

I. Content of business

(I) Business activities

Jih Sun Financial Holding Co., Ltd.

1. Principal business activities

The Company is a financial holding company; its business activities are confined to those of investment and management of invested businesses. The following are the Company's principal business activities:

- (1) Investment in businesses approved by the authority
- (2) Management of invested businesses

The Company has three subsidiaries, namely JihSun Securities Co., Ltd., JihSun International Commercial Bank Co., Ltd. And JihSun International Property Insurance Agency Co., Ltd. Business activities of each subsidiary are detailed below:

JihSun Securities Co., Ltd.

1. Principal business activities

- (1) Securities broker
- (2) Proprietary securities dealer
- (3) Securities underwriter
- (4) Futures merchant (H401011)
- (5) Futures introducing broker (H408011)
- (6) Trust (H105011)
- (7) Other business activities approved by the competent authority

2. Business weightage (consolidated)

Unit: NTD thousand

Item \ Year	2016		2015	
	Amount	%	Amount	%
Brokerage business	2,550,281	79.84	3,014,397	80.08
Proprietary trading business	571,027	17.88	588,461	15.64
Underwriting business	72,808	2.28	161,228	4.28
Total	3,194,116	100.00	3,764,086	100.00

3. New products and services planned for the future

(1) Brokerage business:

A. Brokerage services:

Expand business in support of the authority's stock market policies

a. JihSun will be making adjustments to its physical offices in 2017, such as leasing out office space or consolidating multiple offices or resources. These changes are intended as a means to improve competitiveness, given the rapid development of digital technologies, changes in the securities business environment, increasing percentage of electronic trades, and lesser needs for investors to visit branches in person. Existing branches will be adjusted in a manner that complements the group's differentiated service strategy to serve customers of certain attributes, and may not even provide brokerage service at all. This arrangement has the benefit of improving service efficiency and maintaining flexibility of business operations.

b. The Financial Supervisory Commission will be permitting securities firms to set up centralized phone hubs to collectively process orders placed via telephone, which may help financial service providers re-allocate human resources for more advanced financial services. JihSun has made plans to develop its own centralized phone hub in 2017, using as few people as possible to process manual orders, while at the same time promote electronic trading and assist sales representatives with their transition.

c. Support of new services introduced by Taiwan Depository & Clearing Corporation: JihSun will be launching a mobile securities passbook in 2017 that enables investors to access information such as account transactions, shareholder meetings of TWSE/TPEX-listed companies, dividends etc using their cellphones. This innovation will save the company the manpower and cost of processing passbook updates and maintaining passbook machines. In addition, the Company will continue to expand its anti-money laundering search system to ensure more robust check of customers' identity.

- d. Support of after-hour futures trading by Taiwan Futures Exchange:
in order to provide traders with broader access to hedging instruments, JihSun will assist Taiwan Futures Exchange in the establishment of an after-hour futures trading platform. After-hour trading will begin immediately after normal trading hours until 5am the next morning, which is consistent with practices of world's major markets. TAIEX futures, TAIEX options and USD/CNY futures and options are the initial instruments to be made available for after-hour trading. Taiwan Futures Exchange expects to implement this system after May 2017
 - e. As part of the government's Bank 3.0 policy, TWSE will be allowing securities firms to deliver contracts and documents to investors in digital form using electronic tokens, while password slips can also be delivered digitally. As a result, JihSun will be able to complete account opening procedures entirely over the Internet without having customers visit branches in person, and allow them to join the trade action in the shortest time possible.
- B. International markets:
- a. The launch of offshore securities unit (OSU) enables the group with broader and better quality services for high net worth customers local and abroad.
 - b. Broaden customers' investment selections with fixed income instruments that offer better yields than fixed deposit at relatively low volatility.
 - c. Promote offshore structured instruments as a solution to customers' investment and asset allocation under the volatile market.
 - d. Engage world-renowned financial institutions in collaborative agreements to broaden product line and market exposure.
 - e. Keep in pace with world trends by enhancing the mobile service system.
- C. Wealth management:

