u>3,990,334</u>	<u>219,893,469</u>
<u>Liabilities</u>							
Call loans from banks	18,137,720	-	-	-	-	-	18,137,720
Commercial paper	2,999,557	-	-	-	-	-	2,999,557
Financial liabilities at fair value through profit or loss	8,624	-	-	-	-	-	8,624
Securities sold under repurchase agreements	133,441,246	39,039,836	1,478,851	16,105	-	-	173,976,038
Accounts payable	<u>205,586</u>	<u>106,900</u>	<u>140,219</u>	<u>25</u>	<u>22,831</u>	-	<u>475,561</u>
	<u>154,792,733</u>	<u>39,146,736</u>	<u>1,619,070</u>	<u>16,130</u>	<u>22,831</u>	-	<u>195,597,500</u>
Net liquidity gap	<u>\$ (56,784,256)</u>	<u>\$ (22,209,601)</u>	<u>\$ 3,595,949</u>	<u>\$ 8,258,415</u>	<u>\$ 87,445,128</u>	<u>\$ 3,990,334</u>	<u>\$ 24,295,969</u>
December 31, 2018							
	1-30 Days	31-90 Days	91-180 Days	181-365 Days	Over 1 Year-7 Years	Over 7 Years	Total
<u>Currency swap</u>							
Inflow	\$ 615,753	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 615,753
Outflow	<u>614,660</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>614,660</u>
Total inflows	<u>\$ 615,753</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 615,753</u>
Total outflows	<u>\$ 614,660</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 614,660</u>
December 31, 2017							
	1-30 Days	31-90 Days	91-180 Days	181-365 Days	Over 1 Year-7 Years	Over 7 Years	Total
<u>Currency swap</u>							
Inflow	\$ 1,196,295	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,196,295
Outflow	<u>1,193,920</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,193,920</u>
Total inflows	<u>\$ 1,196,295</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,196,295</u>
Total outflows	<u>\$ 1,193,920</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,193,920</u>

b) Maturity analysis of off-balance sheet items

The following table shows the Company's maturity analysis of off-balance sheet items based on residual maturity from the balance-sheet date to the contract maturity date. The amounts of guaranteed and endorsed commercial paper are included in accordance with the earliest date of performance obligation.

	1 Month	Over 1 Month- 3 Months	Over 3 Months- 6 Months	Over 6 Months- 1 Year	Over 1 Year	Total
<u>December 31, 2018</u>						
Off-balance sheet item						
Guaranteed commercial paper	\$ 33,205,900	\$ 61,395,400	\$ 6,022,200	\$ 3,811,400	\$ -	\$ 104,434,900
<u>December 31, 2017</u>						
Off-balance sheet item						
Guaranteed commercial paper	29,687,200	62,057,400	4,679,800	3,317,400	-	99,741,800

4) Foreign exchange risk

- Foreign exchange risk faced by the Company refers to movements in fair values of foreign currency denominated assets less foreign currency denominated liability plus derivative position as a result of exchange rate fluctuations that may result in losses to the Company.
- In terms of foreign exchange risk management, the Company mainly supervises position limits and loss limits on relevant businesses. Related control measures include daily supervision on exposure position, price assessment, and control over loss limits; and reporting to the Asset And Liability Management monthly.
- Company's foreign exchange risk exposure

(Expressed in Thousands of New Taiwan Dollars)

	<u>December 31, 2018</u>	
	USD	CNY
Cash and cash equivalents	\$ 28,551	\$ 2,080
Financial assets at FVTOCI	12,806,103	44,726
Receivables, net	85,007	805
Other financial assets	19,300	-
Total assets	<u>12,938,961</u>	<u>47,611</u>
Call loans from banks	2,704,504	-
Securities sold under repurchase agreements	9,238,647	-
Accounts payable	25,140	-
Total liabilities	<u>11,968,291</u>	<u>-</u>
On-balance sheet foreign exchange gap	<u>\$ 970,670</u>	<u>\$ 47,611</u>
Off-balance sheet currency swaps	<u>\$ (614,660)</u>	<u>\$ -</u>
Exchange rate to NTD	<u>30.733</u>	<u>4.4735</u>
Foreign exchange gain (loss)	<u>\$ 14,561</u>	<u>\$ (63)</u>

	December 31, 2017	
	USD	CNY
Cash and cash equivalents	\$ 17,252	\$ 49,661
Available-for-sale financial assets	13,114,853	45,774
Receivables, net	142,017	916
Deferred tax assets	9,581	-
Total assets	13,283,703	96,351
Call loans from banks	447,720	-
Securities sold under repurchase agreements	11,240,130	-
Accounts payable	14,119	-
Current tax liabilities	-	133
Total liabilities	11,701,969	133
On-balance sheet foreign exchange gap	\$ 1,581,784	\$ 96,218
Off-balance sheet currency swaps	\$ (1,193,920)	\$ -
Exchange rate to NTD	29.848	4.5779
Foreign exchange loss	\$ (57,096)	\$ (2,859)

d) Sensitivity analysis

		December 31, 2018	
Risk	Extent of Variation	Effect on Profit or Loss	Effect on Other Comprehensive Income
Foreign exchange risk	Exchange rate of NTD to USD and to RMB appreciated by 1%	\$ (4,303)	\$ -
Foreign exchange risk	Exchange rate of NTD to USD and to RMB depreciated by 1%	4,303	-

		December 31, 2017	
Risk	Extent of Variation	Effect on Profit or Loss	Effect on Other Comprehensive Income
Foreign exchange risk	Exchange rate of NTD to USD and to RMB appreciated by 1%	\$ (4,840)	\$ -
Foreign exchange risk	Exchange rate of NTD to USD and to RMB depreciated by 1%	4,840	-

5) Equity securities risk management

- The Company's equity securities market risk comprises the risk of individual equity security coming from the security's market price changes and the general market risk coming from overall equity securities market price changes.
- For equity securities risk management, the Company has set trading strategies for three categories of positions: (a) positions held for selling and earning capital gains in the short-term; (b) positions held for earning dividends; (c) positions held for earning capital gains derived from stocks that price in on promising industries or robust profitability in the long-term, and (d) setting annual loss limits to the tolerable scopes.

- c) Related control measures include: Daily market price valuation to control loss limits, monthly stress-testing calculating probable amount of loss on investment portfolio held by the Company on the assumption that overall market price decrease by 15%, and reporting to the Risk Management Committee quarterly.

39. DISCLOSURES IN CONFORMITY WITH THE REGULATIONS GOVERNING THE PREPARATION OF FINANCIAL REPORTS BY PUBLIC BILLS FINANCE FIRMS

a. Asset quality

In Thousands of New Taiwan Dollars, %

Item	Year	December 31, 2018	December 31, 2017
Balance of guarantees and endorsement credits overdue within 3 months		\$ -	\$ -
Nonperforming debts (include overdue receivables)		-	-
Credits under observation		-	-
Overdue receivables		-	-
Ratio of nonperforming debts		0.00%	0.00%
Ratio of nonperforming debts and credits under observation		0.00%	0.00%
Required provision for credit losses and reserve for losses on guarantees		1,045,899	1,001,604
Actual provision for credit losses and reserve for losses on guarantees		1,310,077	1,429,477

b. The principal operation

In Thousands of New Taiwan Dollars

Item	Year	December 31, 2018	December 31, 2017
Balance of guarantees and endorsement securities		\$ 104,434,900	\$ 99,741,800
Ratio of guarantees and endorsement securities to net worth (Note)		4.77	4.72
Short-term bills and bonds sold under repurchase agreements		\$ 147,142,872	\$ 174,073,575
Ratio of short-term bills and bonds sold under repurchase agreements to net worth (Note)		6.72	8.24

Note: The net worth mentioned above is the net worth after appropriation minus the original cost of financial assets carried at cost.

c. Concentrations of credit extensions

In Thousands of New Taiwan Dollars, %

Item \ Year	December 31, 2018		December 31, 2017	
Credit to common interest party	\$ -		\$ -	
Ratio of credit extensions to common interest parties	-		-	
Ratio of credit extensions secured by pledged shares	19.80		19.05	
Loan concentration by industry (ratio of top three industry to which credit line issued to credit extension balance)	Type of Industry	%	Type of Industry	%
	Finance and insurance industry	36.16	Finance and insurance industry	31.07
	Manufacturing industry	22.25	Manufacturing industry	24.61
	Real estate industry	22.94	Real estate industry	25.58

Note 1: Ratio of credit extensions to common interest parties: Credit to common interest party ÷ Total credit.

Note 2: Ratio of credit extensions secured by pledged shares: Credit with shares pledged ÷ Total credit.

