

Dear shareholders:

Performance of the global economy remained undesirable throughout 2016, while occurrences of unexpected political and economic events contributed additional volatility to the financial market, adding uncertainty to the slowly recovering global economy. Taiwan was deeply impacted by the absence of strong growth in other parts of the world, exhibiting loss of export for the longest period in history. In response, the Central Bank cut interest rate by another 0.125% in the second quarter of 2016, reducing rediscount rate to 1.375%, the second lowest level in history. This was the 4<sup>th</sup> consecutive interest rate cut taken by the Central Bank since the third quarter of 2015 to stimulate the weak economy.

Despite the challenging environment presented to us, the company has adhered to its principles of stability and focused on growing its core business strength. Owing to the efforts of all employees, the company not only delivered improved financial structure year after year, but made some outstanding achievements in corporate governance as well. During the "2<sup>nd</sup> Corporate Governance Evaluation" organized by Securities and Futures Institute in 2016, JihSun was ranked among the top 5% of all TPEX-listed companies. The subsidiaries, too, had made outstanding achievements of their own. JihSun Bank delivered top performance among its division in the "Enhanced SME Lending Program for Local Banks" and was awarded the title of Grade A Bank by the authority; the bank also received 2016 "Best Innovation Award for Electronic Cash Flow Service" from Financial Information Service Co., Ltd. during the year. Meanwhile, JihSun Securities ranked third among top-10 securities firms in terms of pre-tax EPS, won the 13<sup>th</sup> "Golden Torch Award - Innovative Design" organized by Outstanding Enterprise Manager Association, and claimed the "Best Wealth Management Award" of Excellence magazine.

The strength of global economic recovery in 2017 remains doubtful, as the world is expected to take time to adjust to new developments such as Brexit, China's economic restructuring, policies of the new U.S. President, and the uprise of trade protectionism. These extreme uncertainties have made the business environment all the more challenging, for which the company will respond with greater risk control and stronger commitment to core business activities and innovation to maximize shareholder value.

The following is a description of 2016 business results and 2017 business plans of the company and its subsidiaries.

## **I. 2016 Business results**

### **(I) The worldwide economic and financial environment**

#### **1. Economic Situation**

According to the analysis conducted by Institute of Economics, Academia Sinica, the world's major economies had underperformed in general in 2016. The United States experienced significant loss of economic momentum in the first half of the year due to weak export and investment activities; Japan continued to exhibit weak domestic demand and export performance; the Eurozone still lacks recovery even when impacts of UK's exit have yet to materialize; lastly, China continues to undergo economic transformation at the expense of Taiwan's growth prospect.

Taiwan exhibited negative economic growth in the first quarter of 2016, averaging only a 0.46% expansion in the first half. It was not until the second half when demands for smart devices emerged that exports finally recovered from its 17-month losing streak. A preliminary estimate put Taiwan's real economic growth at 1.50% for the year of 2016; although higher than the 0.72% concluded for 2015, the growth rate is still considered to be on the low side.

#### **2. Finance sector**

The financial industry as a whole exhibited loss of profitability in 2016, ending the three-year growth streak. According to data published by the Financial Supervisory Commission, financial holding companies delivered after-tax earnings totaling NT\$267 billion in 2016, representing a NT\$36 billion decrease or 11.9% drop compared to 2015. The securities sector delivered pre-tax earnings totaling NT\$29.47 billion in 2016, representing a NT\$4.87 billion decrease or 14.2% drop compared to 2015. This loss of profitability was mainly attributed to the stagnant economy and tax issues that deterred investors from trading. The local banking sector delivered pre-tax earnings totaling NT\$300.1 billion in 2016, representing a NT\$19.5 billion decrease or 6.1% drop compared to 2015. This loss of profitability was mainly attributed to the recognition of loan loss on derivatives across all banks, combined with weak economic performance local and abroad that resulted in the loss of wealth management revenues and loan balance.

As for the overall financial market, the Financial Supervisory Commission has been actively supporting the development of digital banking services with the "Bank 3.0" policy introduced in 2015 followed by the "10 FinTech Projects" proposed in 2016. Furthermore, to assist banks in their expansion into the Asian market, the Financial Supervisory Commission has been revising regulations, simplifying procedures, establishing cross-border supervision, training international talents, developing overseas database, enhancing capital adequacy and introducing new policies that support regional development. The financial holding company has identified digital banking and regional M&A as the two major trends in the financial market, and is taking active steps toward achieving results.

**(II) Changes of the Company's organizational structure**

JihSun Financial Holding Co., Ltd. was founded on February 5, 2002. Its current subsidiaries have remained unchanged from 2015, which include JihSun International Commercial Bank Co., Ltd., JihSun Securities Co., Ltd., and JihSun International Property Insurance Agency Co., Ltd.