Since the launch of trust services, the company has devoted substantial resources to providing customers with comprehensive wealth management services. In support of the authority's FinTech

initiatives, we shall continue to focus on the development of mobile securities services, including a mobile trading platform, through which customers may open account, transact, obtain investment information and access more professional, convenient and smart financial services using mobile devices. In terms of new business development, a more comprehensive customer relationship management (CRM) system will be constructed to provide customers with more efficient asset allocation and better financial advisory services. In addition, services such as employee welfare trust and insurance benefit trust are currently being planned.

(2) Proprietary trading:

Invest into overseas markets depending on the extent of deregulation. Apart from directional trading, the company will also develop strategic trading and other means to maximize profitability.

(3) Fixed income:

Although interest rate in Taiwan had made significant recovery in 2016, it remains low when compared to other countries. In light of the recent deregulation on foreign currency fixed income products, the company will still focus on growing foreign currency bonds, while at the same time develop foreign currency funding capacity, and thereby achieve balanced growth of NTD and foreign currency portfolios in the fixed income segment.

(4) Capital market:

In support of the authority's ongoing encouragement for the listing of overseas companies in Taiwan, the company will be actively exploring overseas prospects and introducing them to making IPOs here in Taiwan. Meanwhile, the company will play its role as a financial consultant to assist corporate customers with local mergers and acquisitions.

(5) Derivatives:

In light of new warrant instruments and new trading rules introduced by the authority, the company will be bringing customers better choices with enhanced risk management to secure revenues. In terms of structured instruments, the company will be introducing high-income, principal-protected and equity-linked varieties to address customers' needs, and tighten risk management to ensure the stability of profit streams.

(6) E-Commerce:

A. Transformation of online services from function-driven to user-driven: Given the growing popularity of mobile devices, the company will be taking steps to enhance the compatibility of its online services across different platforms and devices. These services will be integrated with personalized information to deliver better user experience.

B. Web trading system: the new trading interface, developed using the latest technology, integrates functionalities of the old version and makes more efficient use of system resources. The interface is available in Traditional Chinese/Simplified Chinese/English and is able to run on non-Microsoft browsers without the customers having to download any additional software. Currently the number of users is steadily growing; in addition, the platform will be optimized and service energy will be increased for the relevant functions in order to strengthen the stability of the system and meet customer needs.

C. Wealth management APP: the application will provide customers with exclusive services such as online fund quotation, electronic trading, and account management, thereby allowing them to manage wealth over the Internet and using mobile devices.

D. Online services for existing customers: As the authority adjusts its policy, the company will be making services such as "Online Document Signing," "Online Margin Trading Account Opening," "Online Sub-brokerage Account Opening," and "Online Password Re-issuance" available to existing customers, thereby allowing them to complete account opening at great convenience.

- E. JihSun Campus: This new service will introduce customers to basic financial knowledge; meanwhile, some of the keywords will be optimized for search engine to raise exposure for the company's products. The knowledge shown is intended to appeal to people with no financial background at all.
- F. Mobile rewards: the reward platform will be upgraded to support mobile browsing and real-time redemption for users' convenience, while the expiry period of rewards will be extended to two years. Also, to enhance customers' loyalty, the company will continue introducing reward points for the use of electronic services, and bringing more useful products and discounts for customers to redeem.
- G. Computer telephony integration (CTI): the growing popularity of smartphones and social media presents a substantial challenge to the conventional, voice-based call center. In response to this change and increasing variety of social media interactions, the 0800 call center will undergo a computer telephony integration (CTI) to allow more efficient and better quality services that will raise customers' satisfaction towards JihSun.
- H. Pro-active customer service: Digital services are starting to take over conventional services that used to be delivered over counter. In light of this trend, JihSun will be developing personalized digital advisory services that help customers understand and trade the products offered to them, while at the same time tend to customers' needs and gather opinions from them.