Note 3: Total credit included guarantees, endorsement notes and overdue credit (including overdue receivables, accounts receivable, and notes receivable).

d. Concentrations of assets, liabilities and off-balance sheet items

Information on the concentrations of assets, liabilities and off-balance sheet items is shown in Note 38.

e. Average amount and average interest rate of interest-earning assets and interest-bearing liabilities

	December 31			
	2018		2017	
	Average Balance	Average Rate (%)	Average Balance	Average Rate (%)
<u>Interest-earning assets</u>				
Cash and cash equivalents (including certificate of deposits)	\$ 812,169	0.16	\$ 770,267	0.14
Call loans to banks	9,945	0.21	21,112	3.29
Financial assets at fair value through profit or loss - bonds and bills	89,719,489	0.58	99,441,408	0.57
FTVOCI - debt instruments	97,039,689	1.33	-	-
Available-for-sale financial assets - bonds	-	-	96,414,292	1.32
Financial instruments at fair value through profit or loss - hybrid financial assets	6,467,912	1.51	-	-
Financial assets designated as at fair value through profit or loss - bonds	-	-	8,488,165	1.55
Securities purchased under resale agreements	3,984,373	0.35	2,399,664	0.34
<u>Interest-bearing liabilities</u>				
Due to other banks	17,717,031	0.62	19,435,597	0.46
Bank overdraft	1,910	1.75	7,345	1.75
Securities sold under repurchase agreements	157,117,047	0.53	163,056,170	0.44
Commercial paper issued, net	1,568,219	0.56	2,678,082	0.57

f. Interest rate sensitivity information

December 31, 2018

In Millions of New Taiwan Dollars, %

Items	1 to 90 Days	91 to 180 Days	181 Days to One Year	Over One Year	Total
Interest rate-sensitive assets	\$ 85,776	\$ 13,639	\$ 5,451	\$ 90,728	\$ 195,594
Interest rate-sensitive liabilities	172,907	980	203	-	174,090
Interest rate sensitivity gap	(87,131)	12,659	5,248	90,728	21,504
Net worth					23,299
Ratio of interest rate-sensitive assets to liabilities					112.35
Ratio of interest rate sensitivity gap to net worth					92.30

December 31, 2017

In Millions of New Taiwan Dollars, %

Items	1 to 90 Days	91 to 180 Days	181 Days to One Year	Over One Year	Total
Interest rate-sensitive assets	\$ 106,487	\$ 12,879	\$ 8,817	\$ 88,435	\$ 216,618
Interest rate-sensitive liabilities	193,618	1,479	16	-	195,113
Interest rate sensitivity gap	(87,131)	11,400	8,801	88,435	21,505
Net worth					23,025
Ratio of interest rate-sensitive assets to liabilities					111.02
Ratio of interest rate sensitivity gap to net worth					93.40

Note 1: Interest rate-sensitive assets and liabilities mean the revenues or costs of interest-earning assets and interest-bearing liabilities affected by interest rate changes.

Note 2: Ratio of interest rate-sensitive assets to liabilities = Interest rate-sensitive assets ÷ Interest rate-sensitive liabilities.

Note 3: Interest rate sensitivity gap = Interest rate-sensitive assets - Interest rate-sensitive liabilities.

g. The use of funding sources table

December 31, 2018

In Millions of New Taiwan Dollars, %

Period		1 to 30 Days	31 to 90 Days	91 to 180 Days	181 Days to One Year	Over One Year
Items						
Cash used in	Bills	\$ 44,934	\$ 36,756	\$ 8,820	\$ 110	\$ -
	Bonds	1,479	1,354	4,819	5,341	90,728
	Due from banks	262	-	-	-	-
	Call loans	-	-	-	-	-
	Securities purchased under resale agreements	991	-	-	-	-
	Total	47,666	38,110	13,639	5,451	90,728
Cash provided by	Borrowing	27,044	-	-	-	-
	Securities sold under repurchase agreements	121,064	24,799	980	203	-
	Eligible capital	-	-	-	-	23,299
	Total	148,108	24,799	980	203	23,299
Net cash flows		(100,442)	13,311	12,659	5,248	67,429
Accumulated cash flows		(100,442)	(87,131)	(74,472)	(69,224)	(1,795)

December 31, 2017

In Millions of New Taiwan Dollars, %

Period		1 to 30 Days	31 to 90 Days	91 to 180 Days	181 Days to One Year	Over One Year
Items						
Cash used in	Bills	\$ 49,385	\$ 47,488	\$ 8,489	\$ 1,259	\$ -
	Bonds	1,034	2,589	4,390	7,558	88,435
	Due from banks	308	-	-	-	-
	Call loans	-	-	-	-	-
	Securities purchased under resale agreements	4,382	1,301	-	-	-
	Total	55,109	51,378	12,879	8,817	88,435
Cash provided by	Borrowing	21,137	-	-	-	-
	Securities sold under repurchase agreements	133,441	39,040	1,479	16	-
	Eligible capital	-	-	-	-	23,025
	Total	154,578	39,040	1,479	16	23,025
Net cash flows		(99,469)	12,338	11,400	8,801	65,410
Accumulated cash flows		(99,469)	(87,131)	(75,731)	(66,930)	(1,520)

h. Matters requiring special notation

Items	Period	December 31, 2018	December 31, 2017
Within the past year, a responsible person or professional employee violated the law in the course of business, resulting in an indictment by a prosecutor		None	None
Within the past year, a fine was levied on CBF for violations of the Act Governing Bills Finance Business and the other laws		None	None
Within the past year, misconduct occurred, resulting in the Ministry of Finance's imposing strict corrective measures on CBF		None	None
Within the past year, the individual loss or total loss from employee fraud, accidental and material events, or failure to abide by the "Guidelines for Maintenance of Soundness of Financial Institutions" which exceeded NT\$50 million dollars		None	None
Other		None	None

Note: The term "within the past year" means one year before the balance sheet date.

40. INFORMATION ON SIGNIFICANT TRANSACTIONS AND INVESTEEES AND PROPORTIONATE SHARE IN INVESTEEES

a. Related information of significant transactions for the year ended December 31, 2018:

- 1) Marketable securities acquired and disposed of at costs or prices of at least NT\$300 million or 20% of the paid-in capital: None
- 2) Acquisition of individual real estate at costs of at least NT\$300 million or 20% of the paid-in capital: None
- 3) Disposal of individual real estate at prices of at least NT\$300 million or 20% of the paid-in capital: None
- 4) Allowance of service fees to related parties amounting to at least NT\$5 million: None
- 5) Receivables from related parties amounting to at least NT\$100 million or 20% of the paid-in capital: None

- 6) Sale of nonperforming loans information: None
 - 7) Information on asset securitization under the “Regulations for Financial Asset Securitization”: None
 - 8) Intercompany relationships and significant intercompany transactions: None
 - 9) Other significant transactions which may affect the decisions of users of financial reports: None
- b. Name, locations and other information on investees: None
- c. Investment in Mainland China: None

41. OPERATING SEGMENTS

The information reported to the Company’s chief operating decision makers for the assessment of segment performance focuses mainly on types of goods or services delivered or provided. The Company’s reportable segments are as follows:

Segment Revenues and Results

An analysis of the Company’s revenues and results by reportable segment is as follows:

	2018				2017			
	Headquarters		Branches	Total	Headquarters		Branches	Total
	Bills and Bonds	Equity Products			Bills and Bonds	Equity Products		
Commercial paper	\$ 649,056	\$ -	\$ 486,293	\$ 1,135,349	\$ 706,005	\$ -	\$ 509,833	\$ 1,215,838
Bonds	415,726	15,553	308,994	740,273	474,186	511	317,661	792,358
Shares and beneficial certificates	-	(16,428)	-	(16,428)	-	12,883	-	12,883
Derivatives	(16,967)	102,304	-	85,337	25,460	97,652	-	123,112
Net interest	1,047,815	101,429	795,287	1,944,531	1,205,651	111,046	827,494	2,144,191
Loss on impairment on assets	6,699	-	-	6,699	(4,448)	-	-	(4,448)
Net revenues other than interest	28,553	-	(2,575)	25,978	(38,651)	-	(6,146)	(44,797)
Provisions	126,937	-	4,666	131,603	7,180	-	103	7,283
Operating expenses	(198,884)	(47,901)	(231,798)	(478,583)	(202,652)	(48,762)	(224,612)	(476,026)
Income before income tax	<u>\$ 1,011,120</u>	<u>\$ 53,528</u>	<u>\$ 565,580</u>	<u>\$ 1,630,228</u>	<u>\$ 967,080</u>	<u>\$ 62,284</u>	<u>\$ 596,839</u>	<u>\$ 1,626,203</u>

Segment result is measured at income before income tax, and this measure is reported to the chief operating decision makers for the purposes of resource allocation and assessment of segment performance. The Company’s branches in Banqiao, Taoyuan, Taichung, Tainan and Kaohsiung are categorized as single segment because they have the same type of products or services.

	Segment Assets	
	December 31	
	2018	2017
Headquarters	\$ 157,792,232	\$ 177,422,339
Branches	57,173,417	60,516,274
Write-off of internal transactions	(15,434,618)	(17,526,209)
Total assets	<u>\$ 199,531,031</u>	<u>\$ 220,412,404</u>

Discussion and Analysis of Financial Status and Financial Performance, and Risk Management

One. Financial position

Unit: NT\$ thousand

Item	Year	December 31, 2018	December 31, 2017	Variance		Explanation of ratio changes (Note)
		Amount	Amount	Amount	%	
Cash and cash equivalents, due from the Central Bank and call loans to banks		261,832	307,501	(45,669)	(15)	-
Financial assets at fair value through profit or loss		97,455,257	111,377,286	(13,922,029)	(12)	-
Financial assets at fair value through other comprehensive income		98,395,152	None	98,395,152	N/A	N/A
Available-for-sale financial assets		None	98,011,594	(98,011,594)	N/A	N/A
Securities purchased under resell agreements		991,363	5,682,864	(4,691,501)	(83)	Note 1
Receivables, net		1,291,700	1,249,639	42,061	3	-
Current tax assets		286,330	246,136	40,194	16	-
Financial assets held to maturity		None	None	-	-	-
Other financial assets , net		548,988	173,478	375,510	216	Note 2
Property and equipment, net		150,208	155,116	(4,908)	(3)	-
Deferred tax assets		101,386	109,557	(8,171)	(7)	-
Other assets, net		48,815	3,099,233	(3,050,418)	(98)	Note 3
Total Assets		199,531,031	220,412,404	(20,881,373)	(9)	-

Year Item	December 31, 2018	December 31, 2017	Variance		Explanation of ratio changes (Note)
	Amount	Amount	Amount	%	
Call loans from banks and overdrafts on banks	26,544,504	18,137,720	8,406,784	46%	Note 4
Financial liabilities at fair value through profit or loss	5,885	8,624	(2,739)	(32)	-
Securities sold under repurchase agreements	147,046,457	173,976,038	(26,929,581)	(15)	-
Accounts payable	451,695	475,561	(23,866)	(5)	-
Commercial paper issued, net	499,881	2,999,557	(2,499,676)	(83)	Note 5
Current tax liabilities	None	None	-	-	-
Other financial liabilities	None	None	-	-	-
Provision	1,396,246	1,524,181	(127,935)	(8)	-
Deferred tax liabilities	4,898	93	4,805	5167	-
Other liabilities	282,972	265,698	17,274	7	-
Total Liabilities	176,232,538	197,387,472	(21,154,934)	(11)	-
Capital stock	13,429,600	13,429,600	0	0	-
Capital surplus	4,113	2,474	1,639	66	-
Retained earnings	9,520,568	9,009,745	510,823	6	-
Other equity	344,212	583,113	(238,901)	(41)	Note 6
Total equity	23,298,493	23,024,932	273,561	1	-

Explanation of ratio changes: (Required only in the case of the increase/decrease by more than 20% and over NT\$100 million.)

