

TDCC | 臺灣集中保管結算所

2016  
Annual Report





TDCC | 臺灣集中保管結算所

# 2016

## Annual Report





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# MESSAGE F



Chairman & CEO  
Sherman Lin

## LETTER TO SHAREHOLDERS



# FROM THE CHAIRMAN

Dear Shareholders,

Looking back at 2016, the global economy and financial world movements were unpredictable as a result of the influence stemming from poor economic recovery in developed countries, and a lack of growth in emerging markets, coupled with the frequent occurrence of political and economic events like Brexit, the U.S. Presidential Election and interest rate hike. In major securities markets, U.S. Fed raised interest rate, prompting the U.S. stock and USD to rise: the Dow Jones soared 15.2 percent in 2016. The economy of the European Union was still lingering in the shadow of deflation. Nevertheless, the Eurozone PMI kept posting new highs, which indicated a better economic outlook in the future. The three major EU stock markets all advanced in 2016. Japan's market benefited from a weak JPY that helped to fuel the inflation and exports. Nikkei 225 adding 3.6 percent in 2016. Regard to the domestic market, it posted impressive gains in 2016. TAIEX soared more than 14 percent in 2016.

In the face of the turbulent financial landscape domestically and abroad, TDCC continues to uphold three principles, "customer orientation", "open innovation" and "platform economy" to serve the market. TDCC keeps following customer-oriented principle to fulfill market's needs; adopting open innovation as a strategy to cooperate with all partners to develop FinTech; and using platform economic idea to make TDCC a leading platform for cooperation, providing low cost solutions for its customers.

TDCC has identified six major development goals in 2016, including: "building up a digital book-entry transfer environment," "focusing on cross-border custody," "promoting e-voting services," "optimizing functions of fund platform," "establishing AML Screening Platform" and "committing to social welfare and financial education." With the application of financial technology, we will propose innovative new plans, assist participants to expand the market, and elevate the efficiency of the country's capital market.

In order to build up a digital operation environment, the Company provides the service of T+2 day settlement of emerging stocks, as well as digitalized book-entry operations, enabling securities firms to complete the application through STP platform. In line with the government's goal of promoting FinTech, TDCC has on 29 March 2017, launched a securities mobile passbook, "TDCC ePASSBOOK" App. In just one month after its launch, it has successfully attracted 60,000 mobile passbook users, taking a big step forward in the innovation and development of the securities market together with the investors.

As for strengthening cross-border custody services, TDCC provides the services of cross-border custody of foreign securities, foreign currency denominated negotiable

certificates of deposit, and registration of foreign bonds. By the end of 2016, bonds from 11 currencies, including USD, EUR, and AUD, were under custody, and 30 professional investment institutions such as insurance companies, banks, securities firms, and bills dealers entered into a contract with TDCC and opened accounts. These companies have gradually shifted their foreign securities back to Taiwan for depositing. Custody operation has achieved outstanding results, with a scale of NT 600 trillion, a 1.6 times increase compared to 2015, and is expected to continue to grow in 2017, with a projected custody scale of NT 2 trillion. Also, with regards to issuance of CP2 in dematerialized form, amendment to the relevant laws has been published and taken effect on 03 May 2017, and TDCC shall provide this service this year.

As for optimizing the functions of the fund platform, the Company has adjusted the procedure of using the fund transaction, and further cooperated with the Financial Information Service Co., Ltd. to launch the service of online authorization of payment, allowing investors to make an application online by using IC debit cards and shortening the original written application procedures, reducing the 14-day processing time to just one day. In addition, for the purpose of providing investors with a smart and personalized online fund platform, Fund Rich Securities, which was incorporated under the cooperation of investment trust companies and TDCC, was formally launched in Q4 2016. TDCC has launched a low cost and transparent mutual fund service for its investors, becoming Taiwan's biggest online mutual fund platform in a very short time. About 80% of domestic and offshore funds have been launched on FundRich, producing an outstanding result with number of new users and new incremental contracts exceeding 10,000. Business is expected to continue to grow in 2017, with a target of 20,000 new users and sales volume exceeding 10 billion NT dollars.

In terms of promoting shareholder e-voting, a total of 604 TWSE and TPEX listed companies have incorporated e-voting for shareholder meetings. E-voting accounted for 45 percent of all present in shareholders meeting in average, among which 104 companies accounted for 60 percent in e-voting. A total of 980,000 votes were cast through e-voting, 900,000 of which were from natural person shareholders, a 3.2 times increase from that in 2015. More than 360,000 votes were cast via mobile devices, which represented 40 percent of votes cast by natural person shareholders. The significant growth of e-voting increases the quality of corporate governance. It is also one of the key reasons why Taiwan has risen to No. 4 in CG Watch 2016. In line with the competent authority's announcement that TWSE and TPEX-listed companies shall beginning 2018, list electronic method as one of the channels of exercising their voting rights during shareholders meeting, TDCC shall continue to actively promote e-voting, and encourage issuing companies, shareholders and institutional investors to use e-voting in 2017.

TDCC launched its "AML Screening Platform" in April 2016 to assist participants in AML operations. As of the end of 2016, there were 949 headquarters and branch offices which applied for using this system, including securities firms, bills dealers, investment trust and investment consulting enterprises and futures businesses. The cumulative number of inquiries made exceeded 300,000: the achievement was impressive. In 2017,

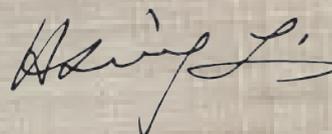
the Company will continue to expand the system's name list database, and open its service to more financial institutions and non-financial institutions, to further expand its scope of service.

In terms of international cooperation and exchange, at the 20th Asia-Pacific Central Securities Depository general meeting (ACG20), TDCC competed for a seat at the executive committee board with a three-year tenure for the first time. TDCC was elected with highest votes under the support of various member institutions, indicating the member institutions' confidence in and anticipation for TDCC's further involvement in international cooperation. TDCC also succeeded in signing a memorandum of understanding for cooperation and information exchange with the Indonesian Central Securities Depository (PT Kustodian Sentral Efek Indonesia, KSEI). Such action facilitated international cooperation effectively and boosted the global visibility of the Company.

In addition to business development, TDCC has endeavored to promote its corporate social responsibility, including the promotion of "Industry-Academia Internship Program," "Financial Literacy for Youth (FLY) Courses," "Sports Talent Cultivation Program," and "After-School Care Program." In addition, the Company has been promoting the education of knowledge in finance. The Taiwan Stock Museum has received more than 82,000 visitors, and the online museum, Taiwan Securities and Futures Virtual Museum, launched in 2016, has had more than 100,000 visitors. These projects are the concrete examples of TDCC's focus and contribution to CSR so as to make our society better.

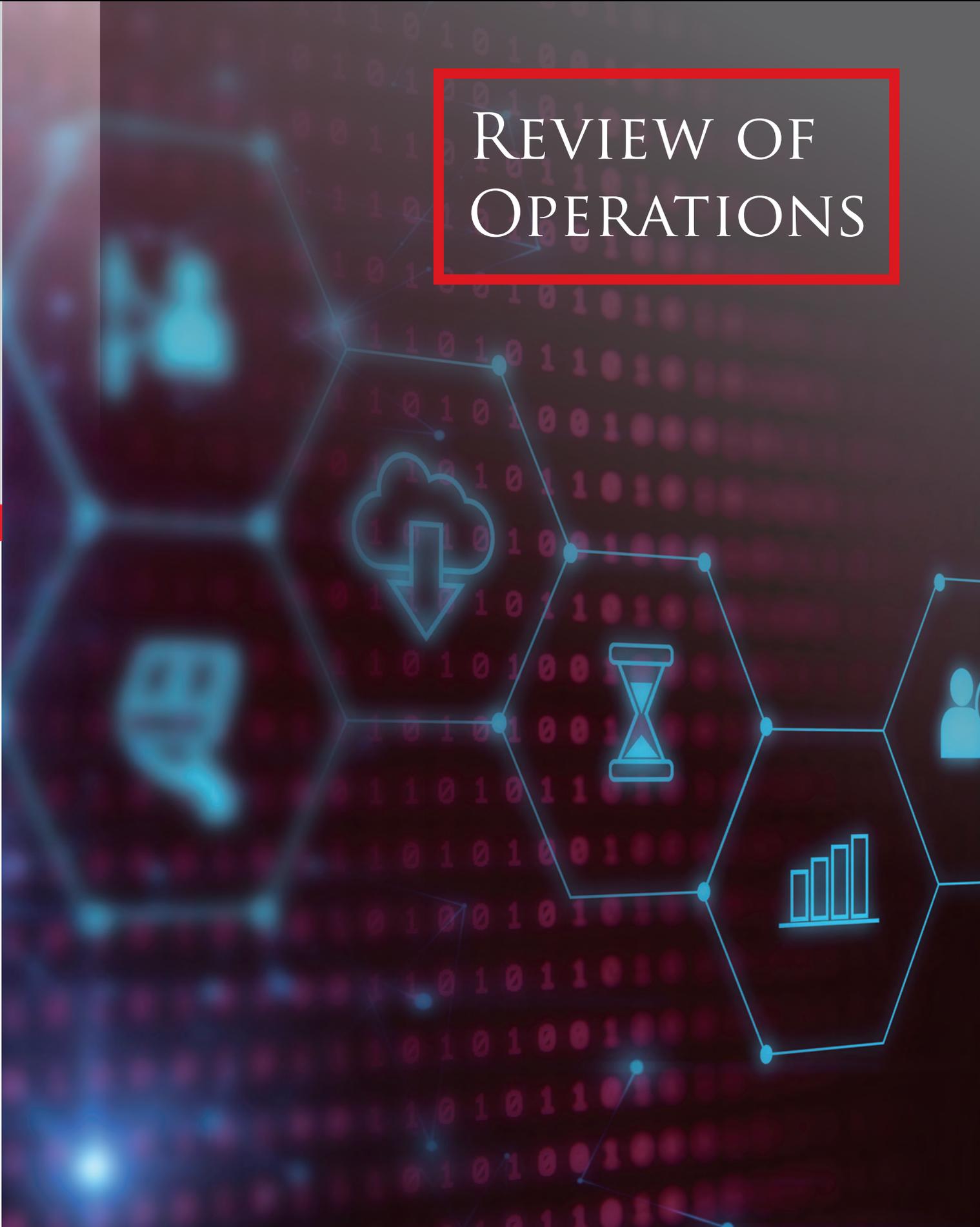
Looking ahead into the future, TDCC, as a post-trade facility in the capital market, will endeavor to provide an even more secure, convenient, and highly efficient environment for the securities market through earnestly increasing the efficiency of market services and strengthening the functions of central depository, clearing and settlement, and book entry transfer of various financial instruments. In addition, we will advance the three major business goals of "Creating the Environment of Digital Financial Environment 3.0," "Dematerialization of Commercial Paper," and "Assisting Fund Rich Securities in Application of FinTech." TDCC will focus on winning the trust of our clients and maintain our superior performance in the year ahead. Our innovative and brand-new vision will guide us in optimizing the digital environment of financial market, explore more potential business opportunities, bring in excellent profits for all shareholders, and provide secure, convenient, and innovative financial service for the country's capital market.

Taiwan Depository & Clearing Corporation  
Chairman & CEO



# REVIEW OF OP

## REVIEW OF OPERATIONS



# ERATIONS

In 2016, the average daily trading value on Taiwan Stock Exchange (TWSE) was about NT\$77.5 billion, on Taipei Exchange (TPEX) about NT\$21.7 billion, and on the Emerging Stock Market about NT\$1.2 billion, totaling approximately NT\$100.4 billion, a decrease rate of about 14.92 percent compared to 2015's average daily value of NT\$118 billion. In the bonds market, NT\$563.5 billion of government bonds, NT\$74 billion of financial debentures, and NT\$208.1 billion in corporate bonds were issued in 2016. For the bills market in 2016, short-term bills issuance was more than NT\$12,161.6 billion, the amount of outright transaction was more than NT\$21,400.8 billion, and the repo transaction amount was more than NT\$17,673 billion in the secondary market.