JihSun International Commercial Bank Co., Ltd.

- (I) Describe the main functions of each business unit; growth and changes in asset allocation, and (or) income as a percentage of total assets, and (or) income weight.
1. The following are the Bank's current main business functions:
 - (1) Check deposits
 - (2) Demand deposits
 - (3) Time deposits
 - (4) Issue financial bonds
 - (5) Underwrite short-term, medium-term, and long-term loans
 - (6) Bills discounts
 - (7) Invest in government bonds, short-term notes, corporate bonds, financial bonds, and corporate stocks
 - (8) Exchange of local and foreign currencies
 - (9) Acceptance of commercial bills
 - (10) Issue local and foreign letters of credit
 - (11) Provide guarantees to corporate bond issuers
 - (12) Provide local and foreign guarantees
 - (13) Collections and payments on behalf
 - (14) Sale of government bonds, treasury bills, corporate bonds, and corporate shares
 - (15) Warehousing, depository, and administration of the above businesses
 - (16) Other business functions approved by the central authority

2. Weightage to net revenues (consolidated):

Unit: NTD thousand

Item \ Year	2016		2015	
	Amount	Weight (%)	Amount	Weight (%)
Net interest revenue	2,199,857	55.91%	2,074,896	51.78%
Net interest revenue	1,002,914	25.49%	1,087,678	27.15%
Gains/losses on derivatives	606,061	15.40%	(527,921)	(13.18%)
Exchange gains and losses	80,724	2.05%	1,293,900	32.29%
Others	45,405	1.15%	78,383	1.96%
Net revenue	3,934,961	100.00%	4,006,936	100.00%

3. New products and services planned for the future

1. Corporate Banking

- (1) Expand asset and customer base; adjust corporate banking credit portfolio; aim to raise profitability from high-yield, low-risk services such as SME lending, credit-guaranteed lending, and share-backed lending.
- (2) Integrate resources with other departments for service enhancement. Adhere to credit risk policy and develop a pricing strategy that takes into account “costs, fees, risks, and returns.” Combine internal credit rating with profit analysis to find suitable corporate lending customers and to strike the right balance between risk management and interest rate pricing.
- (3) Utilize the customer profit analysis system to analyze corporate customers’ contribution on a case-by-case basis. Investigate differences between contribution levels and explore ways to boost profitability.
- (4) Continue cooperation with SME Credit Guarantee Fund and Overseas Credit Guarantee Fund; strengthen relationship and increase dealings with SMEs; explore opportunities in credit-guaranteed lending and supply chain financing; adjust credit spread and secure cash flow from financed supply chains, and explore revenues from riskless sources.

- (5) Promote lending programs such as “Enhanced SME Lending Program for Local Banks,” “Youth Venture Startup Fund” and “SME Innovation Loan,” and draw support from SME Credit Guarantee Fund to explore opportunities in SME lending. Gain insights to the opportunities and challenges of SMEs in order to provide the most suitable services. Utilize credit guarantees to mitigate risks of the credit portfolio.
 - (6) Continually adjust the corporate banking loan portfolio to increase the percentage of secured lending and reduce the weight of large credit customers. Shift business focus towards medium-size customers with good revenue potentials and high profit contribution.
 - (7) Raise professionalism and service scope of employees; help them develop selling skills and professional knowledge through enhanced internal training.
2. Consumer Banking
- (1) Build relationship with existing mortgage customers: Identify target customers through data analysis and offer products that match customers’ attributes; combine mortgage, life insurance, and credit card (transaction acquisition) with wealth management service for higher product penetration, stronger customer loyalty and growth of existing portfolio; grow asset size and enhance relationship with top customers.
 - (2) Improve employee productivity: Organize regular training courses on product, marketing and customer relationship building, thereby expand employees’ versatility and productivity.
 - (3) Tiered marketing: Segment customers by risk attributes using database analysis, and apply differentiated pricing accordingly; adjust product sales plan and offer customized products for customers of different tiers; optimize marketing resources through customer relationship maintenance and product innovation, and focus on attracting top customers.
 - (4) Digital consumer banking services: Create and enhance mobile consumer banking features; explore online application solutions for better service efficiency.
3. Wealth management
- (1) Offer investment products that match customers’ risk profile to assist with their asset allocation. Raise customer satisfaction by increasing the returns of wealth management products or portfolios referred by the Bank.