- (1) Decrease in reverse repurchase agreement of commercial papers and bond investment : Primarily as a result of the decrease in the trading portfolio of securities repo trading customers and demand for trading volume at the end of 2018.
- (2) Increase in other financial assets-net: Primarily as a result of the failure to reclassify the current pledged time deposit certificates into restricted assets.
- (3) Decrease in other assets-net: Primarily as a result of the decrease in the security bond furnished for overdrafts on banks.
- (4) Increase in call loans from banks and overdrafts on banks: Primarily as a result of the adoption of diversified capital allocation.
- (5) Decrease in commercial paper issued-net: See Note (4).
- (6) Decrease in other equity: Primarily as a result of the decrease in valuation gain on FV/OCI position in 2018.

Two. Financial performance

Unit: NT\$ thousand

Item \ Year	2018	2017	Variance		Explanation of ratio changes (Note)
	Amount	Amount	Amount	%	
Net revenue	1,977,208	2,094,946	(117,738)	(6)	-
Provisions/reversals	131,603	7,283	124,320	1,707	Note 1
Operating expenses	(478,583)	(476,026)	2,557	1	-
Earnings before tax	1,630,228	1,626,203	4,025	0	-
Income tax expenses	(294,809)	(275,139)	19,670	7	-
Net income	1,335,419	1,351,064	(15,645)	(1)	-

Explanation of ratio changes: (Required only in the case of the increase/decrease by more than 20%.)

- 1: Primarily as a result of the reversal of the repayment of loan by accounts whose credit was demoted to guarantee liability allowance.

Three. Cash flow

I. Analysis of liquidity in the most recent year

Year Item	2018	2017	Explanation of ratio changes (Note)
Cash flow ratio (%)	N/A	N/A	N/A
Cash flow adequacy ratio (%) (Note)	N/A	N/A	N/A
Explanation of increase/decrease: 1. Not applicable, in the case of net cash outflow from operating activities in 2018. 2. Not applicable, in the case of net cash outflow from operating activities for the most recent five years.			

II. Analysis of liquidity in the coming year

Unit: NT\$ thousand

Cash - beginning Balance ①	Net cash flow from operating activities for the year ②	Cash inflow (outflow) for the year ③	Cash balance (deficit) ①+②+③	Corrective measures against insufficient cash position	
				Investment Plan	Financing Plan
261,832	(807,546)	999,062	453,348	None	None
1. Analysis of cash flows in 2019: (1) Operating activities: The net cash outflow, NT\$807,546 thousand, is primarily as a result of the cash inflow from operating profit and cash outflow from the increase in financial instrument positions. (2) Cash inflow (outflow): The cash inflow, NT\$999,062 thousand, is primarily as a result of the cash inflow from call loans and cash outflow from allocation of cash dividends. 2. Corrective measures against projected insufficient cash position and analysis of liquidity: None.					

Four. Material capital expenditures in the most recent year and impact on business/finance:

None.

Five. Review and analysis on invested enterprises

Invested enterprise	Taiwan Depository & Clearing Corporation (TDCC)	Core Pacific City Co., Ltd.	Taiwan Futures Exchange (TAIFEX)	Taiwan Asset Management Corporation
Business lines	Liquidation of securities Settlement services	Department stores	Futures settlement operations and services	Asset management
Invested capital (NT\$ thousand)	27,230	120,000	9,000	60,000
Book value (NT\$ thousand)	103,031	40,068	84,575	66,939
Shares held (thousand shares)	1,857	7,476	1,503	6,000
Shareholding ratio (%)	0.50	0.75	0.45	0.57
Net worth of equity (NT\$ thousand) (Note 1)	103,031	40,068	84,575	66,939
Accounting treatments	At fair value through other comprehensive income			
Gain (loss) on investments for the most recent year (NT\$ thousand)	At fair value through other comprehensive income, and no gain (loss) on investments has been recognized.			
Distributed cash dividend (NT\$ thousand) (Note 2)	5,889	None	5,177	4,854
Quantity of the Company's shares held by the invested enterprise	None			

Note 1: The net worth is calculated based on the self-assessed financial statements 2018.

Note 2: The 2017 cash dividends allocated in 2018.

The Company established its investment policy, “Regulations Governing Investments by China Bills Finance Corporation”, based on the “Regulations Governing Investments by Bills Finance Business”,

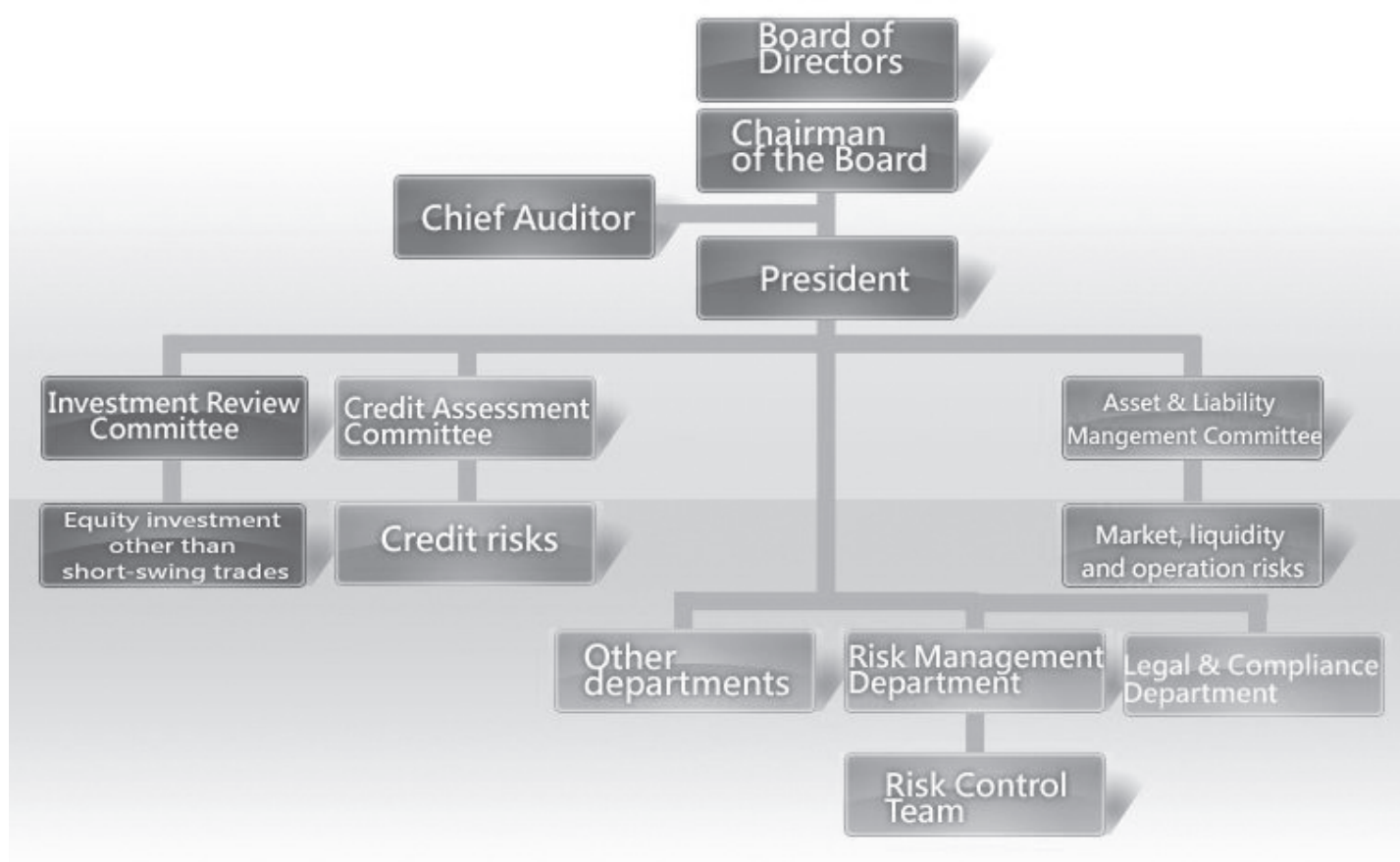
in response to the government's economic development plans or financial policies as the first priority. Benefited from the fair economy, the Company's invested enterprises, other than Core Pacific City Co., Ltd., in which the net worth of the Company's equity was impaired, were operating fairly. In 2018, the Company received the cash dividends allocated from the three invested enterprises including TDCC and, therefore, the investment income should be considered fair. The Company will continue to practice its investment policies and also strengthen the equity management.