**(III) Performance results of business plans and strategies**

Subsidiaries of JihSun Holdings involve in a broad variety of business activities including banking, securities, futures, venture capital, investment consultation, and insurance agency. The company coordinates with its subsidiaries to develop business strategies and resource integrations that maximize the synergies of a financial group. Owing to the contribution of all our employees, the company managed to improve its financial structure by reducing debt-to-equity ratio further to 9.10% and double leverage ratio to 107.81% in 2016. The following is a detailed list of indicators:

Unit: NTD millions

	12.31.2014	12.31.2015	12.31.2016
Consolidated total assets	258,354	268,509	285,011
Consolidated shareholders' equity	35,882	37,450	37,504
Issued Capital	32,152	33,963	35,424
Capital adequacy ratio	180.04%	203.60%	169.90%
Debt-to-equity ratio	13.95%	11.06%	9.10%
Double leverage ratio	112.22%	109.39%	107.81%

#### (IV) Revenues, expenses, and profitability analysis

JihSun Holdings is a financial holding company; it earns revenues mainly in the form of investment income. In 2016, equity-accounted investment income accounted for 98.9% of total revenues, while other income represented the remaining 1.1%. Banking and securities subsidiaries were the main contributors of equity-accounted investment income. Below is a detailed analysis of the company's revenues, expenses and profitability:

Unit: NTD thousand, %

	2015	2016	Growth rate (%)
Net revenue	7,562,598	7,093,977	-6.20
Bad debt and guarantee provision expenses (reversal gains)	(119,729)	344,443	-387.69
Operating expenses	5,567,874	5,221,450	-6.22
Income tax expense	126,122	111,247	-11.79
Consolidated net profit (loss)	1,988,331	1,416,837	-28.74
Retained earnings	3,495,142	3,089,051	-11.62
Return on assets (ROA; %)	1.25	0.51	-59.20
Return on common shareholders' equity (ROE; %)	5.42	3.78	-30.26
Consolidated net profit margin (%)	26.29	19.97	-24.03
Earnings per share (EPS; NTD)	0.56	0.40	-28.57

#### (V) Business targets, budgets, and execution

The company was ranked among the top 5% of all TPEX-listed companies in the 2<sup>nd</sup> Corporate Governance Evaluation held in 2016, which represented an accomplishment to the goal of "enhancing corporate governance." In terms of "improving financial structure," both debt-to-equity ratio and double leverage ratio were achieved beyond the prescribed targets. Based on the latest information published by the Banking Bureau (June 2016), JihSun had the highest capital adequacy ratio among all 15 financial holding companies, which was a convincing demonstration of JihSun's financial strength and adequacy. In terms of budget accomplishment, the securities subsidiary did not meet its profit targets due to unsatisfactory performance from the proprietary trading department, given the number of unexpected political and economic events that happened in 2016. The banking subsidiary, too, had failed to achieve profit targets because of the additional loss provisions made on derivatives to improve asset quality. However,

the financial group still delivered exceptional performance and won multiple awards in terms of SME service, wealth management and digital banking, which put the group in a better position to grow business once opportunity presents itself.

#### **(VI) Research and development progress**

The company and its subsidiaries have actively invested in research and development. Projects undertaken in 2016 included: financial market and operational strategy research, information system development, development of risk management tools, development of new derivatives, and training.

## **II. Summary of 2016 Business Plan**

### **(I) Operational strategies and key operational policies**

The company has devised the following operational strategies and policies based on its business philosophy of "becoming customers' most trusted financial partner," its emphasis on "customer service, trustworthiness, teamwork and harmony," and changes and long-term trends of the business/financial environment:

#### **1. Grow core business and maximize synergy**

- (1) Consolidate resources and coordinate business strategies across subsidiaries for greater synergistic benefits.
- (2) Integrate different channels and platforms for more cross-selling opportunities.
- (3) Integrate regional resources and strengthen local relations for greater regional competitiveness.
- (4) Launch wealth management service through securities subsidiary.
- (5) Adjust loan portfolio of the banking subsidiary and focus towards small and medium enterprises.
- (6) Grow customers by number and asset size.

#### **2. Enhance management efficiency and risk management**

- (1) Adopt technologies to innovate and optimize operating procedures for better efficiency and risk control.
- (2) Reduce costs; increase the yields of costs spent and operating performance.
- (3) Improve existing risk management technique and fine-tune the balance between risk and return.

#### **3. Capitalize on the trends and opportunities of digital banking**

- (1) Use mobile devices in ways that increase productivity of sales personnel.

- (2) Launch mobile banking and mobile payment services.
- (3) Explore new customers on the digital platform.
- (4) Explore the potentials of fully automated financial advisory service.

**4. Medium and long-term development**

- (1) Evaluate opportunities to merger other banks, securities firms and financial institutions.
- (2) Evaluate opportunities to invest into FinTech.