- (2) Strengthen business relationship with VIP customers through respect, service, innovation, and professionalism. Explore opportunities to sustain business relationship with later generations by satisfying their investment and financial needs.
- (3) Grow the size of assets under management. Acquire new customers and new assets through cross-selling, and secure existing customers by offering regular investment plans and stable growth plans. Satisfy customers' financial needs at different life stages by offering the most suitable portfolios.

4. Trust

- (1) Main business activities: (Article 16 of the Trust Enterprise Act)
 - A. Provision of "Pre-sale House Escrow Trust" services within the terms of the real estate performance guarantee system developed by the Ministry of the Interior. We ensure that the funds designated for construction are used for the intended purposes in order to protect home buyers' rights. A web page inquiry system has been created to refer customers to various products and services offered by the financial group.
 - B. Transaction safety trust: the Bank explores opportunities in real estate transactions and corporate M&As, and offers trust arrangements that are customized according to the terms of transaction, and hence provides assurance to both parties in a deal.
 - C. Family care trust: the Bank is actively promoting family care trust in line with government policies as a solution to the imminent aging and child-less society. This service combines insurance and nursing trust to assure the quality of life of the trust beneficiary.
 - D. Employee shareholding trust: issuance of employee shares has become a popular solution for inspiring performance and retaining talents.

The system has been commissioned into use since 2016, and the Bank is looking for opportunities to work with TWSE/TPEX-listed companies for this trust service.

- E. Gift voucher trust: this is a mandatory trust service required by law. When combined with the use of an anti-forgery label and a serial number system, issuers are able to prevent the risk of forgery while at the same time maintain control over the quantity issued and redeemed. The Bank will be choosing reputable customers to engage in this trust service.
- (2) Other trust-related services: (Article 17 of the Trust Enterprise Act)
- A. Custody of foreign investor capital: the Bank offers more complete services for offshore individuals or institutional investors who are willing to invest securities in Taiwan.
 - B. Fund custody services: the Bank cooperates with reliable investment trust companies and strives to increase the number and size of funds held in custody.
 - C. Discretionary custody service: the Bank has created a short-selling function in its existing system as a service enhancement. The Bank continues to strengthen relationships with partners of its discretionary custody service, such as investment trust, investment consulting, and futures brokerage companies. All business units are actively working with the above partners to explore new customers and service opportunities.
 - D. Other services: services such as securities certification, corporate bond administration and proxy form acquisition had all grown in 2016 compared to the previous year. The company will continue to explore opportunities in 2017 and strive for further growth.
5. Treasury
- (1) Treasury: The Bank adopts the following investment strategies to accommodate the different characteristics of the capital market:
- A. Foreign currency: Adjust currency positions within the authorized trade limit to achieve profit target.

Given the current strength of U.S. dollars, the Bank will be accumulating USD positions at reasonable prices.

The Bank will also increase trade activities during trading hours and reduce overnight positions for better control of volatility, losses and profits.
 - B. Interest rate: Given the stabilized economy and prospect of rising

interest rate, the Bank will focus on making basis trades and curve trades in the interest rate market, primarily using foreign currency interest rate futures for its versatility in building long and short positions. Liquidity will be the primary concern when choosing instruments.

C. Equity: The Bank will invest in TWSE/TPEX-listed shares using futures, options and various trading strategies to minimize directional risks, and hence deliver consistent returns. The Bank will also explore additional source of profitability by investing in world's top-performing markets through the use of ETF.