Six. Risk management

I. Risk management structure and policy

(I) Risk management structure

The Company's risk management structure bases the “Regulations Governing Guarantee Business” and “Regulations Governing Risks of Trading Business” as the enabling statutes. The Board of Directors shall be the ultimate policy-making unit for the Company’s risk management and responsible for authorization of the risk management policy & structure and construction of the risk management cultures throughout the Company to take the ultimate responsibility for the entire risk management. The President is responsible for executing the risk management policy and accounting for the policy to the Board of Directors. Risk Management Department is responsible for reviewing and controlling the risk control operations, and reporting the status thereof to the top management and Board of Directors to control credit, market and liquidity risks. The risk control team subordinated to the Dept. is dedicated to processing the integrated management operations for various risks. Legal & Compliance Department is in charge of collection and compilation of the laws about various operations and drafting, approval and review of legal cases, and planning, management and implementation of the compliance system to control the legal risk.



The risk management policies aim to strive for the maximum interest for shareholders within the risk tolerance authorized by the Board of Directors. In line with external laws and the Company's internal regulations, the management departments reported the risk limits and stop-loss limits to be followed by various operations subject to the business types and annual budget target. The same shall be implemented upon authorization by the Board of Directors or authorized representatives.

In order to maintain the safety, liquidity and profitability of financial assets and liabilities, the Company established the “Credit Assessment Committee” and “Asset and Liability Management Committee”. In principle, the Credit Assessment Committee holds a meeting per week, and Asset and Liability Management Committee holds a meeting per month. In order to carefully assess the equity investment other than short-swing trades, the Company established the “Investment Review Committee” dedicated to reviewing various equity investments other than short-swing trades. In principle, the Committee also holds a meeting per month.

Credit Assessment Committee is primarily engaged in discussing:

1. Various credit risks (e.g., review on guarantor or endorser of commercial papers or bills, buying notes, underwriting of guarantee-free commercial papers, facility of trading counterparts of financial derivatives, and non-government bond purchase limit).
2. Review on the internal regulations governing guarantees.
3. Other credit risk-related operations.

Asset and Liability Management Committee is primarily engaged in discussing:

1. The Company's financial asset and liability portfolio and management policy (exclusive of the guarantee business).
2. Control over the balances of various risk positions related to financial assets and liabilities.
3. Forecast about the future interest rate trend and other financial developments.
4. Assessment on domestic/foreign economic and political environments and capital status.
5. Other management issues about the Company's financial assets and liabilities.

Investment Review Committee is primarily engaged in discussing:

1. Equity investment other than short-swing trades.
2. Other equity investment-related issues assigned by the senior management.

II. Qualitative and quantitative information about various risks

(I) Credit risk management system and capital requirement

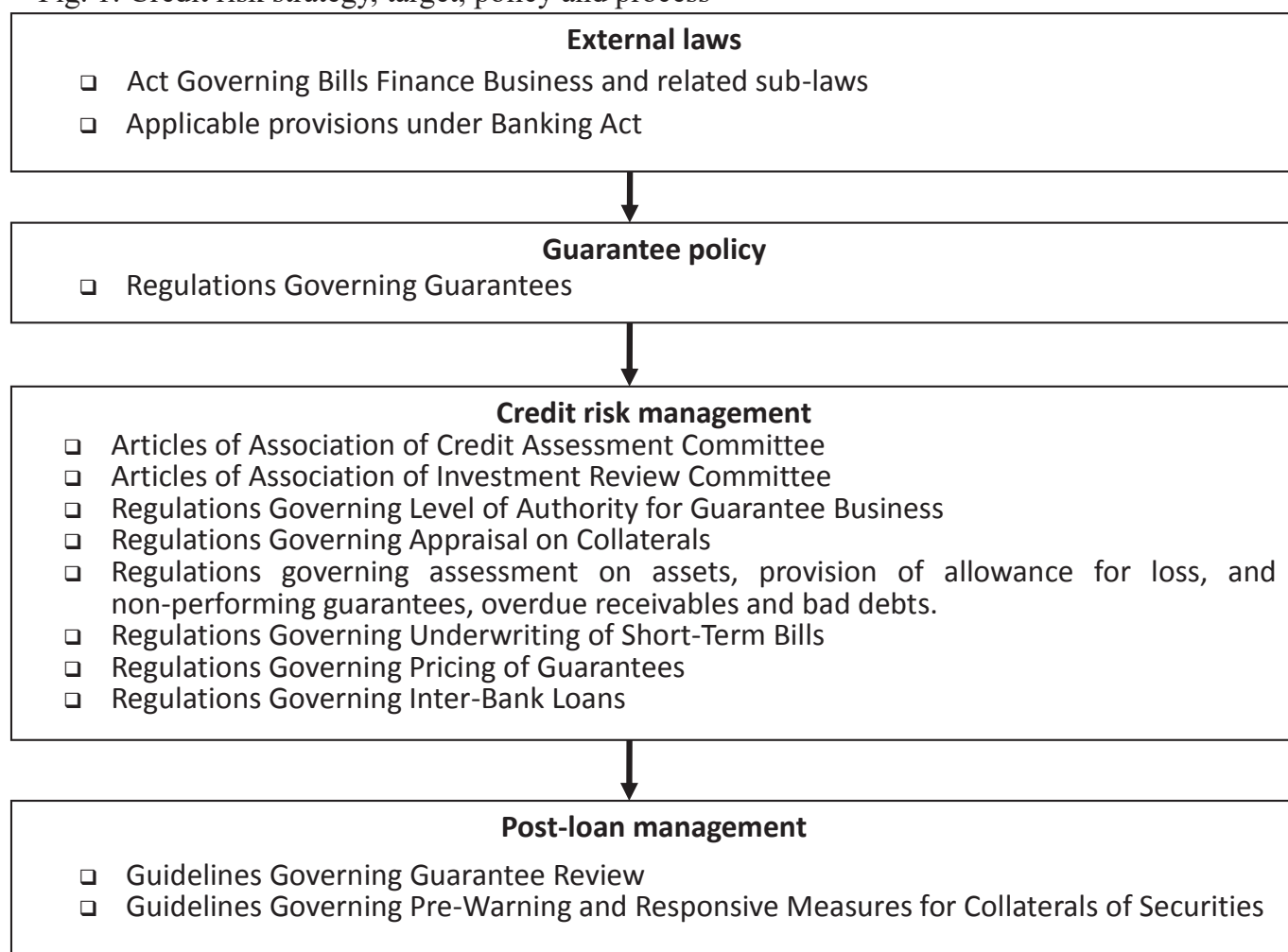
Credit risk management system

2018

Item	Content
1. Credit risk strategy, target, policy and process	The Company's credit risk management forms the guarantee policy pursuant to the competent authorities' laws, and establishes related regulations by taking into consideration the safety, liquidity, yield, government's policy-oriented and business growth (see Fig. 1).
2. Credit risk management structure	(1) Guarantees: When underwriting any guarantees, the business units generally will negotiate with the customers at first. The guarantee units conduct comprehensive assessment and credit investigation based on the customers' financial and business positions, as well as the guarantee terms and conditions. If the cases are confirmed to be underwritten upon the assessment, the cases shall be transferred to Review Team of the Risk Management Dept. upon approval of the unit supervisors to have the Dept. propose the review comments on the customers, and then submitted to Business Review Committee or Board of Directors for review and approval case by case. (2) Trading counterparts of non-government bonds and financial derivatives: A、 Before purchasing any non-government bonds, the business units shall apply for the purchase limits subject to the level of authority, pursuant to the Company's regulations governing bonds. B、 The limits applicable to individual trading counterparts in

Item	Content
	the financial derivatives transactions to be underwritten by the business units shall be discussed at a meeting of the Credit Assessment Committee and also authorized by the Board of Directors. (3) Underwriting of guarantee-free commercial papers: Before underwriting any guarantee-free commercial papers, the business units shall conduct credit investigation, propose motions, review cases and organize meetings, like the guarantee operations, each year to apply for the risk limit.
3. Credit risk report and scope & characteristics of the measurement system	The report and scope of measurement shall cover the potential risks about the debtor's and trading counterpart's failure to perform contract or repay principal and interest. The guarantee business shall be reported to the management by the contents of guarantee, category of industry, the same related party, and affiliates. Meanwhile, the debtor's and trading counterpart's exposures shall also be compiled into the relevant business statistics and risk management reports to be submitted to the management, and reported to the competent authority pursuant to the relevant requirements periodically.
4. The policy for hedging and mitigation of credit risk, and strategy and procedure for monitoring and evading risks and for keeping the persistent effectiveness of the risk mitigation tools	The Company has established the "Guidelines Governing Guarantee Review" to continue supervising and controlling the customers' movements and strengthening the post-loan management. Risk Management Dept. and business units will also provide the information about credit ratings and credit of the bond/bill issuers and guarantors, equity product issuers, and trading counterparts of financial derivatives to help the assessment and follow-up on the credit risk. Meanwhile, Risk Management Dept. will set out the various credit limits with respect to various transactions, by individual financial institutions, the same enterprise and group, and have the same authorized by the President for control.
5. Approaches adopted by capital requirement	Standardized approach

Fig. 1: Credit risk strategy, target, policy and process



Capital requirement and risk-weighted assets for credit risk (Standardized Approach)

Unit: NT\$ thousand

Record date: December 31, 2018

Type of Risk Exposure	Capital requirement	Risk weighted assets
Sovereigns	0	0
Non Central -Government Public Sector Entities	175	2,183
Banks (including multilateral development banks)	133,624	1,670,299
Enterprises (including securities firms and insurance companies)	8,630,534	107,881,674
Retailed credit	73,765	922,061
Equity-securities investment	282,403	3,530,046
Guarantees made for the parent company	0	0

or any subsidiary, and guarantees made for the securities issued by the parent company or any subsidiary.		
Other assets	22,329	279,109
Total	9,142,830	114,285,372