**(II) Projected business goals**

- 1. Outrank peers in profitability.**
- 2. Improve financial position.**
- 3. Enhance corporate governance.**

### **III. Impacts of the competitive environment, regulatory environment and overall business environment, and future development strategies**

Prospect of a global economic recovery remains doubtful in 2017. Given the lack of growth momentum and conservative trade practices worldwide, research institutions have put Taiwan's 2017 GDP growth estimates below the 2% level, at 1.6%-1.9%. Trade volume of Taiwan's stock market continued to dwindle in 2016, setting the lowest record in 15 years. While it is unclear whether trade volume will recover in 2017, the securities brokerage department may continue to struggle with profitability. After the Central Bank's interest rate cut over four consecutive quarters, the rediscount rate is now at 1.375%, the second-lowest level in history. Undeniably, this low-interest environment will continue to force banks to operate at low margins. Despite the challenging business environment, the financial holding company will continue to monitor changes and trends in the external environment, and explore new footholds that would support its long-term, sustainable growth. There are three major trends that will reshape the financial industry in the future: 1. Uprise of emerging economies that shift the world's economic and financial focus; 2. Change of demographics; and 3. Change of consumers' behavior and business model inspired by innovative technologies.

From a world perspective, Asian countries are representing a higher percentage of global GDP than they did before, from 21% in 1999 to 35% in 2016, making them the new drivers of global economic growth. According to estimates made by the Asian Development Bank, Asia will account for more than 50% of global GDP by 2050. This presents Taiwanese financial institutions an opportunity to dominate the Asia Pacific if actions are taken to expand into overseas markets. The financial holding company has been actively making medium and long-term plans to take advantage of this trend. In addition to developing cross-border service capacity, JihSun is also evaluating suitable overseas branch locations and searching for opportunities to merge banks, securities firms and other financial institutions local and abroad. These actions will help JihSun benefit from the shift of world's economic and financial focus.

The world is also facing changes in demographics; trends such as aging society and childless household are giving rise to new financial needs. While people in all age groups are increasingly aware of the importance to plan ahead in life, financial needs of the elder population have just begun to surface. JihSun's subsidiaries are already introducing new products to meet financial needs in different stages of consumers' lives.

For elderly financial consumers, the company hopes to satisfy their needs for security and fulfill its social responsibilities by providing them with medical, retirement, and nursing solutions.

With regards to new technology, recent innovations including Internet of things, social network, cloud computing, big data analysis and mobile banking are changing consumers' behaviors and giving rise to new business models. In light of this development, the Financial Supervisory Commission announced its "Financial Technology White Paper" in May 2016 that outlined the roadmap for Taiwan's "FinTech" development in the future. In September, the commission introduced a "FinTech Development Plan" along with 10 enforceable actions, hoping to direct financial expertise and funding into developing FinTech as a new driver to the local economy. FinTech not only enables secure, convenient and innovative financial services to consumers, it also has the potential to reshape dominance in the financial industry. For this reason, the financial holding company has made digital banking an important part of its strategy. To capitalize on the new financial trends and opportunities, JihSun will be investing into FinTech not only to improve/optimize procedures and enhance operating efficiency/risk control, but also to raise productivity, support mobile banking/mobile payment, explore digital customers, and develop automated financial advisory service. This strategy has so far yielded fruitful results. In 2016, the subsidiary bank and 5 other peers became the first banks to launch HCE credit card service, which opened up new possibilities of mobile payment in Taiwan. Meanwhile, other financial technology innovations by the subsidiary securities firm and the subsidiary bank had won multiple digital banking awards for the group. In the future, JihSun will continue to combine technology with financial services and explore digital innovations, thereby giving customers more convenient access to the quality services offered by JihSun.

#### **IV. Credit Rating Status**

JihSun Group's stability has been well-perceived by Fitch Ratings, for which it issued the following ratings to the company and subsidiaries on July 22, 2016:

- (I) Fitch Ratings has affirmed Jih Sun FHC the domestic long-term credit rating at “A-(twn)”, the domestic outlook of long-term rating at “Stable” and the domestic short-term credit rating at “F2(twn).”**
- (II) Fitch Ratings has affirmed Jih Sun Bank the domestic long-term credit rating at “A-(twn)”, the domestic outlook of long-term rating at “Stable” and the domestic short-term credit rating at “F2(twn).”**
- (III) Fitch Ratings has affirmed Jih Sun Securities the domestic long-term credit rating at “A(twn)”, the domestic outlook of long-term rating at “Stable” and the domestic short-term credit rating at “F2(twn).”**

We hereby explain in details of the business results of last year and business prospect for this year to you, and appreciate your long-term support very much. We shall be grateful if you may continue encouraging us. We wish each of you good health and all the best. Also, we wish each of you healthy and good luck.