Under the guidance of the competent authority, TDCC upholds the mission of serving the market, and continues to provide the market with highly efficient and secure registration, custody and book-entry transfer services. It also provides post-trading operations for fixed-income products and mutual funds market to reduce market operating costs. In addition, TDCC has also achieved concrete results in enhancing the company's service quality, information systems efficiency and business globalization. TDCC's 2016 business review and 2017 business plan are presented in the following paragraphs.



President  
Ching-Li Meng

# 2016 Business Overview

## 1. Implementation of Important Business Projects

- (1) No more carrying out book-entry transfers in person for investors. Automated operating environment for securities firms established.

In line with the policies of the competent authority, TDCC carried out a full review and risk assessment of its existing book-entry transfers operations. Besides, transfers across securities firms as recommended by Taiwan Securities Association, high-efficiency, lower-risk operations were selected for investors to carry out online book-entry transfers applications on the securities firms' platforms. Pertaining to the above operation, TDCC established straight-through processing (STP) mechanism to allow automated information exchange between the systems of the participants and TDCC. The project was launched on December 28, 2016.

- (2) With the approval for securities firms to provide loans for unrestricted purposes and for securities financing companies to provide secured loan services, TDCC provides related book-entry transfers services.

In line with the competent authority's approval of securities firms in providing loan services for unrestricted purposes, and securities financing companies in providing securities-backed loans, TDCC, together with Taiwan Stock Exchange and Taipei Exchange, studied the operating procedures of related businesses' book-entry transfers services, and amended the information system and regulations. The project was carried out in line with the schedule of Taiwan Stock Exchange's computer system, and was launched on May 3, 2016.

- (3) Completed related tasks on securities abbreviations length expansion.

To reveal securities attributes and to provide for future business development needs, Taiwan Stock Exchange plans to expand the length of securities abbreviations from the original 6-bit to 16-bit. TDCC has completed the changes in the related online transactions programs and batch program and launched them on January 25, 2016. According to Taiwan Stock Exchange and Taipei Exchange's "Comparison of Abbreviations for Securities before and after Change", TDCC then carried out the abbreviation changes for 285 securities of the 13 categories in the system, and published them to the public on June 27, 2016.

- (4) Promote and adjust emerging stock market balance settlement cycle to be T+2.

There is an increase in transaction volume of foreign emerging stock in recent years. Due to the different emerging stocks settlement dates, foreign customers have to transmit their settlement instructions on dates different from that of listed and OTC companies. Taipei Exchange plans to adjust the securities settlement cycle from T+1 to T+2 days. To maintain the price negotiation characteristics of emerging stocks, and taking into consideration of operational risk, TDCC carried out changes to the relevant operations and information system upon obtaining consensus with Taipei Exchange and the participants. The changes were implemented on February 15, 2016.

- (5) Added advanced cross-border custody value-added service for foreign securities, which are of international standard equivalent to that of global custodian banks.

In response to the operators' diversified investment and accounts management requirements, TDCC self-developed a smart reporting module in 2016. By integrating with SWIFT, an

international transmission standard, TDCC added advanced services with international standards equivalent to world's custodian banks, and cooperated with them to provide emerging market and cross-border equity securities custody and accounts handling services. As at end of 2016, 30 professional investment agencies from the insurance and bank industries have set up accounts with TDCC, and about NT\$277.4 billion of foreign securities were under custody through the cross-border custodian service. This service has been well received by the market.

**(6) Plan to provide commercial paper issued in dematerialized form.**

In response to the requirements of simplifying the issuance procedures for large size issuers and reducing risk, the authorities has promoted the issuance of commercial paper in dematerialized form, and established the draft amendment to Article 26 of The Act Governing Bills Finance Business, which was reviewed and approved by the Executive Yuan. In line with the policy, TDCC plans to complete the operating procedures and supporting measures pertaining to the issuance of commercial paper in dematerialized form, and draw out the project's schedule. With the consent of the authority and upon discussion with the Bills Finance Association and approval obtained, the various procedures are to be carried out according to the schedule.

**(7) Completed the establishment and operation of subsidiary for online sale of mutual funds.**

To enhance the management of sales of mutual funds, and provide investors with more diversified mutual fund sales channels, TDCC and Taipei Exchange co-invested to set up Fund Rich Securities Co., Ltd. TDCC provides full assistance to Fund Rich Securities for business planning, and launching of opening new accounts online, verification and debit authorization, mutual fund purchases, buy and transfer, and other services. The number of accounts opened and systematic investment contracts of Fund Rich Securities both exceeded 10,000 in 2016. The setup of the subsidiary provides investors and mutual fund companies with diversified sales channels, opening a new era of mutual fund management.

**(8) Set up online mutual fund debit authorization service, establishing a digital financial environment.**

In view of the arrival of FinTech era, since May 2016, all mutual fund sales institutions have allowed investors to open new accounts online. TDCC cooperated with Financial Information Service Co., Ltd. and related financial institutions by adding an "online agreement" to the original debit transfer authorization procedure in written form. Investors can now, when applying for mutual fund debit account agreement, make use of bank chip card to complete the procedures online. The project was launched on September 30, 2016.



- (9) Built payment services for securities brokerage firms in purchasing domestic mutual funds in their own name for investors.

With the approval of the competent authority in allowing purchase of domestic mutual funds by securities firms in their own name for investors, and payment to be done through special accounts of TDCC's designated banks, TDCC has actively planned for new operating procedures by adding payment services to the original domestic mutual fund transaction platform, and making changes to the information system, following the instruction of the competent authority. The transaction and payment service of this project were launched on July 22, 2016.

- (10) Continue to promote relevant measures of Shareholders Meeting e-voting, implement shareholder activism, and improve corporate governance of our country.

In line with the competent authority's promotion of corporate governance policy, TDCC continues to promote e-voting of issuing companies' shareholders meetings. In 2016, there were 604 listed and OTC companies who use e-voting. The total number of e-votes was 980,000, including 900,000 from general shareholders, and 360,000 of those were cast through mobile App voting. The significant growth of e-voting increases the quality of corporate governance, playing a significant role in helping Taiwan rank fourth in Asia-Pacific corporate governance. With the active promotion from TDCC, as at end of 2016, it is estimated that the number of listed and OTC companies using e-voting the following year will reach 1,062, including with 531 of those converting voluntarily.

- (11) Launched Securities firms Order App link with e-voting function, facilitate shareholders in participating in shareholders' meetings.

To facilitate investors e-voting through smart phone, tablet, or PC, TDCC has in 2016, launched a Securities Company Order App that links with the Stockvote value-added service. It is the world's first service that integrates e-voting with a securities order App, providing more diversified and convenient e-voting channels. TDCC actively visits various securities firms to promote its Securities Company Order App. Currently, there are already 28 securities firms using the online service, which is 93 percent of local securities firms.



(12) Built Anti-Money Laundering Query System to attain the benefits of resource sharing.

In line with the competent authority's relevant regulations pertaining to anti-money laundering, and in response to the coming anti-money laundering evaluation to be conducted by Asia/Pacific Group on Money Laundering (APG) on Taiwan, its member country, TDCC planned to build an anti-money laundering query system to reduce the financial institutions' burden in purchasing the relevant name list separately, and the cost of building the system. The system's online query and comparison functions were launched on April 1, and May 3, 2016 respectively. At the end of 2016, a total of 948 head and branch offices of security firms and bills dealers have used the system, raising more than 300,000 inquiries.

(13) Promote International Businesses.

TDCC assisted the competent authority in organizing the 11th Taipei Corporate Governance Forum. It also actively participated in Asia-Pacific CSD Group (ACG), and was elected with the highest vote as the executive committee in the 20th annual meeting. TDCC actively participates in conferences such as International Organization of Securities Commissions (IOSCO), International Securities Services Association (ISSA), SWIFT International Banker's Operations Seminar (SIBOS), etc., to increase the international visibility of Taiwan's stock market.

(14) In line with the development of the overall market's business development, provide related comprehensive services.

In line the overall market's business development, TDCC has, in 2016, successively completed the following important projects: in line with the competent authority's promotion of important policies such as securities market ascension plan, sound public acquisition mechanism, issuance of call (put) warrants for spot gold, provide related book-entry transfers mechanism; establish tax authorities electronic correspondence mechanism to enhance query efficiency; conduct social welfare activities such as Industry-Academia Internship Program, Financial Literacy for Youth (FLY) courses to fulfill corporate social responsibilities.

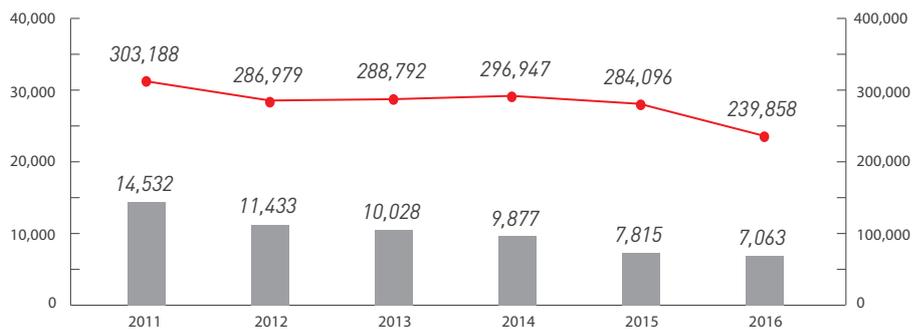


## 2.Operational Performance

### Participants



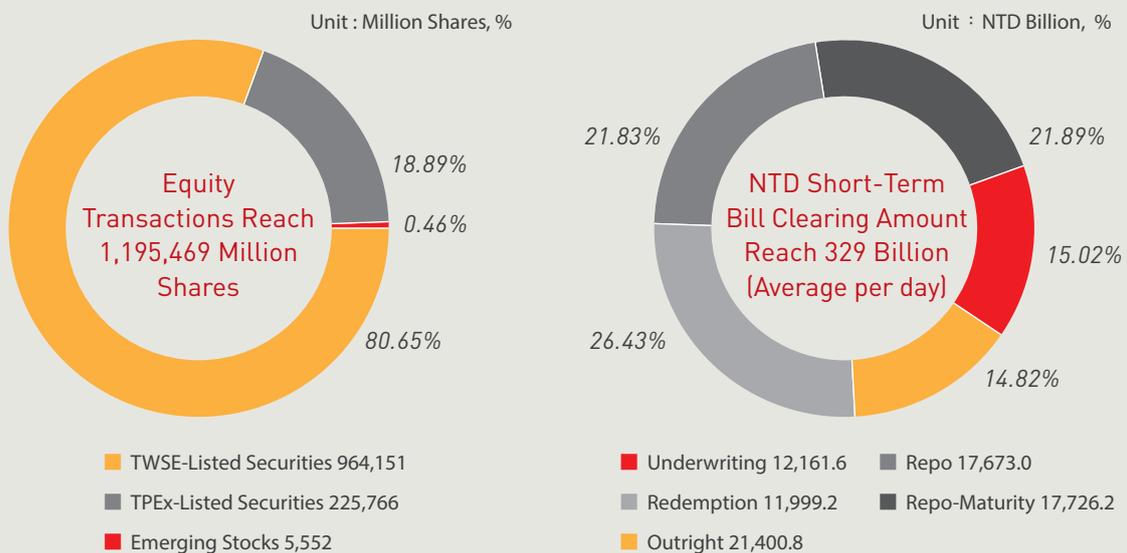
### Book-Entry



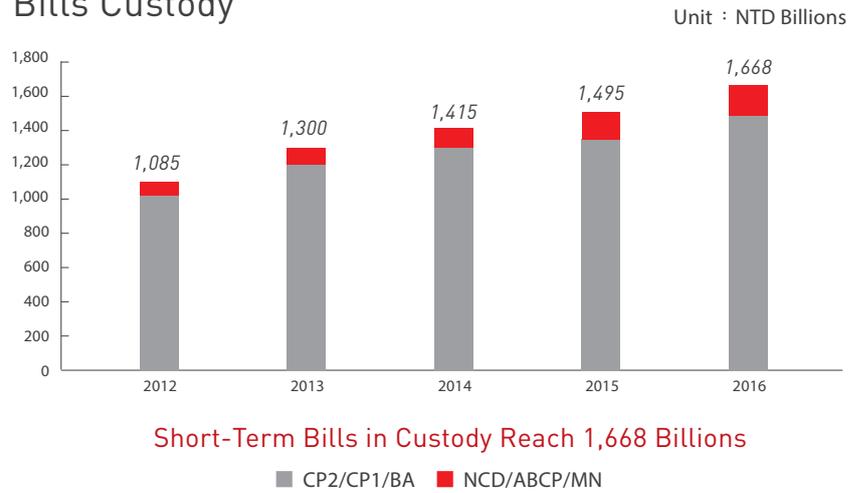
Book-Entry Distribution for Equity reach  
239,858 Million Shares (Accumulated)