(II) Securitization risk management system, exposures, and capital requirement

Securitization risk management system

2018

Item	Content
1. Securitization management strategy and process	The Company's securitization risk management establishes the related internal regulations pursuant to the external laws. Specifically, the Company establishes the “Regulations Governing Bonds Trading and Risk Positions” with respect to the beneficiary certificate valid for more than one year, and the “Regulations Governing Asset-Based Short-Term Bills” with respect to the beneficiary certificate-current portion, in order to govern the limit management, limit review, risk management and business management about purchase of beneficiary certificates to pursue the optimization of risk and income.
2. Securitization management structure	Before purchasing any securitization products, the business units shall assess individual cases in detail and apply for the purchase limits subject to the level of authority, pursuant to the Company's “Regulations Governing Bonds Trading and Risk Positions” and “Regulations Governing Asset-Based Short-Term Bills”. Risk Management Dept. and other related units will also supervise and control the risk profiles of the securitization products.
3. Securitization risk report and scope & characteristics of the measurement system	Risk Management Dept. will value the exposures of various beneficiary certificates and asset-based short-term bills on a daily basis, and submit the summarization of the entire positions to the management to achieve the routine control. Further, it will submit the summarization of exposures and income to Financial Asset and Liability Management

Item	Content
	Committee on a monthly basis.
4. The policy for hedging and mitigation of securitization risk, and strategy and procedure for monitoring and evading risks and for keeping the persistent effectiveness of the risk mitigation tools.	The Company will evaluate various income positions for securitization products periodically, and review the credit, market and liquidity risk profiles for the securitization products. If necessary, the Company will evaluate the hedging cost and take appropriate measures to transfer risks.
5. Approaches adopted by capital requirement	Standardized approach

Status of securitization business

Record date: December 31, 2017

Type	Total amount issued	Outstanding balance	Balance of repurchase
Not applicable.			

(III) Operational risk management system and capital requirement

Operational risk management system

2018

Item	Content
1. Operational risk management strategy and process	For the time being, the Company's operational risk measurement focuses on the internal audit, compliance and self-audit on internal control. According to the Company's "Regulations Governing Risks of Trading Business", "Guidelines Governing Risk Controls", "Guidelines Governing Compliance System", "Regulations Governing Internal Control System and Self-Audit", "Instructions to Prevention of Insider Trading" and "Regulations Governing Security of e-Repo Trading of Bonds", the Company strengthens the management about internal audit, compliance and self-audit on internal control.

Item	Content
2. Operational risk management structure	The operational risk management aims to avoid the extra costs or losses potentially caused by the negligence in operations or internal control. Auditing Department is an independent internal audit unit dedicated to assessing the design of internal control and effectiveness of implementation thereof periodically. Meanwhile, the Company has retained independent external auditors to audit (or review) the internal control system related to financial statements periodically.
3. Operational risk report and scope & characteristics of the measurement system	The units dedicated to business, custody of property and information shall conduct the general self-audit at least once per six months, and the special audit-audit at least once per month. Auditing Department shall conduct the general audit and special audit on each unit dedicated to business, custody of property and information at least once per year, and conduct the special audit on the other management units at least once per year, and also follow up and control the deficiencies to be corrected based on the audit result.
4. The policy for hedging and mitigation of operational risk, and strategy and procedure for monitoring and evading risks and for keeping the persistent effectiveness of the risk mitigation tools.	Categorized into the front office and back office, based on the principles for division of functions. The business units are responsible for the authorization and approval about transactions in the front office. The operation units are responsible for execution and documentation of transactions in the back office. Both verify the accuracy of transactions mutually. Meanwhile, the standard operating procedures are established in order to strengthen the employees' training, computerized operation and review mechanism, and reduce the possibility for operational risk.
5. Approaches adopted by capital requirement	Basic Indicator Approach (BIA)

Capital requirement and risk-weighted assets for operational risk (BIA)

Unit: NT\$ thousand

Record date: December 31, 2018

Year	Gross Profit	Capital requirement	Risk weighted assets
2016	2,313,379		
2017	2,094,946		
2018	1,977,208		
Total	6,385,533	319,277	3,990,963

(IV) Market risk management system and capital requirement

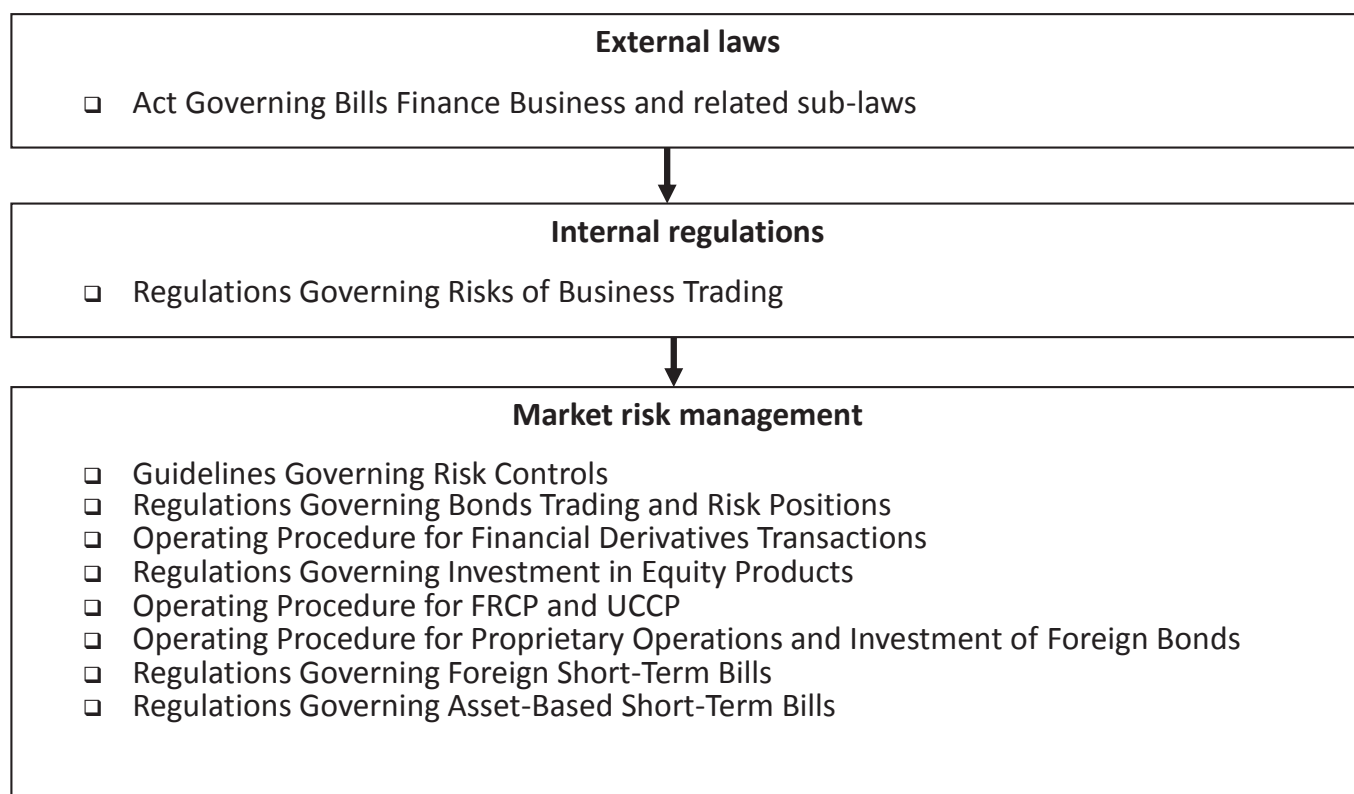
Market risk management system

2018

Item	Content
1. Market risk management strategy and process	The Company's market risk management establishes the Regulations Governing Risks of Business Trading in accordance with the Act Governing Bills Finance Business and related sub-laws, and the management regulations applicable to various products as well (see Fig. 2 for details).
2. Market risk management structure	The senior manager in charge of the market risk management shall be served by the President, aided by Financial Asset and Liability Management Committee. Various business units serve as the execution units.
3. Market risk report and scope & characteristics of the measurement system	The report and scope of measurement shall cover the effects produced by the risk over bills, bonds, equity products and financial derivatives on the Company's net worth and income due to any changes in the market risk factors. Meanwhile, appropriate management policies will be adopted to control the market risk level to be borne by the Company. Risk Management Dept. will report to the management in the form of the summary table of the entire positions and stop-loss control report by month/year on a daily basis to achieve the routine control. Meanwhile, it will summarize the positions of various products, income and stress testing result on changes in interest rate and value at risk (VaR) to Financial Asset and Liability Management Committee on a monthly basis.
4. The policy for hedging and mitigation of market risk, and strategy and procedure for monitoring and evading risks	The hedging strategy aims to evade the cash flow risk or risk over changes in fair value through individual hedging tools or portfolio of hedging tools when the positions held by the Company suffer any changes in interest rate or price, in order to

Item	Content
and for keeping the persistent effectiveness of the risk mitigation tools	achieve the risk management target. The fair value or projected cash flow of the financial assets held by the Company might vary due to the changes in market interest rate and foreign exchange rate, if any. If the risk is assessed as material, the Company will sign the interest rate swap contract or engage in foreign exchange or other qualified hedging tools for the purpose of hedge.
5. Approaches adopted by capital requirement	Standardized approach