(2) Fund Dispatching:

The Bank will aim to profit by adjusting funding plans in line with changes in the market rate. In the meantime, the Bank will also manage its funding costs and loan-to-deposit ratio and maintain adequate liquidity reserves to support business operations.

(3) Risk management:

We follow the guidelines of Group Risk Management and monitor value at risk (Var), which is generated by the risk management system – Risk Metrics. The establishment of internal risk management procedures and the implementation of transaction systems, mid and back office systems not only improve transaction efficiency but provide better risk monitoring.

6. E-Commerce

(1) Foreign currency services

EUR has been added as an available currency for domestic remittance over the Internet banking platform. Meanwhile, new functions such as advance foreign currency purchase and historical exchange rate inquiry have been made available on the mobile banking platform to give customers greater convenience.

(2) Trust services

New features were added to the mutual fund system to satisfy investors' needs, including: auto-redemption at agreed rate of return and detailed inquiry.

(3) Mobile banking services

In addition to the NTD/foreign currency/trust/credit card account inquiry and transaction functions currently available, several new features were also added this year, including: transfer to non-preset payees (requires OTP), mobile ATM (Android version only), Smart MIP Plus, and fund redemption/conversion.

(4) Mobile payment services

The Bank has been working with Taiwan Mobile Payment Company and MasterCard to introduce "HCE credit card service." Users of NFC-enabled cellphones that run on Android 5.0 or above may simply download the "t wallet + mobile payment APP" and complete three simple steps - "press, snap, tap" to turn cellphone into credit card without having to switch SIM card or register with any particular carrier. This enables users to utilize the contactless mobile payment solution provided by Mastercard, which is accepted in 77 countries worldwide, at more than 90 thousand shopping locations in Taiwan, and by more than 5 million merchants including departmental stores, mass retailers, pharmacies, convenience stores, and transportation service providers.

(5) Corporate Internet banking platform

Our goal is to improve credit guarantee and cash flow management for SMEs and we will continue the bundled marketing strategy. The Bank focuses on the needs of SMEs, continues to add autonomous information disclosure of SMEs in bank reconciliations and statement of cash flows. The Bank also continues to improve internal promotion of services, gain promotional capabilities and improve the training of electronic banking for employees to increase sales.

(6) Digital banking (Bank3.0) services

As part of our Bank 3.0 initiative, a multitude of online services have been made available, including: online credit card application, online application for transfer of revolving balance to instalment payment, online KYC (know-your-customer) and online risk tolerance test. The Bank will introduce more services in the future in line with government policies.

JihSun International Property Insurance Agency Co., Ltd.

1. Principal business activities

- (1) Fire insurance
- (2) Accident insurance
- (3) Auto insurance
- (4) Engineering insurance
- (5) Credit insurance
- (6) Liabilities insurance
- (7) Other property insurance

2. Weight of business activities

Commission revenues generated by JihSun International Property Insurance Agency

Unit: NTD thousand

Item	Year	2016		2015	
		Amount	Weight (%)	Amount	Weight (%)
Commission revenue - fire insurance		5,334	62.55%	5,508	63.46%
Commission revenue - accident insurance		1,914	22.45%	2,025	23.33%
Commission revenue - auto insurance		1,184	13.89%	1,089	12.55%
Commission revenue - other liabilities insurance		95	1.11%	58	0.66%
Commission revenue - total		8,527	100.00%	8,680	100.00%

3. New derivative instruments and services planned in the future

Product innovations are rare in the property insurance business not only because of the costs involved in developing new products, but also because of imitations from peers. Due to the lack of innovation and ease of price comparisons, the Company will try to distinguish itself from peers by having branch employees provide customers with faster quotation and more immediate responses.

The Financial Supervisory Commission has been active in the deregulation of online selling, which is why, as an insurance agency, the company will also open up online insurance services. The first step towards this new development is to enrich our existing product range, for which the company will select and work with insurance companies of reputable image to bring in the best products from around the world.