■ Accounts (Thousands) — Shares (Million Shares)

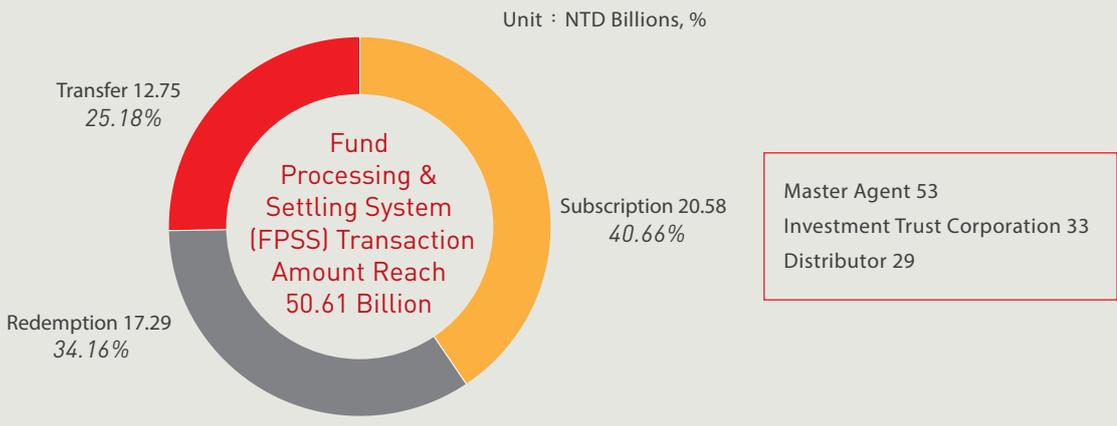
### Clearing & Settlement



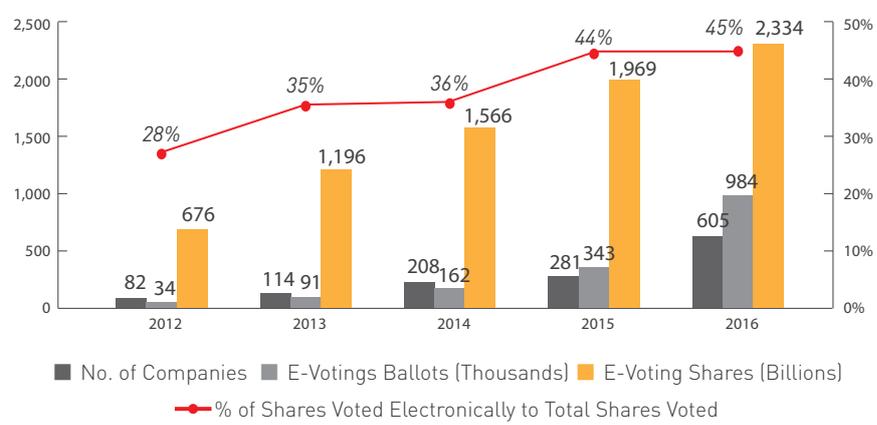
## Short-Term Bills Custody



## Fund Service



## E-Voting



# 2017 Operational Plan

The business direction of TDCC in 2017 will be to adopt the global FinTech development trend and commit to business diversification strategies to increase operational efficiency of domestic settlement and depository systems. It shall continue to enhance securities central depository and book-entry transfers, effectively make use of the CBC Interbank Funds Transfer System payment service mechanism, expand the service scope of securities, bonds and bills market, and provide market participants with more secure and efficient services.

## 1. Study and plan a digital integrated service platform

To cater to investors' usage habits and the popularity of mobile devices, TDCC plans to launch ePassbook services by building a mobile online operating environment that suits investors. ePassbook provides a "multi-book per machine" service, eliminating investors' inconvenience of keeping and carrying different paper passbooks, and allowing them to update their transaction details through the internet as well as access the latest database information anytime, anywhere. Also, for transactions requiring the presentation of securities passbooks, the ePassbook can be used instead. In addition, ePassbook also provides relevant information such as shareholders meetings, dividend and interest distribution, souvenirs, stock market of listed and emerging companies.

## 2. Enhance cross-border custodian of foreign securities and related book-entry transfers mechanism

In line with the competent authority's promotion of financial system and conforming to international standards, and the long-term promotion policies of laying foundation in Taiwan and establishing overseas market, TDCC has completed the basic service functions for cross-border foreign securities custody and relevant book-entry transfers. Besides, continuing to assist the insurance industry in transferring foreign securities back to Taiwan for custody, it also extends its target market and scope of target for custody by cooperating with international custodian institutions and global custodian banks. Relevant customized value-added services were added, and research on new business and service items such as collateral management were carried out, gradually expanding the businesses.

## 3. In response to the promotion of stewardship code, provide institutional investors with data compiled from e-voting results

In line with the promotion timeline of Taiwan's institutional investors' stewardship code, TDCC together with Taiwan Stock Exchange, studied on the motion classification of shareholders meeting, to assist institutional investors in establishing clear voting policies and disclosing voting status, playing a market supervision role. TDCC shall, according to shareholders meetings' motions and voting information of the e-voting platform, build an automated processing system for motion classification. According to Securities Investment Trust & Consulting Association (SITCA) and requirements of institutional investors, TDCC regularly provides institutional investors with information on queries and downloads of e-voting results of its shareholders meetings' motions, including details and summary, to be used as reference for stewardship code of disclosure of voting information.

#### 4. Expand the name list in the database of TDCC Anti-Money Laundering Query System

In line with the competent authority's relevant regulations with regards to anti-money laundering, and in response to the coming anti-money laundering evaluation by member countries of Asia/Pacific Group on Money Laundering (APG). TDCC has built an anti-money laundering query platform, with more than 40,000 records in the name list database at present. To enrich the database content, in compliance with the requirements of FATF and Taiwan's Money Laundering Control Act, TDCC shall continue to purchase names list for the purposes of preventing anti-money laundering and suppression of the financing of terrorism in the future, and enhance the system functions so as to effectively meet international standards on anti-money laundering and suppression of the financing of terrorism system.

#### 5. Assist Fund Rich Securities in using FinTech, and cooperate with securities firms to expand mutual fund services

To promote online mutual fund sales platform, TDCC shall assist Fund Rich Securities in making use of FinTech to promote applications such as big data smart financial management, or mutual fund precision marketing, and promote a more objective and convenient sales service for individual mutual fund investors. As it is currently difficult for securities firms to obtain mutual fund sales agency qualification and the cost in building front-and back-end mutual fund system individually is high, TDCC plans to let Fund Rich Securities assume the role of mutual fund sales agency and product center, and cooperate with securities firms to expand mutual fund services, so as to provide customers with diversified services and channels for mutual fund products. For securities firms, which mainly provide traditional services, cooperating with Fund Rich Securities not only allows them to make use of advanced online platforms and FinTech to facilitate industrial transformation, but also allows them to lay technological foundation in financial service industry, expand their customer segment and mutual fund products.



## Outlook

In the past year, with the guidance of the competent authority and full support from the industry, TDCC has stable growth in central depository, clearing and settlement, and book-entry transfers businesses, and has worked towards providing diversified services. Looking ahead to 2017, TDCC shall continue to enhance registration and payment, book-entry transfers, clearing and settlement, payment service, corporate action service, information transmission, market management, maintenance and operation of information system, maintenance and operation of personal information protection management to maintain secure operations in the market, providing market participants with more efficient operational environment. It shall also continue to promote e-voting platform in shareholder's meetings, strengthen the implementation of corporate governance, protect the rights of the shareholders, and create market synergy. It shall continue to operate the Stock Museum, participate in the implementation of the competent authority's financial literacy programs, and continue to organize various types of charitable activities, fulfilling our corporate social responsibility.

In addition, in terms of business innovation, TDCC shall actively work in line with the competent authority in promoting the financial system and be in line with international practice, promoting digital financial services. It shall reference global industrial practice, and be in line with international practice, and expand its service scope. It shall implement new policies and services for international business, financial business, digital financial service and market information integration, and together promote Taiwan's capital market development, achieving excellence in business development and becoming a global and diversified backend service organization.





COMPANY  
PROFILE

COMPANY PRO

TDCC was formally Taiwan Securities Central Depository Co., Ltd. (TSCD), which was established in line with the direction of the competent authority, the Financial Supervisory Commission R.O.C. (FSC), to increase the efficiency of securities market and resolve the heavy workload of processing paper securities, thereby providing a secure and efficient central depository. It was co-invested by Taiwan Stock Exchange (TWSE), Yuanta Securities Finance Co., Ltd and securities firms, and was officially established in October 1989, and went into operation in January 1990, providing securities central depository and book-entry, centralized trading and over-the-counter market securities settlement, emerging stocks clearing and settlement, and registration of securities issued in dematerialized form. It was also entrusted by the competent authority to conduct audit on stock related matters.

To provide convenience to the market participants, prevent repeat resource investment and follow the trend of back-office integration in the international securities market, the competent authority resolved to make TSCD under the jurisdiction of the Ministry of Finance in July 2005, and to merge TSCD with Debt Instruments Depository and Clearing Co., Ltd. Taiwan (DIDC), which handles short-term bills. Through the integration of clearing, settlement and depository platform, it aims to effectively reduce the cost of investment, increase operational efficiency, expand scope of service, and stimulate market development. The merging of the two companies was completed on 27 March 2006, and renamed as Taiwan Depository & Clearing Corporation (TDCC).

Subsequently, considering the development trend of the operations of shareholders meeting in the global securities market in recent years, TDCC and Taiwan Integrated Shareholder Service Company (TISSC) resolved to promote the merging of the two companies in November 2013. The merging was completed on 24 March 2014, with TDCC as the surviving company.

Through the above merging and reorganization, TDCC has become Taiwan's only backend organization in the securities market, a diversified market platform that provides equity securities, fixed-income securities, bills, mutual funds, futures and corporate action services.

## The multiple roles of TDCC

TDCC was established with the promotion of central custody, book-entry, settlement mechanism of securities by the competent authority. After its merging with Debt Instruments Depository and Clearing Co., Ltd. Taiwan (DIDC) in 2006, and with Taiwan Integrated Shareholder Service Company (TISSC) in 2014, it has finally become a backend facility in the market that provides extensive services such as custody, clearing, settlement, information transmission, payment, e-voting, etc., for products like shares, bonds, bills and mutual funds, etc.

TDCC's scope of service has gradually become more diversified from equity products in the beginning. Diversified services such as fixed-income products, bills, mutual fund, corporate action, etc., were provided successively, moving towards internationalization, product diversification and refinement.