Fig. 2: Market risk strategy, target, policy and process



**Capital requirement and risk-weighted assets for market risk
(Standardized Approach)**

Unit: NT\$ thousand
Record date: December 31, 2018

Type of Risk	Capital requirement	Risk weighted assets
Interest rate risk	4,659,186	58,239,825
Equity securities risk	67,535	844,188
Foreign exchange risk	42,818	535,225
Commodity risk	-	-
Options operated under Simplified Standardized Approach	-	-
Total	4,769,539	59,619,238

(V) Review and analysis on liquidity risk

1. Asset and liability maturity analysis

Unit: NT\$ million
Record date: December 31, 2018

	Total	Balance until maturity				
		0 – 30 days	31 days – 90 days	91 days – 180 days	181 days – 1 year	Over 1 year
Assets	195,594	47,666	38,110	13,639	5,451	90,728
Liabilities	174,090	148,108	24,799	980	203	0

Gap	21,504	(100,442)	13,311	12,659	5,248	90,728
Accumulated gaps	21,504	(100,442)	(87,131)	(74,472)	(69,224)	21,504

2. Approach to manage asset liquidity and capital gap liquidity

The Company establishes the “Guidelines Governing Control Over Liquidity of Bond and Equity Product Risk” to control the asset liquidity in accordance with the “Regulations Governing Risks of Business Trading”. The Company sets the limit of credit by product, and reports the liquidity by product to Financial Asset and Liability Management Committee periodically. Further, the Company establishes the “Guidelines Governing Capital Gaps” to control the capital gap liquidity, defining each business unit’s daily capital gap, the maturity capital gaps throughout the Company, and limit of each customer's matured capital gap, net on each business day to control the liquidity risk at an appropriate level. The unit dedicated to risk management also controls the total major liabilities on a daily basis. The business units engage in stimulation and testing under different stress scenarios periodically, in hopes of establishing the routine maintenance mechanism and emergency response plan therefor.

III. Impact on the Company’s financial standing due to changes in domestic or foreign policies and laws, and corresponding countermeasures:

(I) Material changes in the acts governing bills finance business in 2018 until the date of publication of the annual report

Date of Promulgation	Laws & Regulations	Changes/Additions	Effect/Countermeasures
November 16, 2017	“Regulations Governing the Implementation of the Common Standard on Reporting and Due Diligence for Financial Institutions”	1. The Regulations aim to demand that the financial institutions should conduct the “customer due diligence for financial account information in tax matters for the	Effect/Countermeasures: 1. Keep watching the legal opinions or written interpretations by Ministry of Finance; if necessary, propose a motion for transferring the opinions or interpretations to the law & regulation

Date of Promulgation	Laws & Regulations	Changes/Additions	Effect/Countermeasures
		purpose of exchange of information”, and also impose on the financial institutions the obligation to fulfill the customer due diligence for financial account information (similar to the review to confirm whether it is an account of the US national under FATCA). 2. The Regulations were implemented effectively since 2019. According to the independent external auditor's general opinion, the Company's products which may apply the Regulations include accounts requiring tangible financial collaterals (customers), and Repo/RS trading accounts (customers). 3. According to the Regulations, the financial institutions should complete certain measures by December 31, 2018.	committee of the Bills Finance Association for discussion. 2. Already completed the internal regulations, forms and account identification procedure required by laws by December 31, 2018, and performed the educational training. 3. Research and compare the difference from FATCA, and stimulate and integrate the potential impacts to the Company's business. 4. Implement the counseling services for CRS provided by PwC Taiwan in line with other peer companies.

Date of Promulgation	Laws & Regulations	Changes/Additions	Effect/Countermeasures
March 31, 2018	Implementation Rules of Internal Audit and Internal Control System of Financial Holding Companies and Banking Industries	1. Include the banks which set up subsidiaries domestically/overseas into the targets which shall establish a group-wide anti-money and countering of terrorism financing plan. 2. Establish the internal whistleblowing system, and appoint the units of the headquarters which may perform functions independently to accept and investigate the whistleblowing cases (to be completed by September 30, 2018). 3. Expressly state that the banking industries shall establish the information security	Effect/Countermeasures: 1. In response to the anti-money laundering and countering of terrorism financing plan of O-Bank. 2. Already established the internal whistleblowing system in charge of by Management Dept., and appointed Auditing Department to process and investigate any complaints. 3. Information Technology Department should act as the information security dedicated unit concurrently as of 2019.

Date of Promulgation	Laws & Regulations	Changes/Additions	Effect/Countermeasures
		dedicated units and officers responsible for information security operations, and engage in the differentiated management subject to the scale.	
February 17, 2018	Amendments to Article 8 of the “Regulations Governing Foreign Currency Bond Brokerage, Proprietary Trading, and Investment by Bills Finance Companies”	Delete the risk limit no more than US\$50 million required by the Regulations. Notwithstanding, the provision about the limit of 15% net worth is reserved to maintain the control over foreign currency risk of the bills finance companies.	<u>Effect/Countermeasures:</u> Positive effects resulted in enhancement of the Company's flexibility in operating foreign currency positions.
May 22, 2018	Written interpretation of FSC under Jin-Guan-Yin-Piao-Zi No. 10701054100	The agreement with the customers on circulation of commercial papers-current portion subject to floating interest rate, which agreement may be effective for more than one year, provided that the Company will not act as the guarantor.	<u>Effect/Countermeasures:</u> Positive effects establishing the legal basis for the Company's issuance of commercial papers subject to floating interest rate and enhancing the Company's business flexibility.
August 1, 2018	Article 22-1 of the Company Act	A company shall report annually the information about directors, supervisors,	<u>Effect/Countermeasures:</u> An appropriate external system may help increase the transparency of the

Date of Promulgation	Laws & Regulations	Changes/Additions	Effect/Countermeasures
		managerial officers, and shareholders holding more than 10 percent of the total shares of the company by way of electronic transmission. If there is any change of the above items, the company shall, within 15 days after such change date, report such change.	system of the companies in Taiwan and facilitate identification of beneficial owners (for AML) or persons with controlling power (for CRS). Notwithstanding, before a well-founded external system is available, no significant effect would be rendered on the Company's operations therefor.
December 27, 2018	Amendments to the “employee stock options issued by companies offering stock in public pursuant to Article 28-3 of the Securities and Exchange Act”.	The employee stock options issued by companies offering stock in public pursuant to Article 28-3 of the Securities and Exchange Act may be allocated or transferred to the parties limited to the employees of the Company and its domestic/overseas subsidiaries.	<u>Effect/Countermeasures:</u> The management units are reminded to note the intent of the amendments when drafting any related plans in the future.
July 6, 2018	Amendments to Article 10 and Article 17 of the “Regulations Governing Information to be Published in Annual Reports of Bills Finance Companies”, and Article 10 and Article 20 of the	The corporate governance report shall disclose the “information about Chairman and presidents retired as consultant after retiring from the Company” and “details about the penalty imposed upon	<u>Effect/Countermeasures:</u> The management units are reminded to note the relevant information about the Company to be included into the corporate governance report.

Date of Promulgation	Laws & Regulations	Changes/Additions	Effect/Countermeasures
	“Regulations Governing Information to be Published in Financial Institution Prospectuses for Offering and Issuance of Securities”.	labor inspections”, etc.	
August 29, 2018	Interpretation on the proviso in Article 10 of the Regulations Governing the Acquisition and Disposal of Assets by Public Companies promulgated by the FSC	According to the proviso in Article 10 of the Regulations Governing the Acquisition and Disposal of Assets by Public Companies, a public company acquiring or disposing of securities which meet the following circumstances may be exempted from Article 10 of the same Regulations.	<u>Effect/Countermeasures:</u> The effects produced by the interpretation which lifted some restrictions are positive. The management units are reminded to check whether the related assets may have chance to apply the same in the future.
August 30, 2018	Related to the ordinances authorized under Article 17 and Article 18 of the “Regulations Governing Offshore Structured Products”.	According to Article 17 and the subparagraph 1 of Paragraph 1 of Article 18 of the Regulations Governing Offshore Structured Products, the long-term credit rating of the issuing institution or the guarantor, or the issue rating of the offshore structured product, with	<u>Effect/Countermeasures:</u> Already reminded the business units to note whether it is necessary to adjust the internal regulations or countermeasures.

Date of Promulgation	Laws & Regulations	Changes/Additions	Effect/Countermeasures
		respect to offshore structured product offered to professional and non-professional investors for trust investment, brokerage trade or linking to investment-linked insurance policies shall be at a certain level or higher given by a credit rating agency.	
October 15, 2018	Self-Discipline Standards for Financial Derivatives Transactions by Bills Finance Companies	When the Company engages in the foreign exchange derivatives business, its operations and management personnel shall meet the qualifications and complete the educational training referred to in Article 14 of the “Regulations Governing Foreign Exchange Business of Banking Enterprises”.	<u>Effect/Countermeasures:</u> 1. Fixed Income Products Department has started to plan and arrange for the educational training programs. 2. The related personnel have attended the educational training for 3 hours in 2018.
November 9, 2018	Regulations Governing Internal Audit and Internal Control System of Anti-Money Laundering and Countering Terrorism Financing of Banking Business and Other	The financial institutions shall establish their internal audit and control systems of anti-money laundering and countering of terrorism financing, subject to the money laundering and	<u>Effect/Countermeasures:</u> Work with the Bills Finance Association to amend the template, and then adjust the Company's internal regulations in line with the template applicable in the bills finance industry.

Date of Promulgation	Laws & Regulations	Changes/Additions	Effect/Countermeasures
	Financial Institutions Designated by the Financial Supervisory Commission	countering of terrorism financing risk profiles and their business scale.	
November 14, 2018	Amendments to the “Regulations Governing Anti-Money Laundering of Financial Institutions”.	1. Amendments to Article 3: Delete the word “inflation”, and expressly state that the occasional transactions of a certain amount shall include “domestic remittances”. 2. Amendments to Article 10: A financial institution shall put in place “appropriate risk management systems” to determine customers’ identity lest the financial institution should rely on databases overly. 3. Delete the restrictions requiring the reporting within 10 business day, and demand that a transaction held suspected of involving any	<u>Effect/Countermeasures:</u> To review and adjust the internal regulations (the relevant practices remain unaffected), such as: 1. No cash transactions or remittance services will be made available by the bills finance business. 2. The Company has established the relevant mechanism without relying on databases overly (e.g., promotion of enhanced completeness of the self-built databases and enhancement of traders’ self-judgment ability, etc.); 3. According to the Company’s existing practices, the reporting procedure may be fulfilled within one day upon approval by the responsible chief compliance officer.

Date of Promulgation	Laws & Regulations	Changes/Additions	Effect/Countermeasures
		money laundering or terrorism financing activity shall “be reported to the Investigation Bureau within 2 business days immediately after the report has been approved by the responsible chief compliance officer”.	
	Article 3 of the “Regulations Governing Reporting on the Properties or Property Interests and Locations of Designated Sanctioned Individuals or Entities by Financial Institutions”	It is obligatory to report to the Investigation Bureau immediately within 2 business days subject to prior approval by the responsible chief compliance officer upon awareness of the same.	<u>Effect/Countermeasures:</u> For the time being, none of the Company's customers is identified as the sanctioned individual or entity. Notwithstanding, According to the Company’s existing practices, reporting procedure may be fulfilled within one day upon approval by the responsible chief compliance officer.

(II) Important related laws and regulations under research or to be implemented

Date of Promulgation	Laws & Regulations	Changes/Additions	Effect/Countermeasures
November 6, 2018	Order by Ministry of Economic Affairs: To be in line with the	1. According to Article 22-1 of the Company Act, the Company shall report annually the names,	<u>Effect/Countermeasures:</u> 1. In line with TDCC's promotional presentation, the Company has applied for the membership for the platform,

Date of Promulgation	Laws & Regulations	Changes/Additions	Effect/Countermeasures
	amendments to the Company Act, facilitate the Company's transparent information disclosure and practice anti-money laundering activities, the Company has started to report the information about responsible persons and major shareholders as of November 1, 2018.	nationalities, birthdays, or the dates of its incorporation registration and identification numbers of its directors, supervisors, managerial officers, and shareholders holding more than 10 percent of the total shares of the Company to the information platform established or designated by the central competent authority by way of electronic transmission. Shareholdings or capital contribution, etc. A company which fails to report as required or submits false report may be imposed the fine ranging from NT\$50,000 to NT\$5 million for each successive failure to comply and maybe revocation of its company registration at most, if it fails to	and would start the inquiry on a trial basis after the search function of the platform goes live (scheduled on February 25 2019). 2. The information provided by the platform is intended to practice the anti-money laundering system. Therefore, the Company will research and establish related regulations to facilitate strict implementation of the CDD and risk assessment operations related to the anti-money laundering issue on the platform, and shall note the control over certificates and personal information.

Date of Promulgation	Laws & Regulations	Changes/Additions	Effect/Countermeasures
		rectify its misconduct within the time limit prescribed in the competent authority's notice.	
		2. Said information platform refers to the “Company Transparency Platform” established and operated by TDCC, which has been accessible by the public since November 1, 2018. Meanwhile, the announcement section on the Platform also provides important messages, classroom film for the reporting, video of promotional presentations, Q&A and customer service hotline to help the public access related information.	

IV. Impact on the Company’s financial standing due to technological or industrial changes, and corresponding countermeasures:

The Company's decision-making supporting system integrates internal/external critical information effectively and presents the same systematically. It provides the managers with the information about management to help their decision making and also provides the employees with the source of information about analysis on routine business.

Fixed Income Products Department establishes New Financial Instrument Team to keep concerning and promoting the new services and opportunities for the bills finance industry. In line with the FinTech innovation trend prevailing in the financial industry in the recent years, New Financial Instrument Team also engages in assessing the potential applications of the FinTech innovation to the bills finance industry and the Company.

V. Impact of changes in the corporate identity of the Company, and corresponding countermeasures:

The Company is identified as a historical company with outstanding goodwill and high trust from customers. It upholds the core management strategy focusing on the development based on “Gratitude, Contentment and Improvement”. Under the existing fair foundation (Gratitude and Contentment), the Company secures its competitive strength through continuing learning, improvement and innovation, and provide customers, shareholders and employees with higher value (Improvement). Notwithstanding, in response to the current changes in financial trends, the Company also uses its best efforts to develop new business lines and new financial instruments, and move forward toward the target for becoming a professional fixed-income securities dealer.

VI. Expected benefit(s) and possible risk(s) of mergers and acquisitions:

None.

VII. Expected benefits, risks and responsive measures associated with business location expansions:

None.

VIII. Risk from concentrated operations, and corresponding countermeasures:

In order to evade the risk over concentrated operations, the Company controls the total guarantees or ratios of the same related party and the same affiliate, and also controls the limits by category of industry, type of collateral and business line. Meanwhile, the Company establishes the Risk Control Team subordinated to Risk Management Dept. to integrate the identification, measurement, control and report of the Company's risk profiles, in hopes of controlling the tolerable risk limit authorized by the Board of Directors.

IX. Effect and risk caused by the changes of the right to manage to the Company, and the countermeasures thereof:

O-Bank remained the Company's largest shareholder. PJ Group also joined the operations of the Board of Directors as new director to create the maximum interest for the shareholders together.

X. Effects, risks and countermeasures following a major transfer or conversion of shareholding by directors, or shareholders with more than 1% ownership interest:

None.

XI. Litigation or non-litigation matters:

(I) For the Company

None.

(II) For any director, President, or major shareholder with more than 1% ownership interest, and affiliated company

1. For the director and President

Please see XI.(I) Penalties imposed during the most recent two years and until the date of publication of the annual report for illegalities and major deficiencies, and improvements made on Page 78 hereof.

2. For any major shareholder with more than 1% ownership interest, and affiliated company

Name of Shareholder	Litigation or non-litigation matters	Remarks
O-Bank	None	Note 1
PJ Asset Management Co., Ltd.	None	
He Zhu Investment Co., Ltd.	None	
Yuan Tong Investment Co., Ltd.	None	
CitiBank (Taiwan) as Trustee of Norges Bank Investment Account	None	
J.P. Morgan Chase Bank N.A., Taipei Branch as Trustee of Vanguard Emerging Markets Stock Index Fund, a Series of Vanguard International Equity Index Funds Investment Account	None	

Note : The Company inquired in writing with the major shareholders with more than 1% ownership interest of the Company on February 20, 2018 (based on the roster of shareholders who suspended transfer of shares on July 6, 2018) for the information about major litigation, non-litigious or administrative legal action, convicted or pending, in the most recent years, which were likely to pose significant impact to shareholders' equity or security prices of the Company. The answer should be none, if no such information is made available from the shareholders. By the due date for response, namely February 28, none of said companies has provided such information.

XII. Other significant risks and corresponding countermeasures

(I) Information security policy and assessment & analysis on risk

In order to enhance the Company's information security management and ensure the security of the Company's information, system, equipment and network security, the Company establishes the Company's "Information Security Policy" to be followed by the Company in accordance with the "Self-Discipline Standards for Information Security Protection by the Bills Finance Business" established by the R.O.C. Bills Finance Association. The relevant contents of the Policy are disclosed on the Company's website at: <http://www.cbf.com.tw/public/Data/921816565671.pdf>.

Subject to the importance of information assets and effects thereof on operations, the Company categorizes the information systems into operating information system and non-operating information system. In order to discover the threat and weakness in the information security as early as possible to implement and enhance the relevant control measures in the respect of technology and management and to upgrade the security protection ability of the network and information systems, the Company adopts the following approaches to review and assess the information security:

1. Review existing information structure:

- (1) Review the information equipment structure, adequacy of the security management rules, and any information security risk discovered in the information systems or PC shall be solved in the following manners:
 - a. Adjust the firewall system rules to enhance the security of access to important information equipment.
 - b. Adjust the DLP rules to prevent the Company's important information from being disclosed, and adjust the Webfilter system rules to prevent the employees from accessing the websites with threats in information security in error.
 - c. Adjust the Spam system rules to block any spam containing malicious software sent to the employees from hackers.
 - d. Utilize the endpoint control system to prevent the employees from installing their personal information equipment privately lest the Company's important information should be

disclosed to outsiders.

- e. Continue to update the virus code of the anti-virus system installed on the information equipment to prevent the information equipment from attack by virus.
- f. Utilize the resource management system to control the write-out function of the employees' USB storage equipment lest the Company's important information from being disclosed to outsiders.

- (2) Review the risk over failure in important information systems, assess the maximum impact and risk acceptance in the case of failure in the Company's important information system, and set forth the acceptable operation suspension period, shortest recovery hours and backup plan.

2. Review on network activities

- (1) Review the access logs of network and information equipment, and review whether the authority of access to the account satisfies the Company's information security guidelines and regulations.
- (2) Check the accuracy of settings of the information security equipment control rules, and check the information security incident control record periodically, and test the effectiveness of the information security protection system periodically.
- (3) Use the firewall system to check whether the Company's information equipment links with external networks abnormally, and analyze and compare whether it links with any hacker's relay station; if it does, adjust the firewall system rules to block the links.