## Shareholders Structure

As of end of 2016, TDCC has 1,790 shareholders, comprising 102 institutional and 1,688 individual shareholders. Taiwan Stock Exchange is the principal shareholder, holding 50.59% shares, followed by Yuanta Securities Finance Co., Ltd, holding 17.96% shares. The shareholders structure as at end of 2016 is as follows:

December 31, 2016

Shareholders	Number of shares	Shareholding ratio
Taiwan Stock Exchange Corp. (TWSE)	178,337,482	50.59
Yuanta Securities Finance Co. (YSFC)	63,294,365	17.96
Financial institutions (securities firms, banks, bills dealers...) and individuals	110,875,092	31.45

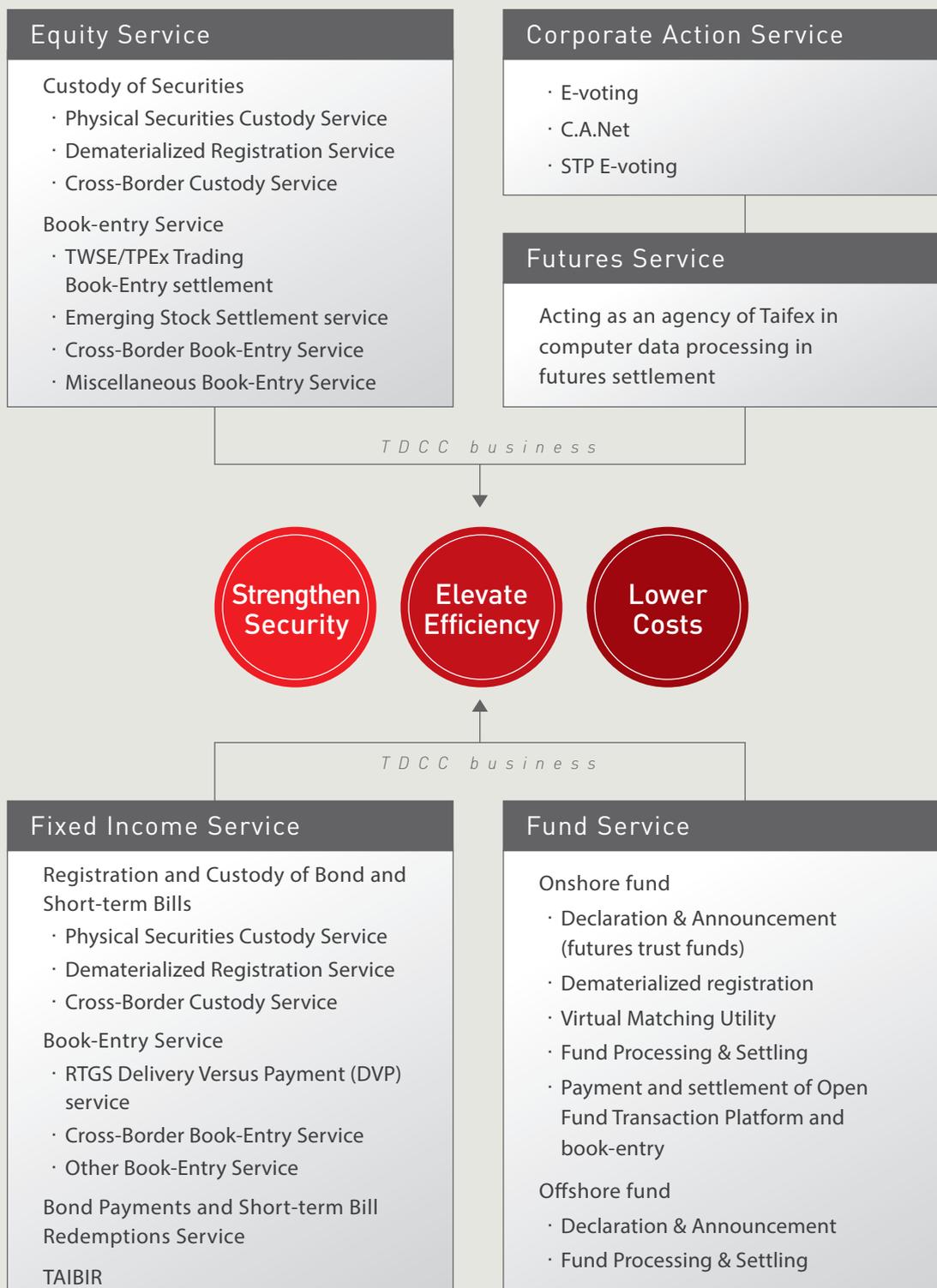
## Board of Directors and Supervisors

The board of directors is formed by seven directors, representing Taiwan Stock Exchange, Yuanta Securities Finance Co., Ltd. and Fubon Securities Co., Ltd. There are three supervisors, including one standing supervisor. Our company's directors, supervisors and shareholder representatives are as follows:

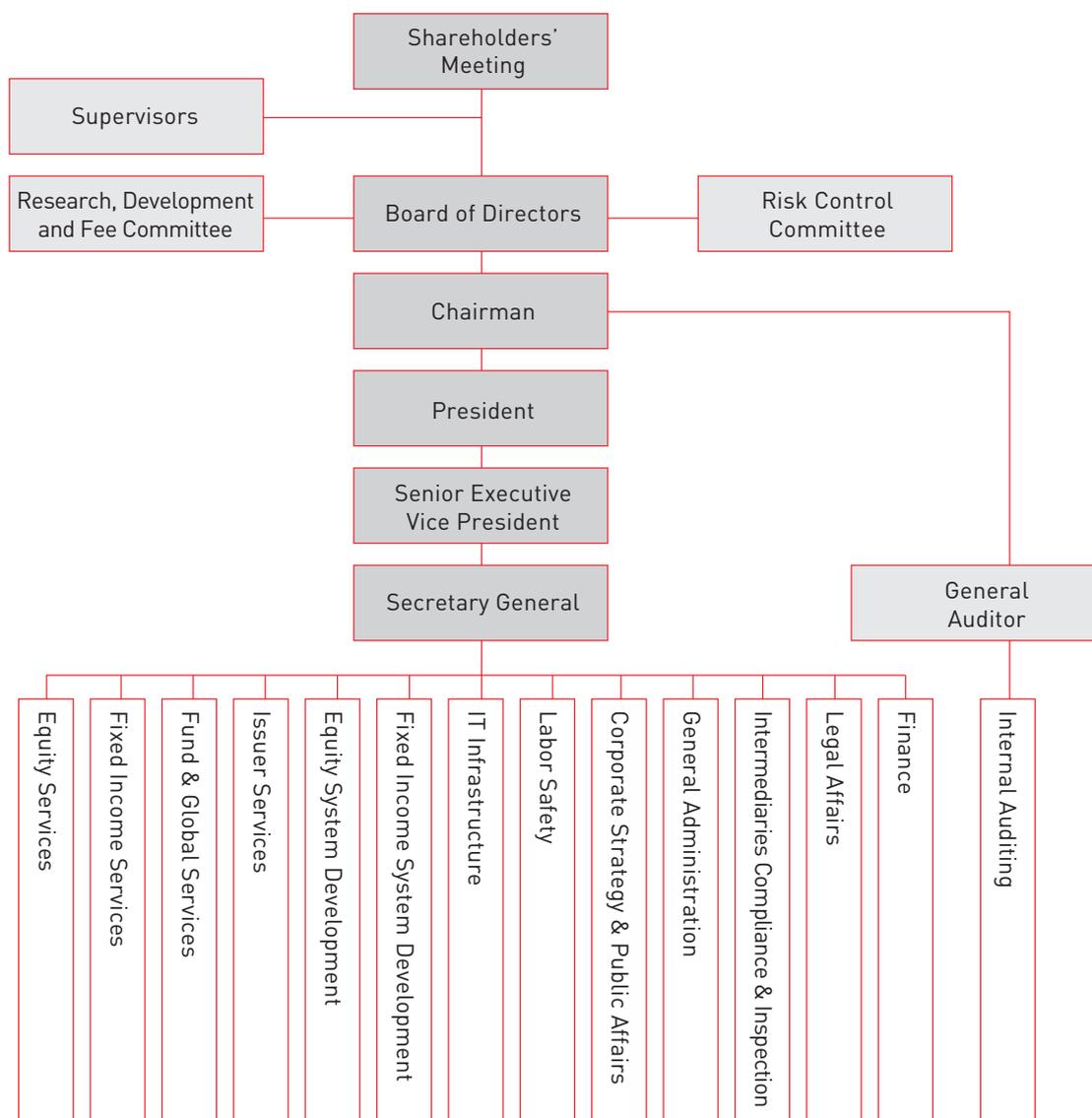
December 31, 2016

Title	Name	Shareholder Represented
Chairman	Sherman Lin	Taiwan Stock Exchange Corp.
Director	Jun-Ji Shih	Taiwan Stock Exchange Corp.
Director	Ching-Li Meng	Taiwan Stock Exchange Corp.
Director	Ho-Sheng Wang	Taiwan Stock Exchange Corp.
Director	Gary Gong	Taiwan Stock Exchange Corp.
Director	Arthur Chen	Yuanta Securities Finance Co.
Director	Ming-Chien Chen	Fubon Securities Co., Ltd
Standing Supervisor	Hung-Wen Chien	Taiwan Securities Association
Supervisor	David S. Hong	Taiwan Securities Association
Supervisor	Chia-Yin Hung	Taiwan Futures Exchange Corp.