3. Test of network equipment, servers and terminal equipment

- (1) The Company conducts weakness scanning on the network and information equipment throughout the Company periodically for twice per year, and fixes bugs or strengthens the protection with respect to the weakness and bugs identified according to the scanning results to mitigate the entire information security risk.
- (2) Test the relevant password policy of the login accounts used to access the information equipment via the weakness scanning periodically each year, and the password set for the login accounts certified to comply with the Company's relevant password policy; the

privileged account management system added in 2018 engaged in enhancing the complexity of the password of the login accounts by changing the login password through its password vault.

4. Test on external website's security:

- (1) Conduct the penetration testing on the Company's external website periodically each year to control and fix the weakness risk. In 2018, no material weakness risk was found.
- (2) Review the rules applicable to setting of the authority of access to the directories and pages of the Company's external website and access logs periodically to prevent hackers from intruding into the Company's external website and tampering the contents thereon. In 2018, no hacker's intrusion took place.

5. Inspection on security settings

- (1) Review the Company's AD "password setting principles" and "account lockout principles"; as a result, the security and setting principles both found complying with the Company's information security guidelines and regulations.
- (2) Continue to review the operations of and access to the firewall system, and continue to review the firewall log to verify the information security risk in the information system access settings; if any, adjust the firewall system rules for protection.
- (3) Withdraw the employees' highest authority of access to their PCs, restrict the employees from installing software privately, prevent the employees' PCs from being installed with the software containing unlicensed or malicious programs; construct the privileged account management system in 2018 to administer the important information system privileged accounts to reduce the misuse of the privileged accounts and prevent the system from being hacked or prevent the important data from being disclosed if the accounts are stolen, and retain the operational log for the privileged account through the system to satisfy the need for the internal control of information security and regulatory audit.
- (4) By the asset management system, and the weakness scanning conducted for twice per year, review the update status of the system host and the OS/Apps in PCs and then evaluate and execute feasible system updates.

(II) Countermeasures against information security risk

Given the increasing global network security threats, in order to upgrade the information security protection to prevent the Company's information from various threats and ensure the Company's continuing operations, the Company engages in the information security protection via its existing information security equipment and also continues to evaluate the update or construction of new information security systems. In 2019, the Company plans to construct the Email APT attack defense system to prevent hackers from attacking the Company via email maliciously, and organize the social engineering exercise via email for twice per year and the information security promotional education and training for 3 hours each year to raise the employees' awareness toward information security.

According to the competent authority's interpretation about the information security operations handled by the bills finance business referred to in the proviso referred to in Article 38-1 of the "Implementation Rules of Internal Audit and Internal Control System of Financial Holding Companies and Banking Industries" promulgated by FSC, the Company appoints the Company's information security officers and staff responsible for planning, controlling and executing the information security management operation, in order to implement the Company's information security plans and information security protection effectively, and reporting the results of the overall implementation of information security operations in the previous year to the Chairman, President, Chief Auditor and information security officer each year to help them issue the statement of declaration for implementation of information security jointly. The statement will be submitted to the Board of Director with 3 months at the end of each fiscal year.

Seven. Crisis Management and Emergency Response

In order to reduce the possibility for the Company's routine operation to be affected by any disaster in the important information system, and to recover the normal operation of the information system promptly, the Company implements the following protective measures with respect to the information system:

- I. In order to prevent the business trading system from any disaster, the business trading system data would be backed up immediately, and after 15 minutes remotely. The data center and data

storage device at the same site are equipped with HA backup mechanism. Upon outbreak of failure in the data center or data storage device at the same site, the HA backup mechanism will be automatically activated and switched to the backup host or data storage device to ensure that the business trading may keep operating.

- II. In order to prevent the OA-related system from any disaster, the Company implements the VMWare virtual technology and also constructs formal/backup VMWare hosts. Upon outbreak of failure in the VMWare system host, the VMWare system will activate the HA backup mechanism automatically and switch the online OA-related system to the backup VMWare system host to enable the OA-related system to recover normal operation and, therefore, upgrade the availability and safety of the system. Meanwhile, in order to protect the OA-related system, the Company uses the HDPS Commvault backup system to perform the backup of the OA-related system at the same site and remotely each day.
- III. The Company sets up a remote backup data center in Taoyuan. In order to ensure that the remote backup data center in Taoyuan can meet the important information system backup function, the Company will organize the remote backup stimulation drill with respect to the business trading system and OA-related system on a yearly basis. If it is impossible for the data center at the same site to operate, the business trading system and OA-related system may be switched to the remote backup environment manually to keep operating and also keep the Company's operation uninterrupted.
- IV. In order to ensure the uninterrupted power supply, the systems' host power will be supplied by the UPS system. Meanwhile, in order to maintain the environment and equipment safety in the data center for the computer host, the Company installs the environmental monitoring system, central control system for the air conditioners, automatic air-jet fire protection system, access control system and monitoring system, etc. If any water leakage, temperature/humidity abnormality and fire, etc., are detected, dedicated personnel will receive the automatic phone call, and the fire extinguisher will be activated automatically to deal with the abnormalities as early as possible lest the damage should be expanded.

In order to well-found the Company's disaster relief system and management crisis management mechanism, the Company enhances its policies responsive to various emergencies, and establishes the "Instructions to Implementation of Emergency Responsive Measures" and

“Guidelines Governing Responsive Actions Against Information System Disaster” to respond to any disaster and reduce the damage to keep the Company's financing operate normally.

Eight. Other Significant Events

None.

Special Items

One. Information on Affiliates

I. Consolidated business reports of affiliated enterprises

Not applicable.

II. Consolidated financial statements of affiliates

Not applicable.

III. Affiliation report

(I) Statement of Declaration by China Bills Finance Corporation

See Page 247

(II) Independent Auditor's Opinion Statement

See Page 248

Declaration of Statement

The Company hereby declares that the Company's 2018 Affiliation Report (from January 1, 2018 to December 31, 2018) was prepared pursuant to the "Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises", and there are no significant inconsistencies between the information given above and the supplementary information disclosed in the notes to financial statements for the above period.

China Bills Finance Corporation

Responsible person: Cheng-Ching Wu

February 26, 2019

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February 26, 2019 Deloitte & Touche No. 10801665

Addressee: China Bills Finance Corporation

Subject: Comments on the declaration of statement certifying no significant inconsistencies in the information disclosed in your 2018 Affiliation Report

Descriptions:

1. You declared that your 2018 Affiliation Report (from January 1, 2018 to December 31, 2018) was prepared pursuant to the “Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises” on February 26, 2019, and there are no significant inconsistencies between the information disclosed herein and the supplementary information disclosed in the notes to financial statements for the above period. For the Declaration of Statement, please see the attachment hereto.
2. We have audited your Affiliation Report prepared in accordance with the “Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises”, and compared it with the notes to your 2018 financial statements. As a result, we found no significant inconsistencies from said declaration of statement.

Deloitte & Touche

Jui-Chan Huang, CPA

Chen-Hsiu Yang, CPA

(III) Relationship between the subordinate company and the controlling company

Relationship between the subordinate company and the controlling company

Unit: shares; %

Controlling company	Reasons for control	Shareholding and pledges by the controlling company			Directors and managers representing the controlling company	
		Shares held	Shareholding ratio (%)	Quantity of pledged shares	Title	Name
O-Bank	Control the Company's personnel and business directly or indirectly	380,981,600	28.37%	-	Director (Chairman of the board) Director (President) Director Director Director	Cheng-Ching Wu Chih-Ming Chien David C.C. Chang Niel Chang Roger Y.F. Lin

(IV) Information on transactions:

1. Purchase (sales) transactions: None
2. Property transaction: None.
3. Capital financing: Not applicable.
4. Assets leasing:

The Company signed the lease agreements for real estate and parking lots with O-Bank on October 27, 2011 and November 13, 2014, under which the monthly rent, NT\$1,099 thousand, should be payable from January 1, 2012 to December 31, 2019.

Type of transaction	Lease Agreement for “Real Estate” and “Parking Lots”
Name of premises	Real estate: 4F, No. 99, Sec. 2, Tiding Blvd., Taipei City, in whole, occupying an area totaling 679.85 pings. Parking lots: 2 parking lots at B2, 9 parking lots at B4, and 6 motorcycle parking spaces at B1 of the premises at No. 99, Sec. 2, Tiding Blvd., Taipei City
Location of premises	No. 99, Sec. 2, Tiding Blvd., Taipei City
Term of lease	January 1, 2012 ~ December 31, 2019
Nature of lease	Operating lease
Basis for rent	Subject to the areas occupied by the premises, NT\$1,575 (after tax) per ping, NT\$2,500 per lot, and NT\$100 per motorcycle parking space (after tax).
Payment method	To be paid by the Company by T/T before 15th day of each month.
Comparison with the general rent level	According to the appraisal reports issued by Global Vision, Hong Bang and Qian He real estate appraisal offices, the reasonable rent should range from NT\$1,370 to NT\$1,665 per ping. Therefore, said rent per ping is considered reasonable.
Total rents in the current period	The rent expenses and management fees total NT\$13,188 thousand in the current period.
Collection and payment in the current period	Paid regularly.
Other agreements	-

5. Other important transactions

Bills and bonds transactions

In 2018, the Company purchased the bonds valuing NT\$449,787 thousand from the controlling company, and sold the bonds valuing NT\$399,234 thousand to the controlling company, and stated the loss on disposition, NT\$175 thousand.

(V) Endorsements/guarantees: None.

Two. Status of Securities in Private Placement

None

Three. Shares of the Company Held or Disposed of by Subsidiaries:

None

Four. Other matters that materially affect shareholders' equity or the prices of the Company's securities

None.

China Bills Finance Co., Ltd.

Cheng-Ching Wu

Chairman of the Board

CHINA BILLS FINANCE CORPORATION

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