# SCOPE OF SERVICES



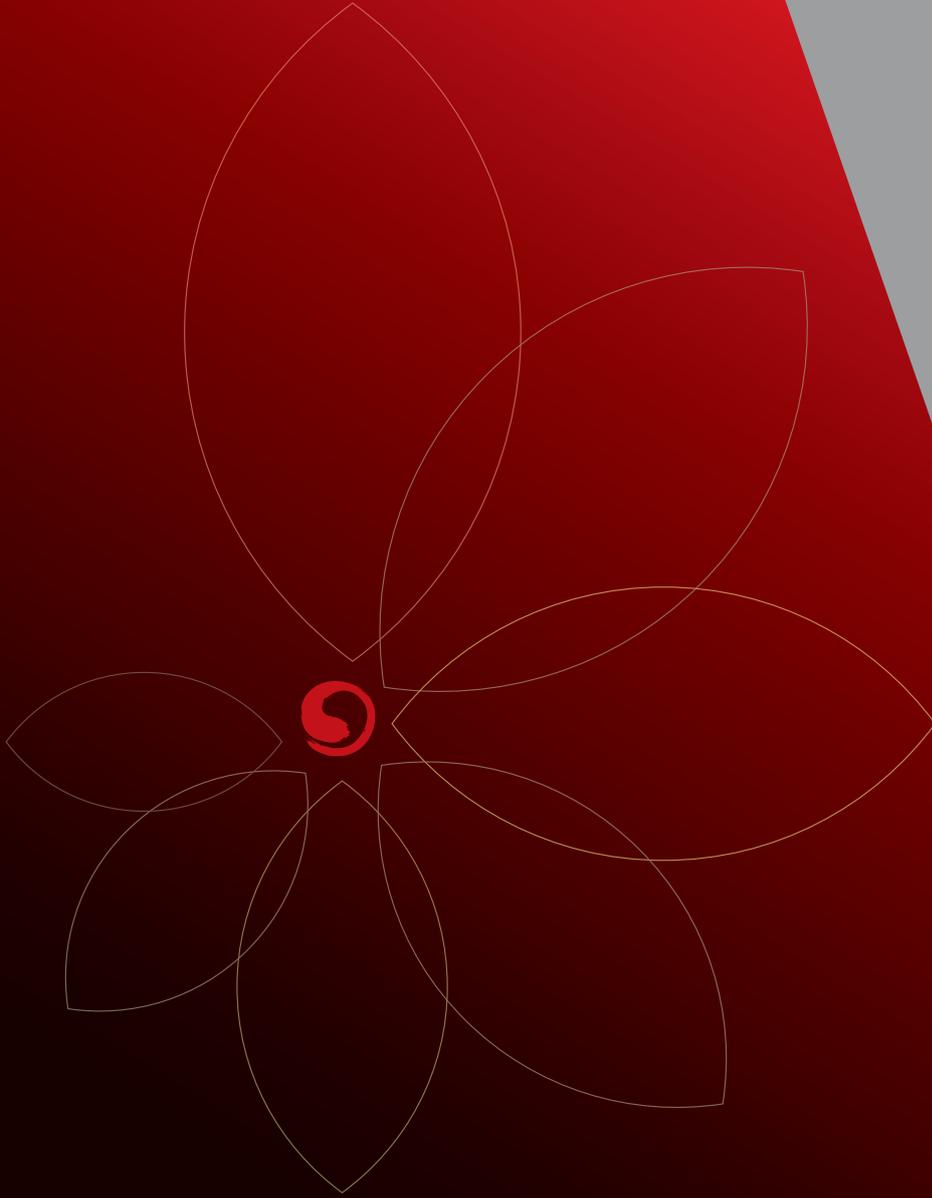
## Organizational Chart



Title	Name	Title	Name
Chairman & CEO	Sherman Lin	Issuer Services	Julie Wang
President	Ching-Li Meng	Equity System Development	Andy Yeh
Senior Executive Vice President	Han-Chiang Chu	Fixed Income System Development	Win-Cheng Wang
Senior Executive Vice President	Edith Lee	IT Infrastructure	Cheng Hsu
Secretary General	Gloria Ching	Corporate Strategy & Public Affairs	Jennifer Chen
Internal Auditing	Olivia Chang	General Administration	Tzu-Ting Chen
Equity Services	Jane Chang	Intermediaries Compliance & Inspection	Kuang-Hui Chen
Fixed Income Services	Suh-Yann Tsaur	Legal Affairs	Yuan-Hua Hsiao
Fund & Global Services	Eric Hsu	Finance	Susan Huang

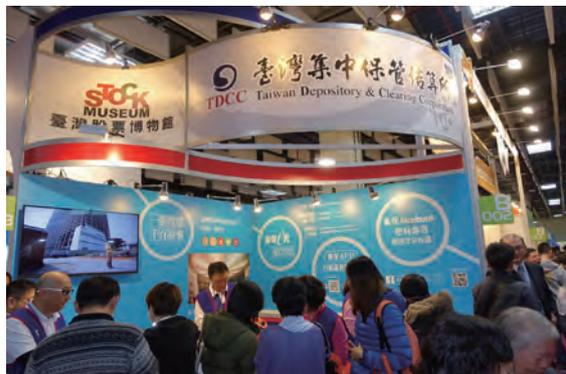
# MANAGEMENT TEAM



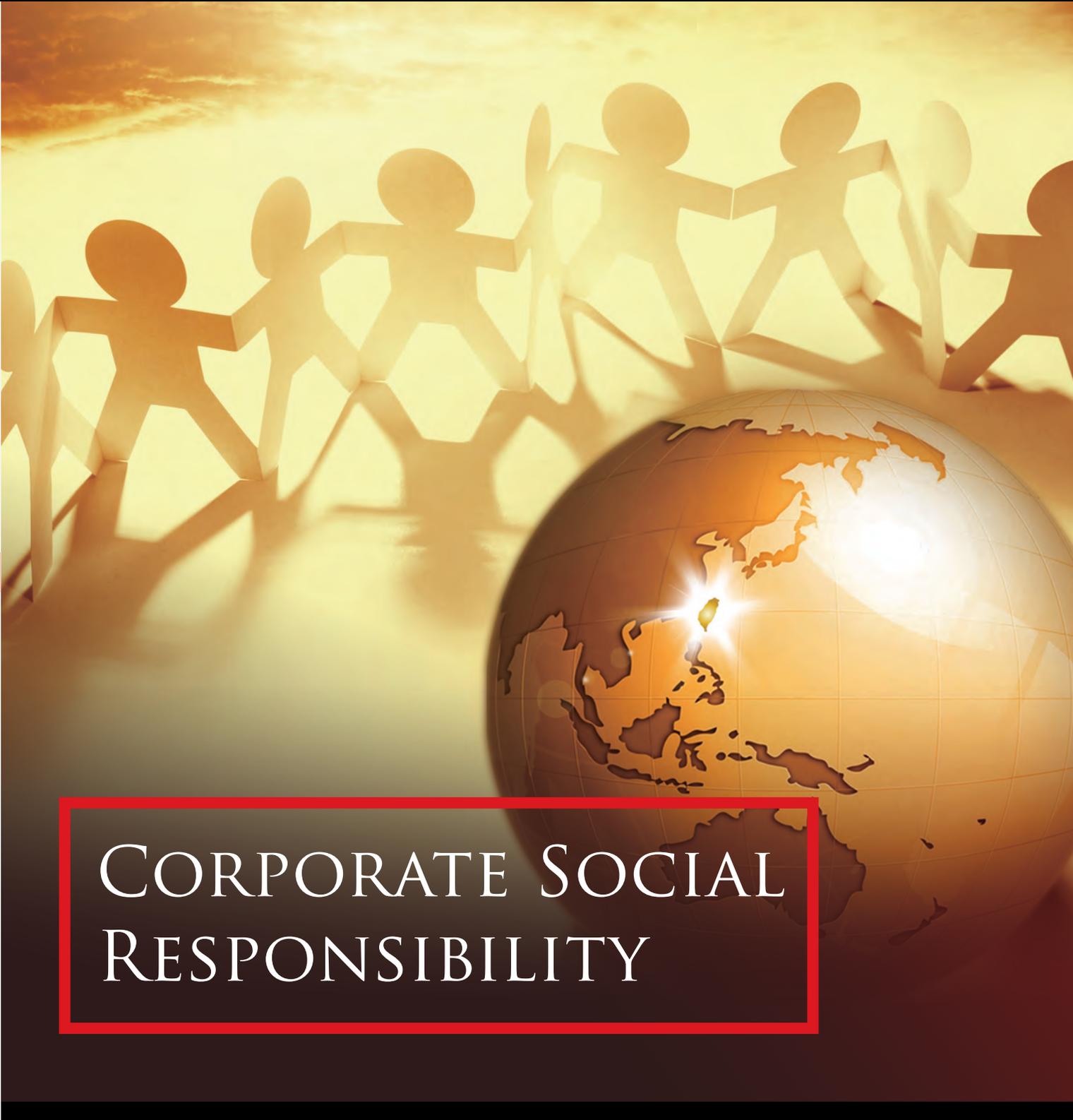




# DTAIWAN DEPOSITORY & CLEARING CORP.



# CORPORATE SOCIAL



## CORPORATE SOCIAL RESPONSIBILITY

# RESPONSIBILITY



Corporate social responsibility has become a global trend since the beginning of its development, and is widely valued by governments all over the world and recognized by companies. As a peripheral unit of securities and futures markets, TDCC upholds the goal of sustainable development of the markets, and the philosophy of giving back to society. Besides playing its role in the securities market by providing secure, convenient, and diversified services for the securities market, and increasing market service efficiency, TDCC also actively participates in social welfare activities, promotes financial literacy education and environmental protection, and spares no effort in fulfilling corporate social responsibilities. It is hoped that with the concrete actions of giving back to society, welfare and underprivileged groups, the philosophy of corporate care can be implemented, and social responsibilities fulfilled.



# SOCIAL WELFARE

## ◎ Conduct Industry-Academia Internship Program

In response to the policies rolled out by the Financial Supervisory Commission, and with the guidance of the competent authority, TDCC engaged peripheral units such as Taiwan Stock Exchange, Taipei Exchange and Taiwan Futures Exchange in cooperating with the Department of Technological and Vocational Education and the Department of Higher Education of the Ministry of Education to establish Industry-Academia Internship Program. Together with the peripheral units, TDCC actively plans ways to promote industry-academia cooperation. It encourages companies to provide internships for students, and job opportunities upon their graduation, assisting schools in cultivating talents, satisfying enterprises' need of staffing, and increasing job opportunities.



## ◎ Continue to conduct Financial Literacy for Youth (FLY) Courses

In line with the competent authority's policy of encouraging financial industry to contribute to social welfare, TDCC cooperates with peripheral units of financial, securities and futures agencies in promoting Financial Literacy for Youth (FLY) program, to provide fresh graduates from families in straitened circumstances with relevant finance courses, counseling on license examination and assistance in finance job matching. It aims to assist needy youths in obtaining a stable and well-paid finance job, and helping their families in overcoming financial stress, establishing a "new life, financial dream" future.

## ◎ Continue to sponsor Sports Talent Cultivation Program

In view of the promotion of New Breakthroughs through Competitive Edge Program by Sports Administration to enhance the training mechanism of outstanding sports talents, TDCC sponsors basic training for focus sports at schools, so as to cultivate more seeded sportsmen and promote the development of the focus sports. It also supports the development of athletes by sponsoring them so they can focus on training for competition.

### ◎ Continue to organize After-School Care Program

In line with the competent authority's promotion of financial industry contributing to social welfare, and to support government educational policies and show concern for rural areas' education problems, especially providing after-school care and improving the learning capabilities of students from rural areas, TDCC and peripheral units of securities market together organized after-school care for rural areas' elementary schools. The main purpose is to provide after-school services for students in rural areas whose parents or guardians are unable to attend to them, and prevent them from loitering after school, which will affect their studies and development of the body and mind. The program also provides dinner, so that less privileged students can receive proper care in a safe environment, and also allow parents to focus on their work without worries.



### ◎ Social Welfare Donations

- Donate to victims of Tainan earthquake and Typhoon Nepartak
- Donate to family support center and participate in charitable activities for the less privileged
- Donate to Shiding Elementary School's Cultural and Creative Talents Program
- Donate to Hualien Rural Elementary School Talent Development Program
- Conduct blood donation program and organize charity sales
- Donate to supplies bank, purchase household supplies regularly, and assist rural, poor or distressed families
- Donate to Social Enterprise Revolving Trust
- Donate to Kanner Support Group and Taipei Autism Children Social Welfare Foundation
- Donate to Association for Sports and Leisure Service for the Disabled
- Donate to Eden Social Welfare Foundation
- Donate to Innovation and Entrepreneurship Fund

# FINANCIAL EDUCATION

## ◎ Taiwan Stock Museum has been established for four years, and has become an important base for domestic financial literacy education

This is the fourth year of Taiwan Stock Museum. Through the exhibits of stock evolution process, collectibles, documentation and interactive multi-media, the Taiwan Stock Museum presents in detail the development history of Taiwan's securities market, and the close relationship between Taiwan's stock market and economy. It is a financial literary education platform which peripheral units of the securities market, issuing companies, academia, and education agencies concurrently promote. Since its establishment, it has attracted more than 80,000 visitors, contributing to their financial literacy education.

Taiwan Stock Museum continues to cooperate with colleges and universities in selecting outstanding students as guides, and organizes various types of field trip packages for schools from various levels. The exhibits are portrayed using interactive media and the latest technology.

## ◎ Taiwan Securities and Futures Virtual Museum received more than 100,000 visitors in 2016

To record in detail the development history of Taiwan's securities market, and achieve the goal of education for all, TDCC established Taiwan's first virtual museum of the securities and futures markets. Through clear and easily understandable securities knowledge, the virtual museum lets



the visitors understand the securities and futures markets as well as and financial management knowledge, and acts as a platform for financial literacy. It had more than 100,000 visitors in 2016. An English website was launched in November 2016 with a goal to strengthen its role in financial education.

### ◎ Conduct "Financial Literacy Program: Financial Literary Lectures at Campus"

To assist the competent authority in promoting financial literacy, TDCC continues to entrust Securities and Futures Institute (SFI) in conducting the yearly Financial Literary Lectures on Campus this year, allowing students to acquire financial knowledge in a progressive and systematic manner. It enables them to gradually apply the knowledge on their personal financial management, and increase personal financial literacy. From 2008 to 2016, TDCC entrusted SFI in conducting the program and a total of 205 lectures were hosted in tertiary schools in northern, central, southern and eastern Taiwan, as well as in offshore islands, with the number of participants reaching 27,042. In 2016, 32 sessions were conducted with a total of 3,910 participants.

### ◎ Continue to donate to financial education fund and assist in organizing Lectures on Financial Issues for tertiary institutions

TDCC continues to sponsor Taiwan Financial Services Roundtable, Taiwan Financial Services Scholarships and FinTech Development Fund, to strengthen talent cultivation and technology incubation. Through specific actions, it aims to fulfill the philosophy of giving back to the society by the financial industry, contributing to the development of domestic financial industry.

TDCC also continues to assist Taiwan Federation of Financial Unions and other peripheral units of the securities market by conducting Lectures on Financial Issues at Taiwan's tertiary institutions. Through the above courses, it aims to shorten the gap between the curriculum of colleges' finance department and actual practice, and include financial practice into the general education of tertiary institutions' department of finance.



# ENVIRONMENTAL PROTECTION

## Electronic Central Depository Operations (e-service)

### ◎ Promote Dematerialized Issuance of Securities

In line with the competent authority's promotion of dematerialized issuance of securities, TDCC has in July 2011, implemented dematerialized issuance of securities for listed, OTC, and emerging companies. It reduces issuance cost and increases market's operational efficiency, in line with global trend and the concept of environmental protection. The number of physical securities saved could stack up to 44 Taipei 101, and go round Taiwan 14 times.

### ◎ Build Shareholders Meeting E-Voting Platform

TDCC has completed the establishment of shareholders meeting e-voting platform, and upon gathering opinions from the public, the name "Stockvote" (website: [www.stockvote.com.tw](http://www.stockvote.com.tw)) was adopted.

### ◎ Online automated service for issuers

To provide quality service and support a paperless environment, TDCC changed the operations of stock affairs agencies from the original paper application method to an electronic, automated process.

### ◎ Established (C.A.Net) Corporate Action Network

TDCC established C.A.Net Corporate Action network to provide electronic service for information transmission and handling of split-voting applications between the custodian banks and Corporate Action affairs units. Stock information transmission operations such as dividend distribution and tax incentive rate between custodian banks and Corporate Action affairs units are also included into the service scope of C.A.Net Corporate Action network.

### ◎ Straight Through Processing (STP)

TDCC and Broadridge, an international organization that handles proxy voting services, signed the memorandum of understanding and confidentiality agreement, and launched the project at end of 2014. Through foreign shareholders' straight-through processing (STP) mechanism, custodian banks and the issuer's Corporate Action affairs units are able to establish voting standardization, automation and single track process, increasing the efficiency of the voting process, reducing operational risk, and saving overall manpower.



### © Provide digital report generation system (e-Report)

To save participants' storage space in safekeeping physical reports and facilitating subsequent usage and access, in March 2001, TDCC implemented online transmission of report and enquiry system (e-Report System). Participants may login to TDCC's website with their pre-set user ID and password, to apply for replacement, enquire or print their reports and related historical information, making participants' operations more convenient and secure.

### © Handles information enquiries from investors and external units

In compliance with environmental protection and carbon reduction, TDCC actively promotes paperless inquiries for external units. Based on the external units' requirements, and upon approval by the competent authority, it provides CD media queries or dedicated electronic queries, which significantly increases efficiency and saves on related costs.

### © Established offshore structured products declaration and announcement platform

TDCC established offshore structured products declarations and announcement platform, adopted electronic methods for the related application documents, and provided registration functions for new products, change of product content, and advanced redemption in compliance with goal of energy saving, carbon reduction and promoting a paperless environment.

# SUPERVISORS' REPORT

To the 2017 Annual Shareholders' Meeting,  
Taiwan Depository & Clearing Corporation

The Board of directors have compiled and submitted to us for examination the 2016 balance sheets, statements of comprehensive income, statements of changes in equity, statements of cash flows, consolidated financial statements, operations report and proposal for earning distribution for year 2016, etc. The undersigned Supervisors, accompanied by Deloitte & Touche, CPAs have completed our examination and found them correct. This report is hereby prepared in accordance with Article 219 of the Company Act and submitted for your approval.

Taiwan Depository & Clearing Corporation

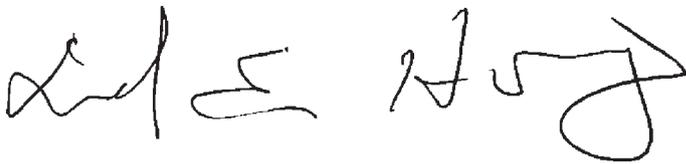
## **Standing Supervisor**

*Hung-Wen Chien*



## **Supervisors**

*Dr. David S. Hong*



*Chia-Yin Hung*



April 26, 2017

# INTERNAL CONTROL STATEMENT

Based on self-inspection, the following declaration is made regarding the Taiwan Depository & Clearing Corporation (hereinafter referred to as TDCC) internal control system for the period from January 1, 2016 to December 31, 2016 :

1. TDCC is fully aware that the establishment, implementation and maintenance of the company's internal control system are the responsibility of the board of directors and of the company's management. TDCC has already established an internal control system. The objective of the system's establishment was to provide a reasonable level of assurance that the company's goals for the efficiency and effectiveness of the company's operations (including profitability, performance and asset protection, etc.), the reliability, timeliness, transparency of its reports and adherence to relevant laws and regulations can be met.
2. Any internal control system has certain pre-ordained limitations. No matter how carefully designed the system may be, even the most effective internal control system can only provide a reasonable level of assurance for the three objectives noted above. In addition, the effectiveness of the internal control system is liable to be affected at changes in the environment and circumstances. However, TDCC's internal control system has a self-monitoring function; as soon as any failing in the system comes to light, the company will immediately take steps to improve it.
3. TDCC has evaluated the result of the design and implementation of the internal control system in accordance with the inspection items from the Implementation Guidelines for the Establishment of Internal Control System by Securities and Futures Market Service Enterprises (hereinafter referred to as "the Implementation Guidelines"). The inspection items adopted by the Implement Guidelines are classified into five components in line with the management control procedures: (1) Control environment; (2) Risk evaluation; (3) Control operations; (4) Information and communication; (5) Supervision. Each components in turn contains a number of items. Please refer to the Implementation Guidelines for details of these items.
4. The above-mentioned internal control inspection items have been used by TDCC to inspect the effectiveness of the design and implementation of the internal control system.
5. Based on the results of the inspection, TDCC believes that the design and implementation of the company's internal control system during the above mentioned period are acceptable in terms of the efficiency and effectiveness of the company's operations, the reliability, timeliness, transparency of its reports and adherence to relevant laws and regulations, and can therefore provide a reasonable degree of assurance for the achievement of the above objectives.
6. Any false, hidden or illegal matters of this Declaration will lead to lawsuit responsibility according to the Article 174 of the Securities Exchange Act.
7. This Declaration was approved by TDCC's Board of Directors on February 22, 2017.

Taiwan Depository & Clearing Corporation

**Chairman & CEO**

*Sherman Lin*



**President**

*Ching-Li Meng*



February 22, 2017

A hand in a dark suit sleeve holds a stack of gold coins. The background is a blue-toned financial chart with various data points and lines. The chart includes several numerical values: +8.76, 65.32, -12.14, 47.98, -7.59, +0.98, 85.12, and 55.01. The overall aesthetic is professional and financial.

# CONSOLIDATED FINANCIAL STATEMENTS

# Independent Auditors' Report

The Board of Directors and Stockholders  
Taiwan Depository & Clearing Corporation

## Opinion

We have audited the accompanying consolidated financial statements of Taiwan Depository & Clearing Corporation (the "Corporation") and subsidiaries (collectively referred to as the "Group"), which comprise the consolidated balance sheets as of December 31, 2016 and 2015, and the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as of December 31, 2016 and 2015, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the Business Entity Accounting Act, the Regulation on Business Entity Accounting Handling relevant to financial accounting standards, 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 Consolidated Financial Statements section of our report. We are independent of the Group 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 consolidated financial statements for the year ended December 31, 2016. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The description of each key audit matter of the consolidated financial statements for the year ended December 31, 2016 are as follows:

### Accuracy of Operating Revenues

The operating revenues of Taiwan Depository & Clearing Corporation and subsidiaries mainly include securities settlement revenue, securities recording revenue, transfer processing services revenue and bills and bonds clearing and custodial services revenue. These revenues are recorded on the books based on the related laws and contracts. In 2016, the Group's principal operating revenues amounted to \$2,144,322 thousand, which is material to the financial statements. We considered the accuracy of operating revenues as key audit matter.

The main audit procedures we performed for operating revenues are listed below:

1. We acquire and understanding of the Group's nature of the industry and evaluate the procedures for internal control in the recording of operating revenues, including understanding of the information environment of the system for the calculating operating revenues.
2. We verify whether the calculation methods with respect to operating revenues complied with the statutory provisions or the related contracts.
3. We recalculate operating revenues and confirmed the accuracy of operating revenues.

### Existence and Classification of Bank Deposit

As stated in Notes 6 and 12, as of December 31, 2016, the Group had cash and cash equivalents of \$2,762,652 thousand, other financial assets (time deposits with original maturities more than three

months) of \$3,018,778 thousand, default damage fund of \$2,362,714 thousand, respectively. Because of the significance of the accounts, we considered the existence and classification of the bank deposit as key audit matter.

The main audit procedures we performed for bank deposit are shown below:

1. We obtained an understanding of the cash cycle and tested the operating effectiveness of internal controls.
2. We checked the amounts on bank statements against those in the ledger, and sent a written confirmation request to the bank. If there is any discrepancy, we obtained a bank reconciliation statement and tested the correctness of the reconciliation items.
3. We ascertained whether bank deposits designated for specific purposes or otherwise restricted have been reclassified to the appropriate account.
4. We performed an inventory count of certificates of deposit and checked the results of inventory testing against the ledger.
5. We performed test of large inflows and outflows of cash and verified whether the transactions were related to the Corporation's business. We obtained explanations for large or irregular fluctuation.

#### **Other Matter**

We have also audited the parent company only financial statements of Taiwan Depository & Clearing Corporation as of and for the years ended December 31, 2016 and 2015 on which we have issued an unmodified opinion.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Business Entity Accounting Act, Regulation on Business Entity Accounting Handling relevant to financial accounting standards, 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group'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 Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance, including the supervisors, are responsible for overseeing the Group's financial reporting process.

#### **Auditors' Responsibilities for the Audit of the Consolidated Financial Statements**

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

As part of an audit in accordance with the 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 consolidated 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 Group'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 Group'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 consolidated 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 Group to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient and appropriate audit evidence regarding the financial information of entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision, and performance of the group audit. We remain solely responsible for our audit opinion.

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 consolidated financial statements for the year ended December 31, 2016 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 Chin-Hsiang Chen.

Deloitte & Touche

Taipei, Taiwan Republic of China

March 15, 2017

### Notice to Readers

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

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

## TAIWAN DEPOSITORY &amp; CLEARING CORPORATION AND SUBSIDIARIES

**CONSOLIDATED BALANCE SHEETS**

DECEMBER 31, 2016 AND 2015

ASSETS	2016		2015	
	Amount	%	Amount	%
<b>CURRENT ASSETS</b>				
Cash and cash equivalents	\$ 2,762,652	11	\$ 2,653,212	12
Financial assets at fair value through profit or loss - current	2,053,172	9	2,038,085	9
Available-for-sale financial assets - current	-	-	39,973	-
Held-to-maturity financial assets - current	1,853,959	8	1,456,735	7
Other financial assets - time deposits with original maturities of more than 3 months	3,018,778	13	3,253,504	15
Notes and accounts receivable, net				
Unrelated parties	175,432	1	210,309	1
Related parties	92,044	-	102,947	-
Current tax assets	11	-	-	-
Other financial assets - other	513,033	2	207,808	1
Other current assets	177,187	1	95,456	-
Total current assets	<u>10,646,268</u>	<u>45</u>	<u>10,058,029</u>	<u>45</u>
<b>NONCURRENT ASSETS</b>				
Held-to-maturity financial assets - noncurrent	7,803,204	33	7,236,079	33
Available-for-sale financial assets - noncurrent	1,379,638	6	1,187,157	6
Financial assets measured at cost - noncurrent	12,000	-	12,000	-
Default damage fund	2,362,714	10	2,257,973	10
Investments accounted for using the equity method	79,864	-	75,868	-
Property and equipment	688,720	3	637,284	3
Investment properties	231,693	1	234,970	1
Intangible assets	77,408	-	40,538	-
Goodwill	237,545	1	237,545	1
Deferred tax assets	10,506	-	10,601	-
Refundable deposits	143,811	1	139,334	1
Operation guarantee deposits	70,000	-	50,000	-
Other noncurrent assets	277	-	277	-
Total noncurrent assets	<u>13,097,380</u>	<u>55</u>	<u>12,119,626</u>	<u>55</u>
<b>TOTAL</b>	<u>\$ 23,743,648</u>	<u>100</u>	<u>\$ 22,177,655</u>	<u>100</u>

(In Thousands of New Taiwan Dollars)

LIABILITIES AND EQUITY	2016		2015	
	Amount	%	Amount	%
<b>CURRENT LIABILITIES</b>				
Accrued expenses	\$ 476,865	2	\$ 482,138	2
Current tax liabilities	112,621	1	140,414	1
Receipts under custody	443,462	2	140,170	1
Other current liabilities	70,745	-	64,252	-
Total current liabilities	1,103,693	5	826,974	4
<b>NONCURRENT LIABILITIES</b>				
Deferred tax liabilities	31,679	-	29,351	-
Guarantee deposits	53,196	-	34,473	-
Net defined benefit liabilities	364,250	2	294,992	1
Total noncurrent liabilities	449,125	2	358,816	1
Total liabilities	1,552,818	7	1,185,790	5
<b>EQUITY ATTRIBUTABLE TO OWNERS OF THE CORPORATION</b>				
Capital stock	3,525,069	15	3,439,091	16
Capital surplus	481,196	2	476,234	2
Legal reserve	2,238,594	10	2,075,853	9
Special reserve	13,039,416	55	12,079,240	55
Unappropriated earnings	1,517,742	6	1,836,191	8
Other equity - unrealized gain on available-for-sale financial assets	1,250,673	5	1,055,381	5
Total equity attributable to owners of the Corporation	22,052,690	93	20,961,990	95
<b>NON-CONTROLLING INTERESTS</b>	138,140	-	29,875	-
Total equity	22,190,830	93	20,991,865	95
<b>TOTAL</b>	<b>\$ 23,743,648</b>	<b>100</b>	<b>\$ 22,177,655</b>	<b>100</b>

TAIWAN DEPOSITORY & CLEARING CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

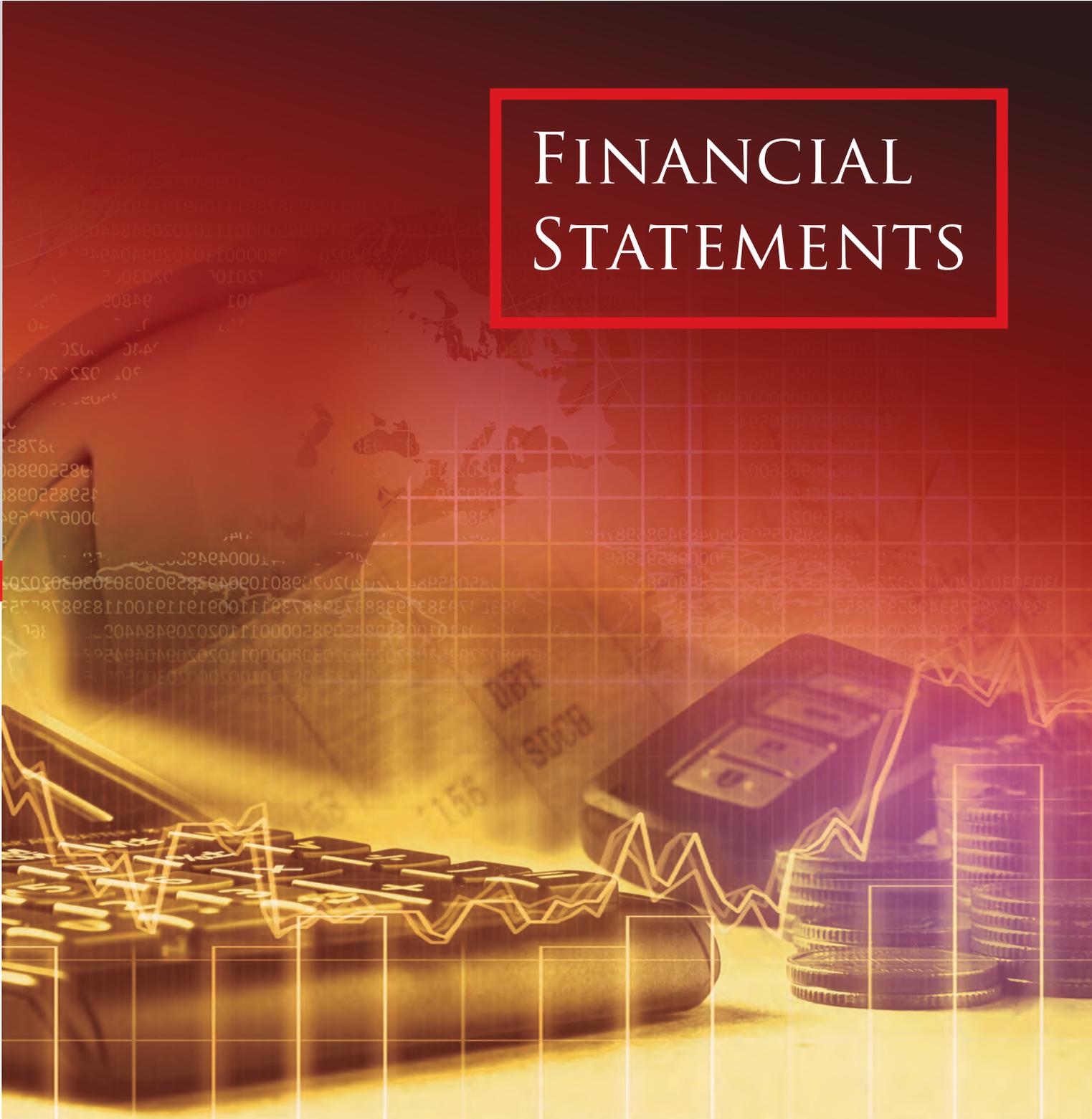
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016		2015	
	Amount	%	Amount	%
<b>OPERATING REVENUES</b>				
Securities settlement	\$ 552,892	16	\$ 673,193	18
Securities recording	646,532	18	756,076	21
Maintenance services	366,237	10	368,549	10
Transfer processing services	411,625	12	465,877	13
Bills and bonds clearing and custodial services	944,898	26	846,571	23
Futures clearing services	219,345	6	142,954	4
Securities registration and distribution services	84,186	2	94,633	3
Mutual fund services	176,624	5	156,291	4
Brokerage fee	2,136	-	-	-
Others	166,091	5	143,819	4
Total operating revenues	3,570,566	100	3,647,963	100
<b>OPERATING EXPENSES</b>				
Personnel	1,044,431	29	988,992	27
General and administrative	1,106,863	31	990,190	28
Total operating expenses	2,151,294	60	1,979,182	55
<b>OPERATING INCOME</b>	1,419,272	40	1,668,781	45
<b>NONOPERATING INCOME</b>				
Interest income	208,863	6	214,935	6
Net gain arising on financial assets designated as at FVTPL	5,155	-	10,044	-
Share of profit of subsidiaries and associates accounted for using equity method	12,874	-	11,861	-
Dividend income	42,145	1	36,904	1
Gain on disposal of available-for-sale financial assets	2,786	-	7,377	-
Other income	25,267	1	16,586	1
Other expenses	( 7,973)	-	( 7,547)	-
Total nonoperating income	\$ 289,117	8	\$ 290,160	8

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

	2016		2015	
	Amount	%	Amount	%
INCOME BEFORE INCOME TAX	\$ 1,708,389	48	\$ 1,958,941	53
INCOME TAX EXPENSE	( 269,936)	( 9)	( 331,649)	( 9)
NET INCOME	1,411,453	39	1,627,292	44
OTHER COMPREHENSIVE INCOME				
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit plans	( 31,414)	( 1)	86,247	2
Share of the other comprehensive income of associates and joint ventures accounted for using equity method	( 605)	-	( 225)	-
Income tax relating to items that will not be reclassified subsequently to profit or loss	103	-	38	-
	( 31,916)	( 1)	86,060	2
Items that may be reclassified subsequently to profit or loss:				
Unrealized gain on available-for-sale financial assets	195,292	6	124,516	4
Other comprehensive income for the year, net of income tax	163,376	5	210,576	6
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	\$ 1,574,829	44	\$ 1,837,868	50
NET PROFIT ATTRIBUTABLE TO:				
Owners of the Corporation	\$ 1,438,226	41	\$ 1,627,417	45
Non-controlling interests	( 26,773)	( 1)	( 125)	-
	\$ 1,411,453	40	\$ 1,627,292	45
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:				
Owners of the Corporation	\$ 1,601,602	45	\$ 1,837,993	50
Non-controlling interests	( 26,773)	( 1)	( 125)	-
	\$ 1,574,829	44	\$ 1,837,868	50
EARNINGS PER SHARE (NEW TAIWAN DOLLARS)				
Basic earnings per share	\$ 4.08		\$ 4.62	

# FINANCIAL STATEMENTS



# Independent Auditors' Report

The Board of Directors and Stockholders  
Taiwan Depository & Clearing Corporation

## Opinion

We have audited the accompanying financial statements of Taiwan Depository & Clearing Corporation (the "Corporation"), which comprise the balance sheets as of December 31, 2016 and 2015, 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 Corporation as of December 31, 2016 and 2015, and its financial performance and its cash flows for the years then ended in accordance with the Business Entity Accounting Act, the Regulation on Business Entity Accounting Handling relevant to financial accounting standards, 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 Corporation 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, 2016. 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.

The description of each key audit matters of the financial statements for the year ended December 31, 2016 are as follows:

### Accuracy of Operating Revenues

The operating revenues of Taiwan Depository & Clearing Corporation mainly include securities settlement revenue, securities recording revenue, transfer processing services revenue and bills and bonds clearing and custodial services revenue. These revenues are recorded on the books based on the related laws and contracts. In 2016, the Corporation's principal operating revenues amounted to \$2,144,322 thousand, which is material to the financial statements. We considered the accuracy of operating revenues as key audit matter.

The main audit procedures we performed for operating revenues are listed below:

1. We evaluate the procedures for internal control in the recording of operating revenues, including understanding of the information environment of the system for the calculating operating revenues.
2. We verify whether the calculation methods with respect to operating revenues complied with the statutory provisions or the related contracts.
3. We recalculate operating revenues and confirmed the accuracy of operating revenues.

## Existence and Classification of Bank Deposit

As stated in Notes 6 and 12, as of December 31, 2016, the Corporation had cash and cash equivalents of \$2,624,461 thousand, other financial assets (time deposits with original maturities more than three months) of \$3,018,778 thousand, and default damage fund of \$2,362,714 thousand. Because of the significance of the accounts, we considered the existence and classification of the bank deposits as key audit matter.

The main audit procedures we performed for bank deposits are listed below:

1. We obtained an understanding of the cash cycle and tested the operating effectiveness of internal controls.
2. We checked the amounts on bank statements against those in the ledger, and sent a written confirmation request to the bank. If there is any discrepancy, we obtained a bank reconciliation statement and tested the correctness of the reconciliation items.
3. We ascertained whether bank deposits designated for specific purposes or otherwise restricted have been reclassified to the appropriate account.
4. We performed an inventory count of certificates of deposit and checked the results of inventory testing against the ledger.
5. We performed test of large inflows and outflows of cash and verified whether the transactions were related to the Corporation's business. We obtained explanations for large or irregular fluctuation.

## **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 Business Entity Accounting Act, Regulation on Business Entity Accounting Handling relevant to financial accounting standards, 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 Corporation'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 Corporation or to cease operations, or has no realistic alternative but to do so.

Those charged with governance, including the supervisors, are responsible for overseeing the Corporation'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 Corporation'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 Corporation'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 Corporation 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.
6. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Corporation to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

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, 2016 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 Chin-Hsiang Chen.

Deloitte & Touche  
Taipei, Taiwan Republic of China  
March 15, 2017

### *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 accepted and 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.

TAIWAN DEPOSITORY & CLEARING CORPORATION

**BALANCE SHEETS**

DECEMBER 31, 2016 AND 2015

ASSETS	2016		2015	
	Amount	%	Amount	%
<b>CURRENT ASSETS</b>				
Cash and cash equivalents	\$ 2,624,461	11	\$ 2,493,238	11
Financial assets at fair value through profit or loss - current	1,983,040	8	2,038,085	9
Available-for-sale financial assets - current	-	-	39,973	-
Held-to-maturity financial assets - current	1,853,959	8	1,456,735	7
Other financial assets - time deposits with original maturities of more than 3 months	3,018,778	13	3,253,504	15
Notes and accounts receivable, net				
Unrelated parties	175,180	1	210,309	1
Related parties	92,757	-	102,947	-
Other financial assets - other	512,999	2	207,788	1
Other current assets	174,187	1	95,407	1
Total current assets	10,435,361	44	9,897,986	45
<b>NONCURRENT ASSETS</b>				
Held-to-maturity financial assets - noncurrent	7,803,204	33	7,236,079	33
Available-for-sale financial assets - noncurrent	1,379,638	6	1,187,157	5
Financial assets measured at cost - noncurrent	12,000	-	12,000	-
Default damage fund	2,362,714	10	2,257,973	10
Investments accounted for using the equity method	226,129	1	255,118	1
Property and equipment	683,209	3	637,284	3
Investment properties	231,693	1	234,970	1
Intangible assets	76,435	-	40,538	-
Goodwill	237,545	1	237,545	1
Deferred tax assets	10,506	-	10,601	-
Refundable deposits	141,773	1	139,334	1
Other noncurrent assets	277	-	277	-
Total noncurrent assets	13,165,123	56	12,248,876	55
<b>TOTAL</b>	<b>\$ 23,600,484</b>	<b>100</b>	<b>\$ 22,146,862</b>	<b>100</b>

(In Thousands of New Taiwan Dollars)

<b>LIABILITIES AND EQUITY</b>	<b>2016</b>		<b>2015</b>	
	<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>
<b>CURRENT LIABILITIES</b>				
Accrued expenses	\$ 472,387	2	\$ 481,490	2
Current tax liabilities	112,621	1	140,414	1
Receipts under custody	443,462	2	140,170	1
Other current liabilities	70,199	-	64,252	-
Total current liabilities	1,098,669	5	826,326	4
<b>NONCURRENT LIABILITIES</b>				
Deferred tax liabilities	31,679	-	29,351	-
Guarantee deposits	53,196	-	34,203	-
Net defined benefit liabilities	364,250	2	294,992	1
Total noncurrent liabilities	449,125	2	358,546	1
Total liabilities	1,547,794	7	1,184,872	5
<b>EQUITY</b>				
Capital stock	3,525,069	15	3,439,091	16
Capital surplus	481,196	2	476,234	2
Legal reserve	2,238,594	10	2,075,853	9
Special reserve	13,039,416	55	12,079,240	55
Unappropriated earnings	1,517,742	6	1,836,191	8
Other equity - unrealized gain on available-for-sale financial assets	1,250,673	5	1,055,381	5
Total equity	22,052,690	93	20,961,990	95
TOTAL	\$ 23,600,484	100	\$ 22,146,862	100

TAIWAN DEPOSITORY & CLEARING CORPORATION  
**STATEMENTS OF COMPREHENSIVE INCOME**

FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016		2015	
	Amount	%	Amount	%
<b>OPERATING REVENUES</b>				
Securities settlement	\$ 552,892	16	\$ 673,193	18
Securities recording	646,532	18	756,076	21
Maintenance services	366,237	10	368,549	10
Transfer processing services	411,625	12	465,877	13
Bills and bonds clearing and custodial services	944,898	26	846,571	23
Futures clearing services	219,345	6	142,954	4
Securities registration and distribution services	84,186	2	94,633	3
Mutual fund services	176,624	5	156,291	4
Others	169,369	5	143,819	4
Total operating revenues	3,571,708	100	3,647,963	100
<b>OPERATING EXPENSES</b>				
Personnel	1,007,657	28	988,946	27
General and administrative	1,079,307	31	989,332	28
Total operating expenses	2,086,964	59	1,978,278	55
<b>OPERATING INCOME</b>	1,484,744	41	1,669,685	45
<b>NONOPERATING INCOME</b>				
Interest income	208,290	6	214,906	6
Net gain arising on financial assets designated as at FVTPL	4,976	-	10,044	-
Share of profit of subsidiaries and associates accounted for using equity method	( 25,073)	( 1)	11,111	-
Dividend income	42,145	1	36,904	1
Gain on disposal of available-for-sale financial assets	2,786	-	7,377	-
Other income	25,267	1	16,586	1
Other expenses	( 7,973)	-	( 7,547)	-
Total nonoperating income	\$ 250,418	7	\$ 289,381	8

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

	2016		2015	
	Amount	%	Amount	%
INCOME BEFORE INCOME TAX	\$ 1,735,162	48	\$ 1,959,066	53
INCOME TAX EXPENSE	( 296,936)	( 8)	( 331,649)	( 9)
NET INCOME	1,438,226	40	1,627,417	44
OTHER COMPREHENSIVE INCOME				
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit plans	( 31,414)	( 1)	86,247	2
Share of the other comprehensive income of subsidiaries and associates accounted for using equity method	( 605)	-	( 225)	-
Income tax relating to items that will not be reclassified subsequently to profit or loss	103	-	38	-
	( 31,916)	( 1)	86,060	2
Items that may be reclassified subsequently to profit or loss:				
Unrealized gain on available-for-sale financial assets	195,292	6	124,516	4
Other comprehensive income for the year, net of income tax	163,376	5	210,576	6
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	\$ 1,601,602	45	\$ 1,837,993	50
EARNINGS PER SHARE (NEW TAIWAN DOLLARS)				
Basic earnings per share	\$ 4.08		\$ 4.62	

TAIWAN DEPOSITORY & CLEARING CORPORATION  
**SCHEDULE FOR APPROPRIATION OF EARNINGS**

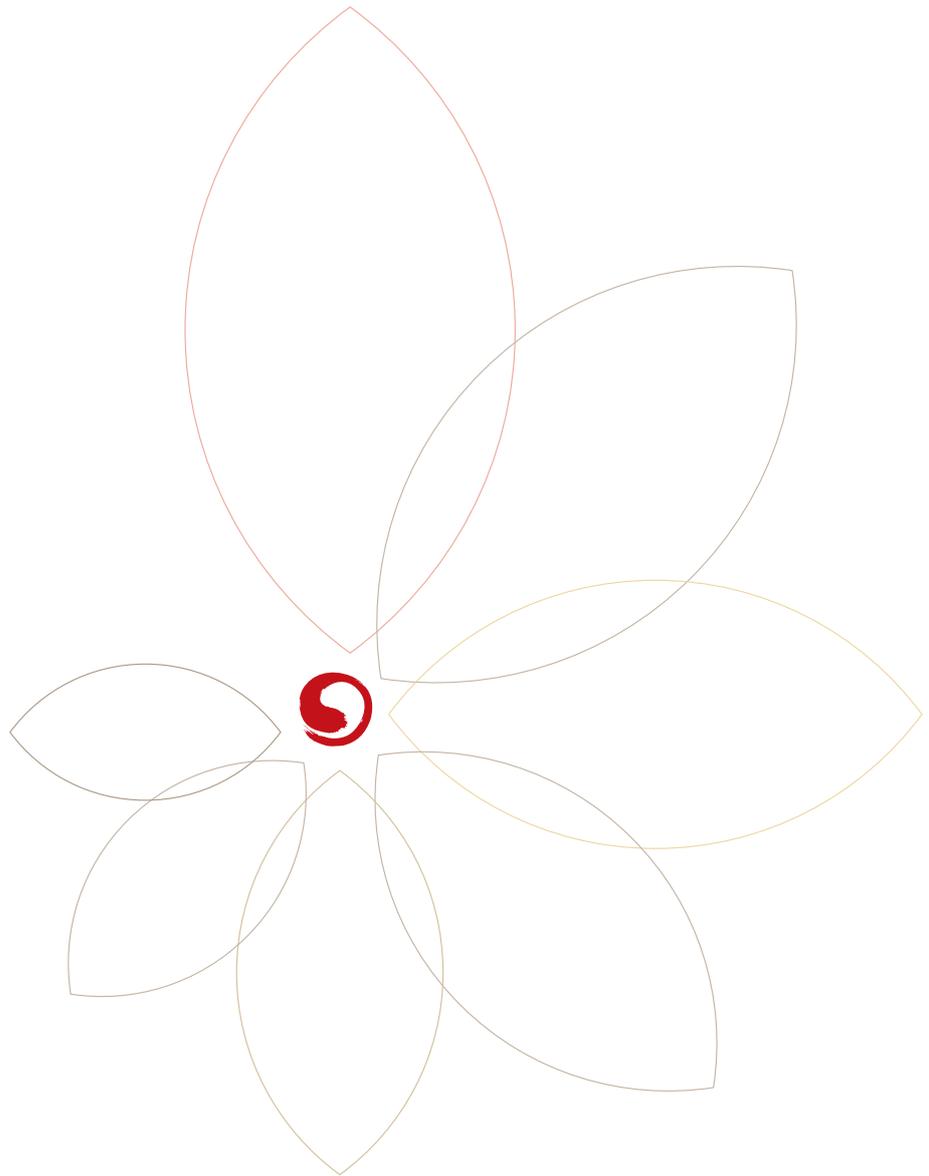
FOR YEAR 2016

(In New Taiwan Dollars)

	Amount	Amount	
Earnings, beginning of year		\$ 111,431,673	
Add: Remeasurement of defined benefit plans	(\$ 31,414,281)		
Share of the other comprehensive income of associates	( 502,177)	( 31,916,458)	
Adjusted unappropriated retained earnings		79,515,215	
<b>Net income in 2016</b>		<b>1,438,226,798</b>	
Reserved items :			
Legal reserve ( 10% )	( 143,822,680)		
Special reserve ( 45% )	( 647,202,059)	( 791,024,739)	
<b>Earnings available to appropriation in 2016</b>		<b>726,717,274</b>	
Appropriation of earnings :			
Stockholder's cash dividends ( NT\$1.50 per share )	( 528,760,409)		
Stockholder's stock dividends ( NT\$0.25 per share )	( 88,126,740)	( 616,887,149)	
<b>Unappropriated retained earnings at end of 2016</b>		<b>\$ 109,830,125</b>	

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